Uganda's Corporate ESG Outlook

June 2025

Foreword

With a rapidly changing ESG regulatory environment in Africa and abroad, companies that are not embedding ESG into their integrated strategies will put their businesses at risk. Where ESG is however embedded, it mitigates current and future business risks, whilst driving value creation, long term sustainability and positive impact for all stakeholders.

Achieving compliance with the regulatory requirements is crucial for building trust and creating value for stakeholders. However, to some extent the task has been complex and time-consuming for many companies already juggling many layers of corporate reporting.

Given the rapid changing regulatory landscape and varying stakeholder expectations, it is imperative for companies to keep abreast of new developments in their markets including the global markets.

With this study, KPMG Uganda sought to understand how businesses are improving stakeholder value through adoption of ESG considerations in their business model. The survey report summarizes responses from 56 businesses on a set of 11 questions, all of which focused on the company's ambitions and potential for integrating ESG in their business.

In general, the results from the survey indicate that companies are aware of the current ESG regulations at both global and national level and making an effort to not only comply with the regulatory requirements but also to adopt ESG in their business models to unlock stakeholder value.

However, most of the companies continue to face some challenges regarding the data requirements with majority relying on multiple sources of ESG Data. Companies showed tremendous willingness to continuously conduct ESG Gap assessments to navigate an ever changing ESG landscape.

We believe that by understanding the ESG landscape in Uganda, companies will gain knowledge and insights in addressing sustainability challenges and seizing emerging opportunities.

This report builds on our vast experience in advising companies on a wide range of ESG topics including ESG strategy, Assurance, impact measurement and reporting and combines learnings from projects across the East African region.

With this study, we further hope to contribute to the expansion of ESG landscape in Uganda.

Edgar Isingoma
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About the survey

About survey

Following the ESG Business breakfast held in Kampala on 7th August 2024, KPMG Uganda conducted a brief survey to understand how businesses are improving shareholder value through adoption of ESG considerations in their business model. About 56 businesses participated in the survey. The survey comprised 11 questions, all of which focused on the company's ambitions and potential for integrating ESG in their business. By understanding the ESG landscape in Uganda, companies will gain knowledge and insights in addressing sustainability challenges and seizing emerging opportunities.

Key Questions

1. Does your company have any value chains going into other jurisdictions such as Kenya, China, Europe, the USA and Australia?
2. Will you wait for Uganda to formalise its ESG regulations, or will your company pre-emptively ensure you will be compliant when the regulations come in force?
3. Will you aim to be compliant with the ESG regulations, or will you aim to use ESG as a differentiator to create a competitive advantage for your company?
4. Do you have any ideas yet on how you could improve shareholder value through ESG adoption?
5. Do you understand the requirements of the IFRS S1 and S2 reporting standards that will become mandated in Uganda?
6. Has your company done a double materiality assessment?
7. Have you analysed the data requirements that will be applicable to your company from an ESG reporting perspective?
8. Is your ESG data collected and sensitized on one data platform, or do you get it from various sources across the organisation?
9. Do you believe you are telling the true impact stories of the great initiatives your company is already doing, well?
10. Would you be interested to do a free high-level online ESG gap assessment to understand the gaps in your current operational construct?
11. Would you like to get regular updates on the latest ESG regulatory changes and best practice implementation?

01 Uganda ESG context

Uganda ESG context

What is happening now?

A changing regulatory environment compounded by heightened expectations from varied stakeholder groups has made sustainability a business imperative that cannot be ignored. To this end, Governments, including Uganda, investors, consumers, and regulators are increasingly pushing companies to prioritize sustainability with more emphasis on how companies have performed across the ESG pillars.

Uganda's corporate landscape is dealing with the rapidly evolving environmental, Social and governance landscape. The country faces risks of severe climate and economic related challenges, such as droughts that heavily impact the agriculture sector which sustains livelihoods of more than 70% of the population and contributes about 25% of the GDP.

On the social front, unemployment and inequality remains pervasive, and companies are under increasing pressure to address these issues. The Government has developed several policy frameworks and plans to support implementation of ESG pillars and scope including:

- Uganda's National Development Plan (NDPIII) 2020/21-2024/25 that incorporates commitments to regional and international development frameworks, including ESG.
- The second Nationally Determined Contribution (NDC) outlines ambitious targets of 24.7 percent reduction in Green House Gas (GHG) emissions by 2030.
- The constitution of Uganda, article 17(j), National Environment Act No. 5 of 2019, National Climate Change Act of 2021, the National Climate Finance Strategy, the National Social Protection Policy (2015) among others promote sustainability objectives.
- There is limited trace of ESG sector specific frameworks except in the banking sector. The member banks of Uganda Bankers' Association (UBA) together with the Central Bank developed an ESG Framework for Uganda's Banking Sector. The framework establishes a systematic approach towards managing risks and opportunities related to environmental, social, and governance.

What is likely to happen in the future?

Ugandan companies are also seeing growing regulatory pressures. The Corporate Sustainability Reporting Directive (CSRD), adopted by the European Union, though primarily focused on Europe, will soon influence multinational corporations in Uganda. For instance, the EU regulations would extend to about Seventy percent (70%) of companies surveyed with value chains going into other jurisdictions such as Kenya, China, Europe, USA and Australia.

The International Sustainability Standards Board (ISSB) instituted sustainability disclosure standards – IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures, which took effect for reporting periods starting on or after 1 January 2024.

The ICPAU has issued guidance on adoption of IFRS S1 & S2 standards for PiEs to either consider voluntary and mandatory adoption for accounting periods beginning on or after 1 January 2027 and 2028 respectively. Other entities (other than PiEs) will begin reporting on or after 1 January 2029.

The ongoing efforts by MoFPED to draft a Green Taxonomy coupled with existing sector specific National Action Plans (health and Agriculture) and upcoming National Adaptation Plan (NAP) spearheaded by the Ministry of Water and Environment with the support from the Green Climate Fund and the UN Environment Programme (UNEP) will continue to reshape corporate sustainability frameworks and encourage businesses to align with international best practices. It is therefore essential that companies in Uganda prioritize ESG matters and demonstrate their commitment to responsible and sustainable business practices.

02 Global context

(USA, EU, China etc)

Global context

ESG regulations that could impact Ugandan companies depending on their supply chains

International ESG Regulations

European Union (EU) Regulations:

- **EU Taxonomy for Sustainable Activities**: Companies exporting to the EU or part of EU supply chains must align with this classification system, which defines environmentally sustainable economic activities.
- **Corporate Sustainability Reporting Directive (CSRD)**: Large companies operating in the EU or supplying to EU-based companies must disclose detailed ESG information, including supply chain impacts.
- **EU Deforestation Regulation**: Companies exporting agricultural products (e.g., coffee, cocoa, timber) to the EU must prove their products are deforestation-free and comply with sustainable sourcing requirements.
- EU Batteries Regulation
- Critical Raw Minerals Act: Mandatory targets for companies sourcing strategic raw materials
- **UK Modern Slavery Act**: Companies supplying to the UK must disclose efforts to eliminate modern slavery and human trafficking from their supply chains.
- **US Dodd-Frank Act (Conflict Minerals Rule)**: Companies supplying minerals (e.g., tin, tungsten, tantalum, gold) to the US must ensure their supply chains are free from conflict financing.
- **US Uyghur Forced Labor Prevention Act (UFLPA)**: Companies exporting to the US must ensure their supply chains do not involve forced labor from China's Xinjiang region.

Regional ESG Frameworks

- **East African Community (EAC) Regulations:** The EAC promotes sustainable development and environmental protection, which may influence Ugandan companies to adopt ESG practices to comply with regional trade agreements.
- **African Continental Free Trade Area (AfCFTA):** As ESG becomes a priority across Africa, Ugandan companies may need to align with emerging ESG standards to access continental markets.

Industry-Specific ESG Standards

Agriculture (e.g., Coffee, Tea, Cocoa):

- **Rainforest Alliance Certification:** Ugandan exporters must meet sustainability standards to access global markets.
- **Fairtrade Certification:** Companies must ensure fair wages and ethical practices in their supply chains.
- **EU Organic Certification:** Exporters of organic products must comply with strict environmental and social standards.

Mining and Extractive Industries:

- **Extractive Industries Transparency Initiative (EITI):** Ugandan companies in the mining sector must disclose payments to governments and ensure ethical practices.
- **Kimberley Process Certification Scheme:** Companies exporting diamonds must prove their supply chains are conflict-free.

Textiles and Apparel:

- **Sustainable Apparel Coalition (SAC):** Companies must adhere to environmental and social standards in their supply chains.
- **Zero Discharge of Hazardous Chemicals (ZDHC):** Textile exporters must eliminate harmful chemicals from their production processes.

Global context

ESG regulations that could impact Ugandan companies depending on their supply chains

Voluntary ESG Frameworks and Reporting Standards

- **Global Reporting Initiative (GRI):** Ugandan companies supplying to multinational corporations may need to report ESG performance using GRI standards.
- **Task Force on Climate-Related Financial Disclosures (TCFD):** Companies may need to disclose climate-related risks and opportunities in their supply chains.
- **Sustainability Accounting Standards Board (SASB):** Industry-specific ESG reporting may be required for companies seeking international investment.

Supply Chain Due Diligence Requirements

- German Supply Chain Due Diligence Act (LkSG): Companies supplying to Germany must ensure their supply chains are free from human rights violations and environmental harm.
- French Duty of Vigilance Law: Similar to the German Act, this requires companies to identify and mitigate ESG risks in their supply chains.
- Norwegian Transparency Act: Companies must conduct due diligence to ensure ethical practices throughout their supply chains.

Climate-Related Regulations

- **Paris Agreement Commitments**: Uganda is a signatory to the Paris Agreement, and companies may face pressure to reduce greenhouse gas emissions and adopt climate-resilient practices.
- **Carbon Border Adjustment Mechanism (CBAM)**: Ugandan exporters to the EU may face carbon taxes if their products have a high carbon footprint.

Financial Sector ESG Requirements

- **Equator Principles:** Ugandan companies seeking international financing for large projects may need to comply with these environmental and social risk management standards.
- **IFC Performance Standards:** Companies receiving funding from the International Finance Corporation (IFC) must adhere to strict ESG criteria.

03 Insights from the survey

Insights from the survey

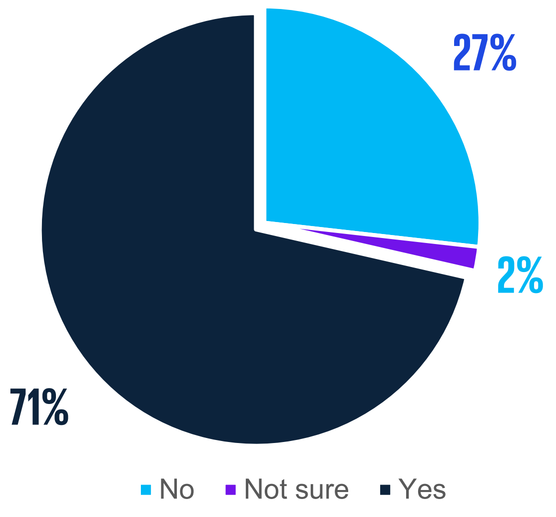
Evolving ESG regulatory landscape

In general, the results from the survey indicate that companies are aware of the current ESG regulations at both global and national level and making an effort to not only comply with the regulatory requirements but also adopt ESG in their business models to unlock stakeholder value.

A substantial majority (70%) of Ugandan companies are likely to be affected by EU regulations due to their value chains extending into jurisdictions like Europe. This indicates a strong connection between Ugandan businesses and international markets, particularly the EU. Therefore adhering to stringent international ESG standards is crucial, particularly for key export industries like agriculture (coffee, tea), mining, and textiles.

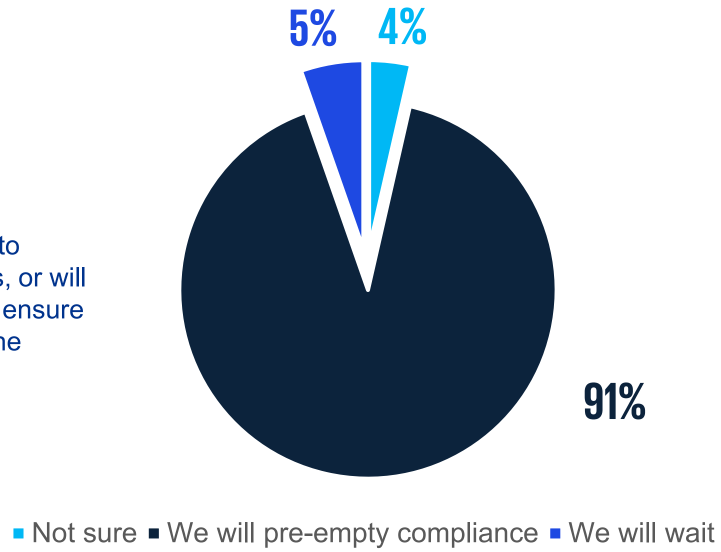
An overwhelming majority (91%) of companies plan to pre-emptively comply with ESG regulations this suggests a proactive approach to regulatory compliance and a recognition of the importance of ESG standards in maintaining market access and competitiveness.

However, the companies continue to face some challenges regarding the data requirements with majority relying on multiple sources of ESG Data. Companies showed tremendous willingness to continuously conduct ESG Gap assessments to navigate an ever changing ESG landscape.



Q1: Does your company have any value chains going into other jurisdictions such as Kenya, China, Europe, the USA and Australia?

Q2:Will you wait for Uganda to formalise its ESG regulations, or will your company pre-emptively ensure you will be compliant when the regulations come in force?



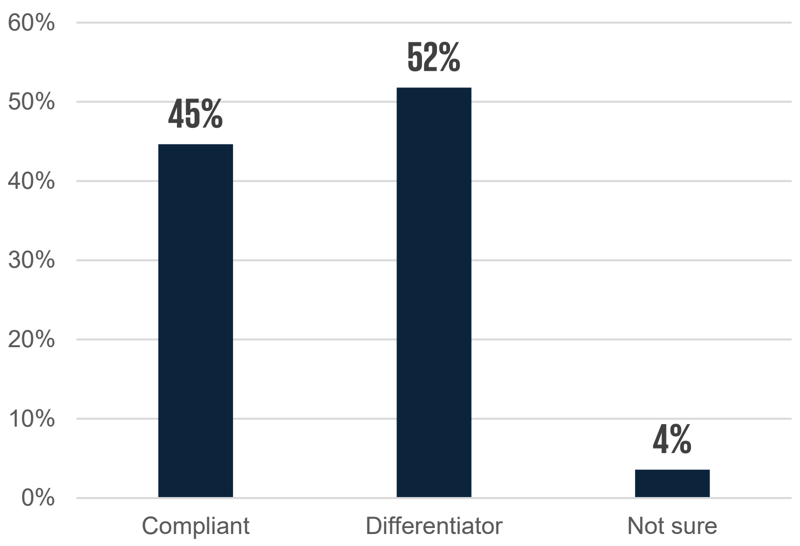
Insights from the survey

ESG adoption as a differentiator to create a competitive advantage and unlock stakeholder value

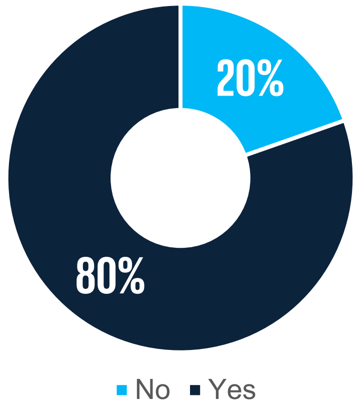
In most cases, regulations drive companies' actions towards ESG matters. Uganda's regulatory frameworks have not put enough pressure or given clear guidance on what and how companies should measure and disclose their performance across ESG matters.

However, more than half (52%) of the companies surveyed are aiming to use ESG as a differentiator to create competitive advantage for themselves rather than wait for further guidance from regulators.

Q3: Will you aim to be compliant with the ESG regulations, or will you aim to use ESG as a differentiator to create a competitive advantage for your company?

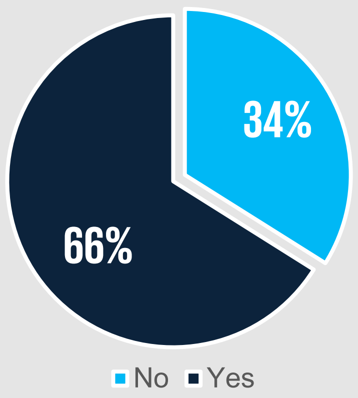


The pre-emptive actions for most companies emphasise the companies' view of ESG as a differentiator rather than a compliance matter. 80% of the companies recognize many ideas on how to maximize shareholder value through ESG adoption. Majority of the companies surveyed are aware of the IFRS S1 and S2 standards implying they have already embarked on the ESG journey and fully recognise its importance.



Q5:Do you understand the requirements of the IFRS S1 and S2 reporting standards that will become mandated in Uganda?

Q4:Do you have any ideas on how you could improve shareholder value through ESG adoption?



Insights from the survey

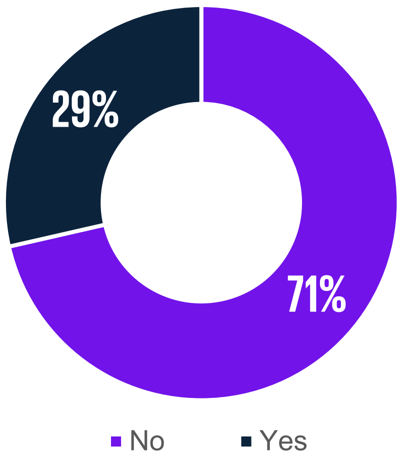
Double Materiality and the challenge around data requirements

Double materiality is a concept that acknowledges business risks and opportunities from both financial and non-financial perspectives requiring companies to assess how environmental and social factors impact a company's financial performance (financial materiality or outside-in) and how the company's activities affect the environment and society (impact materiality or inside-out).

The survey, indicated that, a significant proportion of companies (7 in 10 companies) have not conducted double materiality assessments to evaluate which ESG factors may materially affect their business prospects over short- and long-term horizons.

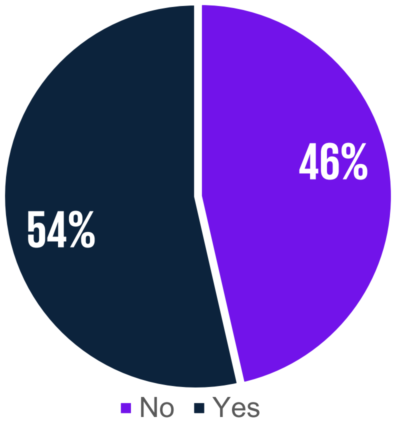
Navigating both the impact of a company's activities on the environment and society is crucial for companies to meet regulatory demands and enhance stakeholder value.

Q6: Has your company done a double materiality assessment?



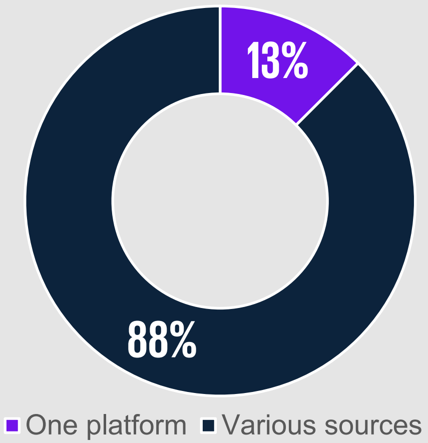
Most companies stated that they understand the ESG reporting data requirements even when few have undertaken double materiality in a business environment with no stringent ESG reporting requirements.

Majority of the companies (88%) get their ESG data from various sources making the ESG reporting process a complex endevour. Ensuring accurate, comprehensive data collection and alignment with regulatory standards is crucial for companies faced with reporting requirements from multiple stakeholders.



Q8: Is your ESG data collected and sensitised on one data platform, or do you get it from various sources across the organisation?

Q7:Have you analysed the data requirements that will be applicable to your company from an ESG reporting perspective?



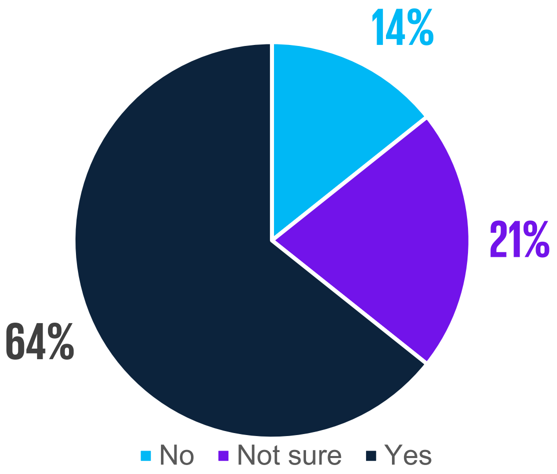
Insights from the survey

Are you telling the true impact stories?

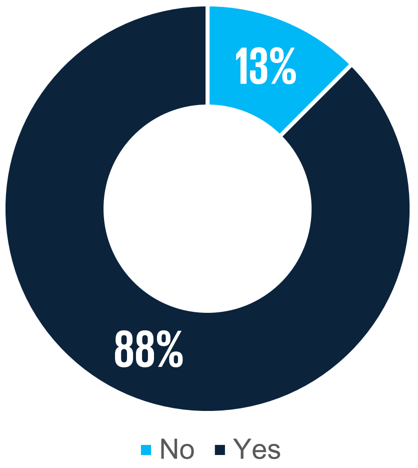
As stakeholders—ranging from investors and governments to employees and local communities—demand greater accountability, it is crucial for corporates to integrate both KPI tracking and impact measurement into their core strategies. Impact measurement plays a crucial role in showing how companies' actions drive broader societal and environmental change.

The survey revealed that 64% of companies are telling the true impact of their respective initiatives. However, there is no standardized approach to impact measurement that companies can adopt. KPMG's True Value offers a new lens to business strategy and impact measurement. KPMG True Value is a market leading methodology that helps companies to measure and manage economic, social and environmental impacts. It is aligned with the international standards such as Social & Human Capital Protocol, Natural Capital protocol and the Value Balancing Alliance.

Q9: Do you believe you are telling the true impact stories of the great initiatives your company is already doing, well?

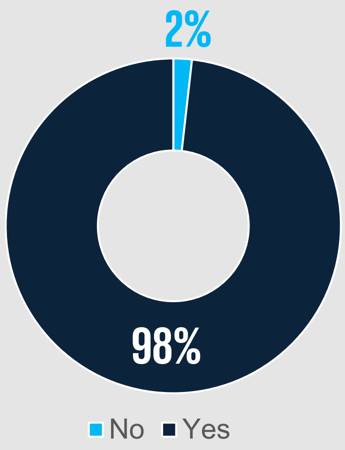


The ESG landscape is rapidly evolving and majority of the companies that undertook the survey (88%) recognise the need to continuously perform ESG gap assessments to understand the gaps in their current operational construct. All respondents, except one, are more interested in obtaining regular updates on the latest ESG regulatory changes and best practice implementation approaches signifying the relevancy of ESG matters and need to keep abreast of all the changes in the market.



Q11: Would you like to get regular updates on the latest ESG regulatory changes and best practice implementation?

Q10:Would you be interested to do a free high-level online ESG gap assessment to understand the gaps in your current operational construct?



04 Way forward

Way forward

What companies (early adopters and advanced) will have to do going forward from both a regulatory and corporate level perspective

In light of the trends highlighted in this survey, here are some tangible ways businesses (both early and advanced adopters) can begin to navigate the sustainability reporting landscape:

- Understand stakeholder expectations using stakeholder materiality assessment to inform your business strategy and prioritize your focus
- Establish a cross-function governance structure to collect, report and approve sustainability and ESG
- Determine strategy imperatives against key ESG topics and define key metrics, regulations including CSRD and ISSB
- Consider investing in quality non-financial data management, including documenting process and testing controls over the information, or system implementation

To maximize the use of ESG as a differentiator for competitive advantage, companies in Uganda can:

- **Implement Sustainable Business Practices:** Embed eco-friendly practices in company operations, such as waste reduction, energy conservation, and recycling promotion.
- **Community Engagement:** Participate in local development projects, back community causes, and ensure fair labor standards to enhance societal standing.
- **Corporate Governance Enhancement:** Bolster internal controls, uphold transparency, and foster accountability to cultivate stakeholder trust and appeal to ethical investors.
- **Enhanced Transparency**: Regularly communicate updates on ESG efforts and performance metrics to showcase dedication and foster trust with clients, investors, and other stakeholders.
- **Stakeholder Consultation:** Engage with diverse stakeholders, including staff, customers, suppliers, and communities, to grasp their ESG concerns and integrate their input into business strategies.
- **Holistic ESG Integration:** Embed ESG factors into decision-making, risk assessment, and performance appraisals to propel sustained value creation.
- **Collaborative Engagement:** Partner with other organisations, industry groups, governmental bodies, and non-profit organizations to harness collective knowledge and resources in tackling ESG issues efficiently

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