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**Submission to the Working Group on Business and Human Rights:
Investors, ESGs, and Human Rights**

October 2023

1. This submission is drafted by the Uganda Consortium on Corporate Accountability. The consortium works to promote corporate accountability and respect for human rights by businesses. This submission responds to question 3 under the general questions part of the questionnaire. This submission highlights the extent to which environmental, social, and governance (ESG) approaches present constraints and/or opportunities for investors and businesses overall. It critically underscores that the emerging trend of ESGs presents more opportunities and sustainability than constraints to both investors and businesses,

**Background on ESGs in Uganda**

1. Businesses and investors continue to play a critical role in facilitating sustainable development and shaping better outcomes in their activities. Various standards and approaches have emerged to foster this broad idea and create acceptable outcomes beyond mere financial rewards. To wit, Environmental, Social, and Governance (ESG) standards are among those at the fore of investment decisions. These connote a set of standards that are designed to form part of and are material to all business operations. These standards are geared towards ensuring that companies operate in a socially responsible and sustainable manner.
2. Precisely, ESG standards entail the tripartite environmental, social, and governance features. The environmental feature relates to the impact of the institution’s activities on the environment, such as emissions, and pollution, among others. The Social feature relates to the social factors in investment such as community consent, child labor, and overall respect for human rights. The last feature of governance relates to the alignment of an institution's interests to extend beyond just making profits to accountability and transparency, among other practices.
3. In Uganda, ESG approaches have recently garnered interest from the public sector, including the central bank, which has expressed support for ways to help transition the country’s financial system toward ESG compliance and sustainability. For instance, the Bank of Uganda (BoU) launched the Sustainability Standards and Certification Initiative (SSCI), which aims to promote sustainable and responsible practices in the banking sector. This will evaluate banks’ environmental, social, and governance (ESG) practices. However, in many other business contexts, ESG approaches as a stand-alone aspect are yet to take root.

**Constraints of ESG approaches for investors and businesses.**

1. ESG approaches present various constraints for investors and businesses. However, many of these vary from one to another, given the varied ESG needs of specific businesses and investors. Despite this, some of the general constraints include;
2. Firstly, for businesses, implementing ESG practices can involve upfront costs such as investing in sustainable technologies and supply chain practices. These invariably have the potential to constrain the short-term profitability of many businesses. Relatedly, this constraint can also be identified in the transitioning of companies to more sustainable and ESG-compliant practices.
3. Further, ESG-focused investment strategies may limit the pool of potential investments, thereby leading to a reduction in diversification and returns for investors.
4. The absence of precise regulation on ESG, and the ever-evolving requirements create a veritable challenge to the accepted practices and standards since various ESG requirements may vary from one sector to another, and worse still from one region to another, where the companies operate across borders.

**Opportunities for investors and businesses**

1. ESG approaches present various opportunities to businesses and investors. These include:
2. Long-term value creation as ESG approaches enhance a company’s long-term sustainability thereby leading to greater profitability and value in the long term. This largely flows from the alignment of business and investor interest with broad societal and environmental goals.
3. ESG approaches greatly reduce the likelihood of costly crises for businesses and investors as they can help identify and manage risks related to environmental, social, and governance issues. This in turn cost savings and greater regulatory compliance by businesses.
4. Further, companies that prioritize ESG may find it easier to attract investment from ESG-focused funds, thereby expanding their access to capital. Similarly, companies that excel at ESG performance can differentiate themselves in the market and appeal to a broader customer base while building strong brand loyalty.
5. ESG approaches also present additional and complementary criteria for investors to identify risk and suitability of investment beyond the traditional financial analysis

**Recommendations**

1. The glaring lack of a binding framework on ESGs makes their incorporation into corporate activities and investment financing merely discretional and voluntary. Therefore, it is recommended that regulatory frameworks be put in place to guide businesses and investors on ESG standards. The regulatory framework must be all-encompassing, grounded in the UNGPs, and must take into consideration the peculiar ESG needs of various businesses and investors.

**Conclusion**

1. By way of Conclusion, ESG approaches present both constraints and opportunities for investors and businesses. The extent to which they manifest depends largely on the specific circumstances, industry, and how they are integrated into the company’s strategy. As such, ESG approaches continue to shape the conduct of business as the world recognizes the growing importance of sustainable and responsible business practices.