

Adopting Environmental, Social and Governance Tenets for Sustainable Investment in Africa

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Kariuki Muigua*

Abstract

Environmental, Social and Governance (ESG) has been described as a key concept in fostering sustainable, responsible and ethical investments. This paper critically examines the role of ESG in fostering sustainable investments in Africa. It argues that embracing ESG tenets can enhance sustainable, responsible and ethical investments in Africa. The paper highlights some of the factors hindering the realization of sustainable investments in Africa. It further proposes reforms aimed at adopting ESG tenets for sustainable investments in Africa.

1.0 Introduction

ESG has also been defined as a concept that seeks to achieve sustainable, responsible and ethical investment by incorporating Environmental, Social and Governance factors in corporate decision making¹. ESG integration involves incorporating environmental, social and governance indicators into investment and business decision-making processes². It has been correctly observed that the integration of the ESG criteria has become an instrument responsible for defining, planning, operationalizing and executing the actions of corporations directed at environmental prevention and preservation, in addition to social responsibility and the quality performance of their activities³.

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¹ Stuart. L.G et al., 'Firms and Social Responsibility: A Review of ESG and CSR Research in Corporate Finance.' *Journal of Corporate Finance* 66 (2021): 101889.

² Barbosa. A., et al., 'Integration of Environmental, Social, and Governance (ESG) Criteria: Their Impacts on Corporate Sustainability Performance.' *Humanities & Social Sciences Communications.*, 2023

³ Ibid

The concept of ESG is pertinent in the sustainability agenda⁴. The rise of ESG has been necessitated by global sustainability problems including climate change, corporate corruption and financial inequality⁵. It has been pointed out that ESG includes key elements around environmental and social impact, as well as how governance structures can be amended to maximize stakeholder well-being towards sustainability⁶. It incorporates Environmental factors such as climate change considerations, energy efficiency, carbon emissions, waste management and resource consumption⁷; Social factors including human rights, labour relations, employee welfare, community engagement, diversity and inclusion⁸; and Governance issues such as board diversity, transparency and internal control systems towards achieving sustainability⁹. Realizing ESG tenets is therefore necessary in order to achieve sustainability.

ESG is vital in fostering sustainable, responsible or ethical investments¹⁰. It has been argued that ESG is usually a standard and strategy used by investors to evaluate corporate behavior and future financial performance of organizations¹¹. ESG therefore stems from sustainable and responsible investments¹².

This paper critically examines the role of ESG in fostering sustainable investments in Africa. It argues that embracing ESG tenets can enhance sustainable, responsible and ethical investments in Africa. The paper highlights some of the factors hindering the

⁴ Ibid

⁵ CMS., 'Putting the 'S' in 'ESG' - a Corporate Guide.' Available at <https://cms.law/en/int/publication/social-aspect-of-esg-lexicon-of-most-important-terms-and-phrases> (Accessed on 08/01/2023)

⁶ Peterdy. K., & Miller. N., 'ESG (Environmental, Social, & Governance).' Available at <https://corporatefinanceinstitute.com/resources/esg/esg-environmental-social-governance/> (Accessed on 08/01/2023)

⁷ Henisz. W, Koller. T, & Nuttall. R., 'Five Ways that ESG Creates Value.' *McKinsey Quarterly*, 2019

⁸ Ibid

⁹ Ibid

¹⁰ Stuart. L.G et al., 'Firms and Social Responsibility: A Review of ESG and CSR Research in Corporate Finance.' Op Cit

¹¹ Li. T., et al., 'ESG: Research Progress and Future Prospects.' Available at <https://pdfs.semanticscholar.org/0dd4/941ebea33330210daff5f37a1c8cdd0547d7.pdf> (Accessed on 08/01/2024)

¹² Ibid

realization of sustainable investments in Africa. It further proposes reforms aimed at adopting ESG for sustainable investments in Africa.

2.0 The Link between ESG and Sustainable Investment

Sustainable investing is an idea which balances traditional investing with Environmental, Social, and Governance-related (ESG) insights in order to improve long-term outcomes¹³. Sustainable investing can also refer to a range of practices in which investors aim to achieve financial returns while promoting long-term environmental or social value¹⁴. It ensures that organizations are not judged solely on short-term financial gains but on a broader picture of what and how they contribute to society¹⁵. It has been argued that investments are sustainable if their total economic, social and environmental benefits can be predicted to outweigh their total cost¹⁶. Economic sustainability of investments refers

¹³ CFA Institute., 'What is Sustainable Investing?' Available at <https://www.cfainstitute.org/en/rpc-overview/esg-investing/sustainable-investing> (Accessed on 08/01/2024)

¹⁴ Harvard Business School., 'What is Sustainable Investing?' Available at <https://online.hbs.edu/blog/post/sustainable-investing> (Accessed on 08/01/2024)

¹⁵ Ibid

¹⁶ Organisation for Economic Co-Operation and Development., 'Africa's Sustainable Investments in Times of Global Crises.' Available at <https://www.oecd-ilibrary.org/sites/32dddc3a-en/index.html?itemId=/content/component/32dddc3a-en> (Accessed on 08/01/2024)

to the long-term viability of a market-based activity for all actors involved¹⁷. Social sustainability consists of effects of investments on human development, individual well-being and collective outcomes such as peace and social cohesion¹⁸. Further, environmental sustainability is achieved investment activities do not surpass the boundaries of ecological systems that support life on Earth (considering issues such as climate change, chemical pollution and freshwater use)¹⁹.

ESG is central to realizing sustainable investing²⁰. It has been argued that ESG fosters socially responsible and sustainable investments by enabling investors to incorporate their values and concerns (such as environmental and social concerns) into their selection of investments instead of simply considering the potential profitability and/or risk presented by an investment opportunity²¹. ESG presents a set of non-financial performance indicators that are vital in ensuring sustainable, ethical and responsible investments²². It has been observed that demand for non-financial information has risen considerably over the past few decades in order to enhance socially responsible investment therefore challenging the traditional capital market's view which assumes that an organization's responsibility is solely to its shareholders²³. ESG enables organizations to foster sustainable investments by also seeking to address values beyond financial returns²⁴. ESG therefore promotes sustainable investing by focusing on

¹⁷ Ibid

¹⁸ Ibid

¹⁹ Ibid

²⁰ Stuart. L.G et al., 'Firms and Social Responsibility: A Review of ESG and CSR Research in Corporate Finance.' Op Cit

²¹ CFI, ESG (Environmental, Social and Governance), Available at: <https://corporatefinanceinstitute.com/resources/knowledge/other/esg-environmental-socialgovernance/> (Accessed on 08/01/2024)

²² Ibid

²³ Eccles. R., Lee. L-E., & Stroehle. J., 'The Social Origins of ESG? An Analysis of Innovest and KLD.' Available at https://www.researchgate.net/profile/Judith-Stroehle/publication/330732655_The_Social_Origins_of_ESG_An_Analysis_of_Innovest_and_KLD/links/5c7fc8e9458515831f895ba7/The-Social-Origins-of-ESG-An-Analysis-of-Innovest-and-KLD.pdf (Accessed on 08/01/2024)

²⁴ Ibid

nonfinancial dimensions of a firm's performance²⁵. It specifically relates to the impact of the company on the environment, social progress, and good governance²⁶.

It has been pointed out that the concept of ESG is usually a standard and strategy used by investors to evaluate corporate behavior and future financial performance²⁷. As an investment concept for evaluating the sustainability of organizations, the three tenets of ESG are the key factors to be considered in the process of investment analysis and decision making²⁸. In addition, the ESG tenets can help to measure the sustainability and social impact of business activities²⁹. Due to its importance in fostering sustainable investment, it has been correctly observed that ESG factors are becoming increasingly important to investors and customers³⁰. As a result, investors are looking for companies that are socially responsible and have a positive impact on the environment and society while customers are also looking for companies that share their values and have a positive impact on the community³¹. Consequently, how companies handle ESG issues has become a major concern especially for investors, customers and other key stakeholders³².

It has been pointed out the importance of ESG is evidenced by the change in the legal and regulatory landscapes around the world to reflect the expectations of investors,

²⁵ Van Duuren. E., Plantinga. A., & Scholtens. B., '. ESG Integration and the Investment Management Process: Fundamental Investing Reinvented.' *Journal of Business Ethics*, 138(3), 525-533.

²⁶ Ibid

²⁷ Li. T., et al., 'ESG: Research Progress and Future Prospects.' Op Cit

²⁸ Ibid

²⁹ Ibid

³⁰ Muigua. K., 'Rule of Law Approach for Inclusive Participation in Environmental, Social, and Governance (ESG) Accountability Mechanisms for Climate-Resilient Responses.' Available at <https://kmco.co.ke/wp-content/uploads/2024/01/Rule-of-Law-Approach-for-Inclusive-Participation-in-Environmental-Social-and-Governance-ESG-Accountability-Mechanisms-for-Climate-Resilient-Responses.pdf> (Accessed on 08/01/2024)

³¹ ESG., 'The Link Between ESG and Community Engagement: Building Stronger Relationships.' Available at <https://vakilsearch.com/blog/the-link-between-esg-and-community-engagement/> (Accessed on 08/01/2024)

³² Muigua. K., 'Embracing Environmental, Social and Governance (ESG) Principles for Sustainable Development in Kenya.' Available at <http://kmco.co.ke/wp-content/uploads/2022/07/EmbracingESG-Principles-for-Sustainable-Development-in-Kenya.pdf> (Accessed on 08/01/2024)

customers, employees and other stakeholders³³. ESG factors now apply in many areas increasingly driving investment decisions and commercial contracts to company strategy and culture³⁴. According to the Organisation for Economic Co-operation and Development (OECD), the growth of ESG approaches by investors has been driven by private and public sector initiatives to reach the objectives of the Paris Agreement and the Sustainable Development Goals (SDGs)³⁵. This has seen the incorporation of climate transition factors among other ESG considerations into investment decisions and the growth of what has come to be known as ESG investing as a leading form of sustainable finance for long-term value and alignment with societal values³⁶. ESG is therefore a key component of sustainable investment.

3.0 ESG and Sustainable Investment in Africa: Promises and Pitfalls

ESG tenets are vital in enhancing sustainable investment in Africa. The African Union points out that the concept of ESG is increasingly become an important factor in determining the competitiveness of businesses as they serve the society in which they operate with a critical focus on the sustainability of their activities³⁷. It further points out that Africa is not an exception to this evolving trend³⁸. The African Union further states that ESG requirements are vital in accessing finance and markets in Africa³⁹. It has been argued that a strong approach towards ESG in Africa is necessary in order to create value by laying the foundation for sustainable investing, continued government and

³³ Ibid

³⁴ Sriyani. C. & Heenetigala. K., 'Integrating Environmental, Social and Governance (ESG) Disclosure for a Sustainable Development: An Australian Study.' *Business Strategy and the Environment*, No. 26 of 2017

³⁵ Organisation for Economic Co-Operation and Development., 'Environmental Social and Governance (ESG) Investing' Available at <https://www.oecd.org/finance/esg-investing.htm> (Accessed on 08/01/2024)

³⁶ Ibid

³⁷ African Union., 'The Environmental, Social, and Governance: An African Private Sector Study.' Available at <https://au.int/en/announcements/20230329/environmental-social-and-governance-african-private-sector-study> (Accessed on 08/01/2023)

³⁸ Ibid

³⁹ Ibid

community support, and access to investment capital and world-class partners, which will better position the continent for long-term profitability and impact⁴⁰.

It has also been argued that African organisations simply cannot afford to downplay the importance of ESG tenets⁴¹. Africa continues to face environmental, economic and social development problems including climate change, poverty, food insecurity, water scarcity, health challenges, energy crisis, environmental degradation, high debt distress risks among others which are major threat to the Sustainable Development agenda⁴². African organizations and Multinational Corporations (MNCs) play a major role in addressing these challenges and fostering Sustainable Development in Africa through investments in key sectors such as agriculture, health, energy, education, infrastructure among others⁴³. As a result, it has been observed that African business leaders have the opportunity to drive effective ESG strategies towards sustainability⁴⁴. African organisations can help to build trust in their societies and deliver sustained business outcomes by implementing effective ESG strategies⁴⁵. It has correctly been asserted that businesses in Africa cannot succeed if their societies fail⁴⁶.

Sustainable investments are of vital importance in Africa in light of global challenges including the climate crisis and the aftermath of the COVID-19 pandemic⁴⁷. It has been pointed out that recent global shocks have amplified investment barriers in Africa by

⁴⁰ Africa 50., 'ESG & Climate.' Available at <https://www.africa50.com/our-company/esg-climate/> (Accessed on 08/01/2023)

⁴¹ PwC Kenya., 'Taking Action on your ESG Strategy - Africa.' Available at <https://www.pwc.com/ke/en/publications/taking-action-on-your-esg-strategy.html> (Accessed on 08/01/2023)

⁴² The World Bank., 'The World Bank in Africa.' Available at <https://www.worldbank.org/en/region/afr/overview> (Accessed on 08/01/2024)

⁴³ Muigua. K., 'Multinational Corporations, Investment and Natural Resource Management in Kenya.' Available at <https://kmco.co.ke/wp-content/uploads/2018/11/Multinational-Corporations-Investment-and-Natural-Resource-Management-in-Kenya-Kariuki-Muigua-November-2018.pdf> (Accessed on 08/01/2024)

⁴⁴ PwC Kenya., 'Taking Action on your ESG Strategy - Africa.' Op Cit

⁴⁵ Ibid

⁴⁶ Ibid

⁴⁷ Organisation for Economic Co-Operation and Development., 'Africa's Sustainable Investments in Times of Global Crises.' Op Cit

lowering investor confidence and worsening information shortages while increasing the cost of capital in Africa more than in other regions of the world⁴⁸. For example, it has been pointed out that as result of unfavourable country credit ratings and heightened risk aversion among international investors, the costs of public and private capital are far above global averages in many African countries, especially in the renewable energy sector⁴⁹. Sustainable investments are essential to steer Africa's productive transformation towards inclusion and resilience⁵⁰. It has been noted that there is a growing awareness that sustainable investing can tackle the environmental, social and economic challenges in Africa and that the resulting economic growth will be sustainable, benefitting investors and African citizens in the long run⁵¹. To this end, it has been argued that integrating ESG factors into investment is particularly important for developing countries, which have limited resources to adapt to urbanization and supply side shocks in the market⁵². Adopting ESG tenets can therefore unlock sustainable investment in Africa.

ESG can help Africa realize sustainable investments. It has been pointed out that ESG considerations are taking centre-stage in all discussions of sustainability and becoming an important benchmark for funding assessments across the world⁵³. Firms in Africa can embrace ESG and incorporate its demands into their operations in order to attract critical sustainable investments⁵⁴. It has been argued that ESG considerations will have an increasingly important impact on the investment landscape in Africa⁵⁵. As a result, it has been contended that firms in Africa big and small will experience increased demands and

⁴⁸ Ibid

⁴⁹ Ibid

⁵⁰ Ibid

⁵¹ Premji. Z., 'Sustainable Investing: Unlocking Africa's Potential.' Available at <https://www.bscapitalmarkets.com/sustainable-investing-unlocking-africarsquos-potential.html> (Accessed on 08/01/2024)

⁵² Ibid

⁵³ Nunekpeku. R., 'ESG Inroads and Sustainable Investments in Africa: Promoting Compliance by Private Companies.' Available at <https://thebftonline.com/2023/04/11/esg-inroads-and-sustainable-investments-in-africa-promoting-compliance-by-private-companies/?amp=> (Accessed on 09/01/2024)

⁵⁴ Ibid

⁵⁵ International Labour Organization., 'Environmental Social Governance (ESG) and Its Implications for Enterprises in Africa.' Available at https://www.ilo.org/actemp/regions/africa/WCMS_848401/lang--en/index.htm (Accessed on 09/01/2024)

expectations regarding how they conduct business hence the need to adopt ESG for sustainable investments in Africa⁵⁶.

It has been argued that Africa has immense potential to adopt ESG for sustainable investments⁵⁷. Africa Union's Agenda 2063 enshrines the ideal of a prosperous Africa, based on inclusive growth and Sustainable Development⁵⁸. Agenda 2063 seeks to achieve Sustainable Development in Africa through various strategies including fostering intra-African investments⁵⁹. Agenda 2063 presents a case for sustainable investments in Africa by advocating for corporate social and environmental investments⁶⁰.

It has further been argued that Africa can leverage on the African Continental Free Trade Area (AfCFTA) to promote sustainable investing and green transition in the continent⁶¹. AfCFTA seeks to achieve certain objectives including creating a single market for goods, services, facilitated by movement of persons in order to deepen the economic integration of the African continent⁶². It has been argued that the AfCFTA will be a game changer, creating the world's largest free trade area and a single market for goods and services worth \$3.4 trillion for more than 1.3 billion Africans⁶³. The United Nations opines that AfCFTA is appropriately designed to deepen integration, foster trade and investment, enhance the mobility of capital and labour, support industrialization, and the

⁵⁶ Ibid

⁵⁷ Organisation for Economic Co-Operation and Development., 'Africa's Sustainable Investments in Times of Global Crises.' Op Cit

⁵⁸ Africa Union., 'Agenda 2063: The Africa We Want.' Available at https://au.int/sites/default/files/documents/33126-doc-framework_document_book.pdf (Accessed on 09/01/2024)

⁵⁹ Ibid

⁶⁰ Ibid

⁶¹ United Nations Economic Commission for Africa., 'Africa Should Leverage the AfCFTA to Promote Green Transition.' Available at <https://www.uneca.org/stories/africa-should-leverage-the-afcfta-to-promote-green-transition> (Accessed on 09/01/2024)

⁶² African Union., 'Agreement Establishing the African Continental Free Trade Area.' Available at https://au.int/sites/default/files/treaties/36437-treaty-consolidated_text_on_cfta_-_en.pdf (Accessed on 09/01/2024)

⁶³ African Economic Outlook 2023., 'Mobilizing Private Sector Financing for Climate and Green Growth in Africa.' Available at https://www.afdb.org/sites/default/files/documents/publications/afdb23-01_aeo_main_english_0602.pdf (Accessed on 09/01/2024)

development of a dynamic services sector⁶⁴. At its full realization, the AfCFTA with the mandate of eliminating trade barriers, will be the largest free trade area in the world bringing together the 55 countries⁶⁵. It has been argued that the AfCFTA Protocol on Investment presents a unique opportunity for African countries to attract and promote investments in green sectors that support green transition⁶⁶. The Protocol provides several mechanisms for African countries to achieve green transition and sustainable investment⁶⁷. These mechanisms include promoting investment in green sectors, facilitating technology transfer, developing green investment standards and encouraging regional cooperation⁶⁸. The AfCFTA can therefore be a catalyst of sustainable investments in Africa which embrace ESG tenets.

In addition, Africa is also endowed with an abundance of natural resources which presents numerous opportunities for sustainable investment. It has been observed that with its massive deposit of oil, gas and mineral resources, Africa is the world's fastest-growing region for Foreign Direct Investment⁶⁹. The United Nations further opines that Africa is rich in natural resources ranging from crude oil, natural gas, minerals, forests and wildlife which holds the key for social and economic development in the continent⁷⁰. It asserts that measures such as sustainable investments can serve to reverse the losses from natural capital to help the continent free resources that can finance implementation

⁶⁴ United Nations., 'Africa's Free Trade on Track, More Efforts Needed.' Available at [https://www.un.org/africarenewal/magazine/january-2023/africa%E2%80%99s-free-trade-track-moreefforts-needed#:~:text=lies%20ahead%2C%20though,-.Presently%2C%20intra%20Africa%20trade%20stands%20low%20at%20just%2014.4%25%20of,day\)%2C%20according%20to%20UNCTAD](https://www.un.org/africarenewal/magazine/january-2023/africa%E2%80%99s-free-trade-track-moreefforts-needed#:~:text=lies%20ahead%2C%20though,-.Presently%2C%20intra%20Africa%20trade%20stands%20low%20at%20just%2014.4%25%20of,day)%2C%20according%20to%20UNCTAD) (Accessed on 09/01/2024)

⁶⁵ United Nations Economic Commission for Africa., 'Africa Should Leverage the AfCFTA to Promote Green Transition.' Op Cit

⁶⁶ Ibid

⁶⁷ Ibid

⁶⁸ Ibid

⁶⁹ Abe. O., 'Leveraging Natural Resources for Sustainable Development in Africa.' Available at <https://www.afronomiclaw.org/2019/07/30/leveraging-natural-resources-for-sustainable-development-in-africa> (Accessed on 09/01/2024)

⁷⁰ United Nations Environment Programme., 'Is Africa's Natural Capital the Gateway to Finance Its Development?' Available at <https://www.unep.org/news-and-stories/story/africas-natural-capital-gateway-finance-its-development> (Accessed on 09/01/2024)

of development agendas⁷¹. African countries can adopt ESG for sustainable investment in their natural resources⁷². For example, it has been pointed out that Africa is seeing increased investment in renewable energy and infrastructure projects, which align with ESG goals⁷³. Solar and wind energy projects, for instance, not only address environmental concerns but also contribute to expanding access to clean energy in the region⁷⁴. Africa therefore has the potential to adopt ESG for sustainable investing.

However, adopting ESG for sustainable investing in Africa faces certain hurdles. It has been contended that the African investment reality is marked by the dominance of extractive industries, high exposure to climate change and pressing developmental needs⁷⁵. The dominance of extractive industries poses a clear obstacle to the rise of 'green' investment strategies on the continent⁷⁶. For example, investment strategies by some Multinational corporations in the extractives sector in Africa have been accused of flouting ESG requirements by resulting in environmental concerns including the extinction of biodiversity, contamination and destruction of soil and air pollution as a result of oil spillages and social challenges including gross human rights violations and land injustices⁷⁷. Such practices have had an impact on economic activities, social-cultural life and human health of the affected people thus hindering the attainment of Sustainable Development within the ESG framework in Africa⁷⁸.

⁷¹ Ibid

⁷² Wadhvani, H., 'Charting the ESG Landscape in Africa: Sustainable Opportunities and Challenges.' Available at <https://www.linkedin.com/pulse/charting-esg-landscape-africa-sustainable-challenges-wadhvani/> (Accessed on 09/01/2023)

⁷³ Ibid

⁷⁴ Ibid

⁷⁵ International Labour Organization., 'Environmental Social Governance (ESG) and Its Implications for Enterprises in Africa.' Op Cit

⁷⁶ Ibid

⁷⁷ Makwana, R., 'Multinational Corporations (MNCs): Beyond the Profit Motive,' Share the World Resources, 3rd October 2006, available at <http://www.stwr.org/multinationalcorporations/multinational-corporations-mnccs-beyond-theprofitmotive.html#legalrights> (Accessed on 09/01/2024)

⁷⁸ Ajibade, L.T & Awomuti, A.A. 'Petroleum Exploitation or Human Exploitation? An Overview of Niger Delta Oil Producing Communities in Nigeria' *African Research Review* Vol. 3 (1), 2009. Pp. 111-124

In addition, it has been argued that there are significant barriers in the form of: poor infrastructure, weak regional infrastructure links, limited access to market information, failure of regulation, and small domestic markets hindering the adoption of ESG for sustainable investments in Africa⁷⁹. As a result, it has been argued that Africa's sustainable financing and investment gap remains small in global comparison⁸⁰. Addressing these challenges calls for the adoption of ESG principles for sustainable investment in Africa.

4.0 Way Forward

In order to adopt ESG for sustainable investment in Africa, there is need to accelerate ESG integration in investment practices⁸¹. It has been pointed out that the heightened focus on investments in Sub-Saharan Africa is certain to increase the flow of finance to the region, increasing infrastructure and benefitting its businesses and clients⁸². However, a clear, systematic approach is important for ESG integration for sustainable investment in Africa⁸³. It has been asserted that in order to remain competitive, businesses in Africa must strike the right balance between short-term focus on profitability and the long-term benefits of ESG integration to secure investment⁸⁴. It is therefore necessary for African governments to prioritise responsible and sustainable investments in all sectors and

⁷⁹ Premji. Z., 'Sustainable Investing: Unlocking Africa's Potential.' Op Cit

⁸⁰ International Labour Organization., 'Environmental Social Governance (ESG) and Its Implications for Enterprises in Africa.' Op Cit

⁸¹ Premji. Z., 'Sustainable Investing: Unlocking Africa's Potential.' Op Cit

⁸² Ibid

⁸³ Ibid

⁸⁴ Modise. P., 'Expert Opinion: How ESG can unlock sustainable investment for Africa.' Available at <https://environment-analyst.com/global/109676/expert-opinion-how-esg-can-unlock-sustainable-investment-for-africa#:~:text=ESG%20integration%20for%20long%2Dterm%20benefits&text=It%20is%20essential%20for%20African,practices%2C%20and%20transparent%20reporting%20mechanisms>. (Accessed on 09/01/2024)

collaborate with private sector entities to establish stringent regulations, industry best practices, and transparent reporting mechanisms⁸⁵.

There is also need to foster access to ESG data in order enhance sustainable investment in Africa. It has observed that as investors increasingly look for ways to align their portfolios with sustainability, the need for reliable ESG data has become increasingly significant⁸⁶. In Africa, ESG considerations often go hand-in-hand with requirements such as improving communities, fostering good governance, and creating sustainable infrastructure⁸⁷. It has been contended that accurate ESG data allows investors to assess risk and make better-informed decisions about where and how to invest⁸⁸. According to OECD, limited availability of ESG data is a major issue which hinders risk assessments and mitigation strategies and increasing the cost of searching for investment opportunities⁸⁹. Lack of data also makes it difficult to measure the allocation of funds towards sustainable development and impacts⁹⁰. Enhancing access to ESG data through measures such as ESG disclosure and reporting can help foster sustainable investment towards the realization of Sustainable Development in Africa⁹¹.

ESG disclosure and reporting requirements have been identified as vital tools in adopting ESG for sustainable investment in Africa⁹². ESG reporting and disclosure frameworks can help embed ESG factors in investment decisions⁹³. ESG disclosure and reporting can also enhance access to ESG information which is a key driver of investment and development

⁸⁵ Ibid

⁸⁶ How and Where to Find ESG Data to Invest in Africa., Available at <https://toum.ai/blog/how-and-where-to-find-esg-data-to-invest-in-africa> (Accessed on 09/01/2024)

⁸⁷ Ibid

⁸⁸ Ibid

⁸⁹ Organisation for Economic Co-Operation and Development., 'Africa's Sustainable Investments in Times of Global Crises.' Op Cit

⁹⁰ Ibid

⁹¹ African Development Bank Group., 'Africa Economic Brief - The role of ESG rating in Sustainable Development in Africa - Volume 12 | Issue 10.' Available at <https://www.afdb.org/en/documents/africa-economic-brief-role-esg-rating-sustainable-development-africa-volume-12-issue-10> (Accessed on 09/01/2023)

⁹² Muigua. K., 'Embracing Environmental, Social and Governance (ESG) Principles for Sustainable Development in Kenya.' Op Cit

⁹³ Ibid

policy decision making⁹⁴. African countries can therefore adopt mandatory ESG disclosure and reporting requirements which comply with relevant international treaties, ESG standards and local regulations in order to foster sustainable investments⁹⁵. In Kenya for example, the Nairobi Securities Exchange has developed an ESG Disclosure Manual to guide listed companies in Kenya on ESG disclosure and reporting⁹⁶. The ESG Manual proposes mandatory ESG disclosures for NSE listed companies to help achieve sustainable business practices⁹⁷. Embracing reporting and disclosure requirements can lead to the adoption of ESG for sustainable investment in Africa.

Further, it has been argued that there is need to need to integrate ESG clauses in Bilateral Investment Treaties (BITs) in order to realize sustainable investment in Africa⁹⁸. It has been pointed out that many BITs are incorporating ESG matters including specific provisions on the protection of the environment, climate action and Sustainable Development⁹⁹. African countries should therefore negotiate appropriately and integrate ESG clauses in BITs in order to make investments more aligned with ESG concerns such climate action, environmental governance, respect for human rights as well as other public policy imperatives¹⁰⁰. Integrating ESG clauses in BITs can help promote sustainable, ethical and socially responsible investments in Africa¹⁰¹.

⁹⁴ African Development Bank Group., 'Africa Economic Brief - The role of ESG rating in Sustainable Development in Africa - Volume 12 | Issue 10.' Op Cit

⁹⁵ Muigua. K., 'Embracing Environmental, Social and Governance (ESG) Principles for Sustainable Development in Kenya.' Op Cit

⁹⁶ Nairobi Securities Exchange, 'ESG Disclosures Guidance Manual', available at <https://sseinitiative.org/wp-content/uploads/2021/12/NSE-ESG-Disclosures-Guidance.pdf> (Accessed on 09/01/2024)

⁹⁷ Ibid

⁹⁸ Muigua. K., 'Bilateral Investment Treaties and Environmental, Social and Governance in Africa.' Available at <https://kmco.co.ke/wp-content/uploads/2023/07/Bilateral-Investment-Treaties-and-Environmental-Social-and-Governance-in-Africa-1.pdf> (Accessed on 09/01/2024)

⁹⁹ United Nations Conference on Trade and Development., 'The International Investment Treaty Regime and Climate Action.' Available at https://unctad.org/system/files/officialdocument/diaepcbinf2022d6_en.pdf (Accessed on 09/01/2024)

¹⁰⁰ Ibid

¹⁰¹ Muigua. K., 'Embracing Environmental, Social and Governance (ESG) Principles for Sustainable Development in Kenya.' Op Cit

Finally, it is imperative for the private sector in Africa to embrace Sustainable Development practices including green investments in order to foster the ESG agenda in the continent¹⁰². It has been argued that Africa's private sector can bolster the continent's green agenda and drive increased Gross Domestic Product (GDP), higher income per capita, and create numerous jobs for people on the continent¹⁰³. According to UNEP, there are numerous opportunities for green investments in Africa in areas such as sustainable agriculture, agribusiness, the blue economy, ecotourism, climate smart opportunities for a net zero transition including renewable energy solutions and the African voluntary carbon market¹⁰⁴. Fostering investments in these among other areas can lead to green growth in line with ESG requirements and contribute towards the attainment of the Sustainable Development goals in Africa¹⁰⁵.

Through the foregoing among other measures, adopting ESG tenets for sustainable investment in Africa will become a reality.

5.0 Conclusion

ESG is vital in fostering sustainable, responsible or ethical investments¹⁰⁶. It is usually a standard and strategy used by investors to evaluate corporate behavior and future financial performance of organizations¹⁰⁷. There is immense potential to adopt ESG tenets for sustainable investment in Africa as set out in Agenda 2063, opportunities presented by AfCFTA and the abundance of natural resources in Africa¹⁰⁸. However, the adoption of ESG for sustainable investment in Africa faces several barriers in the form of: poor infrastructure, weak regional infrastructure links, limited access to market information,

¹⁰² United Nations Environment Programme., 'Africa's Green Business Opportunities are Abundant, UNEP Study Shows.' Available at <https://www.unep.org/news-and-stories/press-release/africas-green-business-opportunities-are-abundant-unep-study-shows> (Accessed on 09/01/2023)

¹⁰³ Ibid

¹⁰⁴ Ibid

¹⁰⁵ Ibid

¹⁰⁶ Stuart. L.G et al., 'Firms and Social Responsibility: A Review of ESG and CSR Research in Corporate Finance.' Op Cit

¹⁰⁷ Li. T., et al., 'ESG: Research Progress and Future Prospects.' Op Cit

¹⁰⁸ International Labour Organization., 'Environmental Social Governance (ESG) and Its Implications for Enterprises in Africa.' Op Cit

failure of regulation, and small domestic markets¹⁰⁹. Adopting ESG principles for sustainable investment in Africa calls for accelerating ESG integration in investment practices¹¹⁰; enhancing access to ESG data¹¹¹; embracing ESG disclosure and reporting¹¹²; integrating ESG clauses in BITs¹¹³; and embracing Sustainable Development practices in the private sector¹¹⁴. Adopting ESG tenets for sustainable investment in Africa is the way to go in order to achieve sustainability.

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¹⁰⁹ Premji. Z., 'Sustainable Investing: Unlocking Africa's Potential.' Op Cit

¹¹⁰ Ibid

¹¹¹ How and Where to Find ESG Data to Invest in Africa., Op Cit

¹¹² Muigua. K., 'Embracing Environmental, Social and Governance (ESG) Principles for Sustainable Development in Kenya.' Op Cit

¹¹³ Muigua. K., 'Bilateral Investment Treaties and Environmental, Social and Governance in Africa.' Op Cit

¹¹⁴ United Nations Environment Programme., 'Africa's Green Business Opportunities are Abundant, UNEP Study Shows.' Op Cit

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