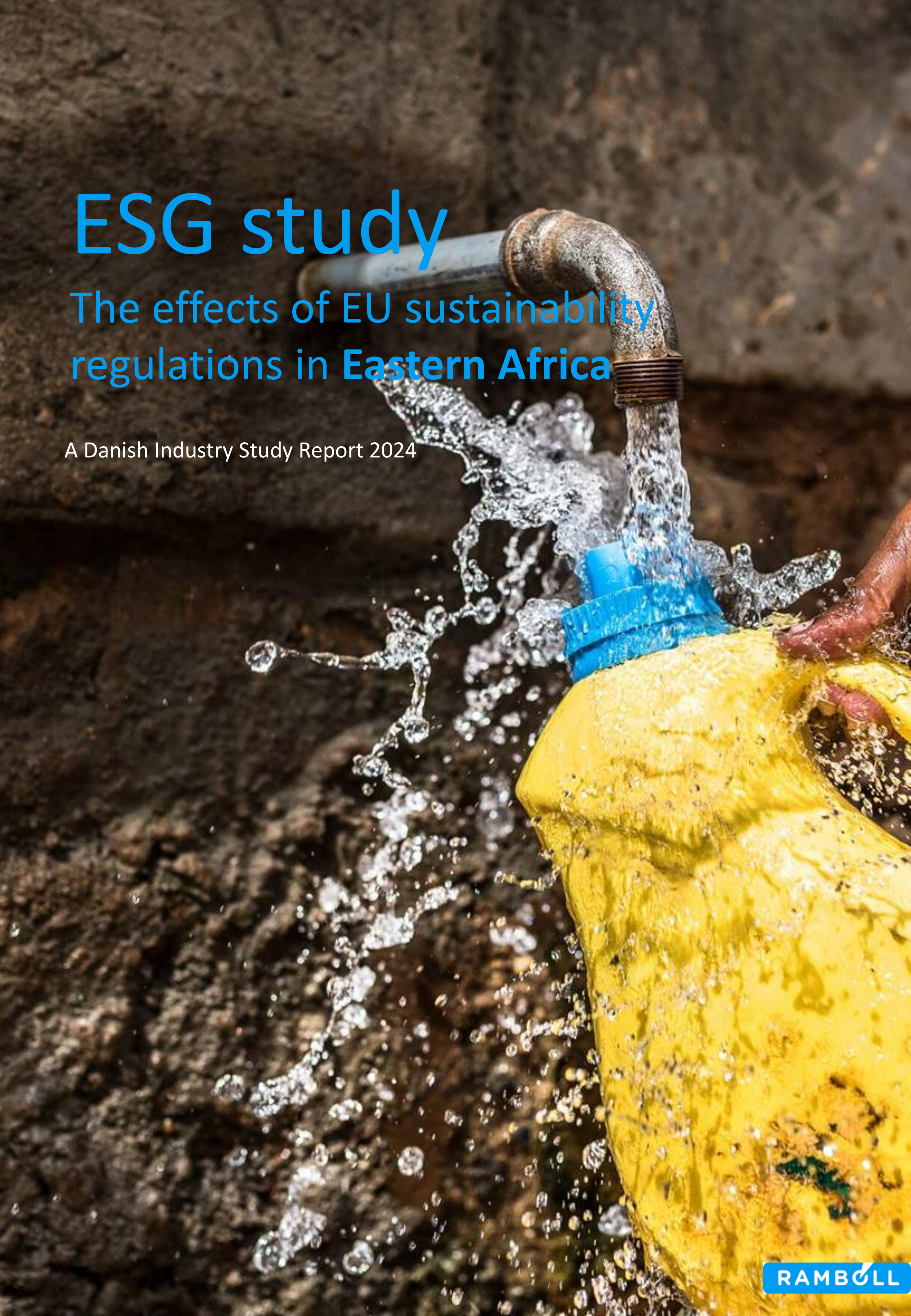
ESG study

The effects of EU sustainability regulations in **Eastern Africa**

A Danish Industry Study Report 2024



Introduction

Background to the study

In recent years, the EU has been at the forefront of developing new legislations around various environmental, social, and governance (ESG) matters. These legislations include but are not limited to the EU's new Corporate Sustainability Reporting Directive (CSRD), EU Taxonomy, EU Deforestation Regulation (EUDR), EU Conflict Mineral Regulation, Carbon Border Adjustment Mechanism (CBAM), as well as the upcoming Corporate Sustainability Due Diligence Directive (CSDDD) and Forced Labour Ban Regulation.

These legislations require European companies to take responsibility for impacts across their entire value chain and will directly apply to companies that meet certain thresholds or import certain goods to the EU market. This also has significant implications for Eastern African companies that are part of the value chains of EU businesses. As the new requirements compel EU companies to consider their environmental, social, and economic impacts across their entire value chain, Eastern African companies will face increasing sustainability demands moving forward. Addressing such demands will be key for continuous trade and business relations.

To support Eastern African companies going forward in this process and determine how the EU's new regulatory landscape and the growing focus on sustainability by international companies will impact businesses in Eastern Africa, the Danish Industry (DI) – Denmark's largest business and employers' organization – has teamed up with organisation, such as the East African Grain Council, to conduct a study on the matter. This study assesses Eastern African companies' awareness of these new standards, the demands they face, the impact on their operations, and their readiness to meet rising sustainability requirements.

The goal is to provide useful insights that will help Eastern African businesses meet the rising demands from both the EU and multinational companies.

Executive summary

The findings, encapsulating survey responses from *Burundi, Ethiopia, Malawi, Tanzania, and Uganda*, indicate that the influence of the EU's ESG legislation on East African companies is anticipated to significantly grow in the coming years. However, many businesses remain unprepared for the coming wave of ESG regulatory demands. Only 15% of East African companies report a high level of awareness regarding the legislative developments. This is resulting in a significant knowledge gap that leaves many, especially smaller firms, vulnerable as the EU tightens its sustainability standards.

Despite these obstacles, East African companies acknowledge the increasing importance of sustainability and stress the need for ongoing advancements in this field. Most businesses surveyed noted a rise in customer demand for sustainable practices, with 94% expecting sustainability to become an even bigger focus in the next three years. Companies are starting to view sustainability not only as a regulatory burden but as a strategic opportunity that can create new business opportunities and boost sales. However, many, particularly smaller businesses, face challenges in meeting these rising demands due to limited knowledge, resources, and financial constraints.

To support East African companies, it is crucial to raise awareness of EU regulations. Initiatives such as workshops, webinars, and knowledge sharing sessions can help close the knowledge gap and provide businesses with the necessary tools to comply with evolving standards. By fostering partnerships, investing in capacity-building efforts, and delivering practical support, East African businesses can better meet sustainability demands and capitalize on new opportunities in the global market.

Global shift from voluntary standards to hard laws

Understanding the global shift in sustainability demands

The global market is undergoing a period of significant change in how business is conducted in relation to the planet and people. In recent years, the push for sustainability have become increasingly widespread and reinforced by legislation, causing a growing emphasis on companies to systematically consider and take responsibilities for their ESG footprint. This does not only entail assessing its own operations, but also making sure that the entire value chain operates ethically and sustainably. With heightened expectations for responsible business practices, sustainability efforts are becoming more formalized, structured, and data-driven.

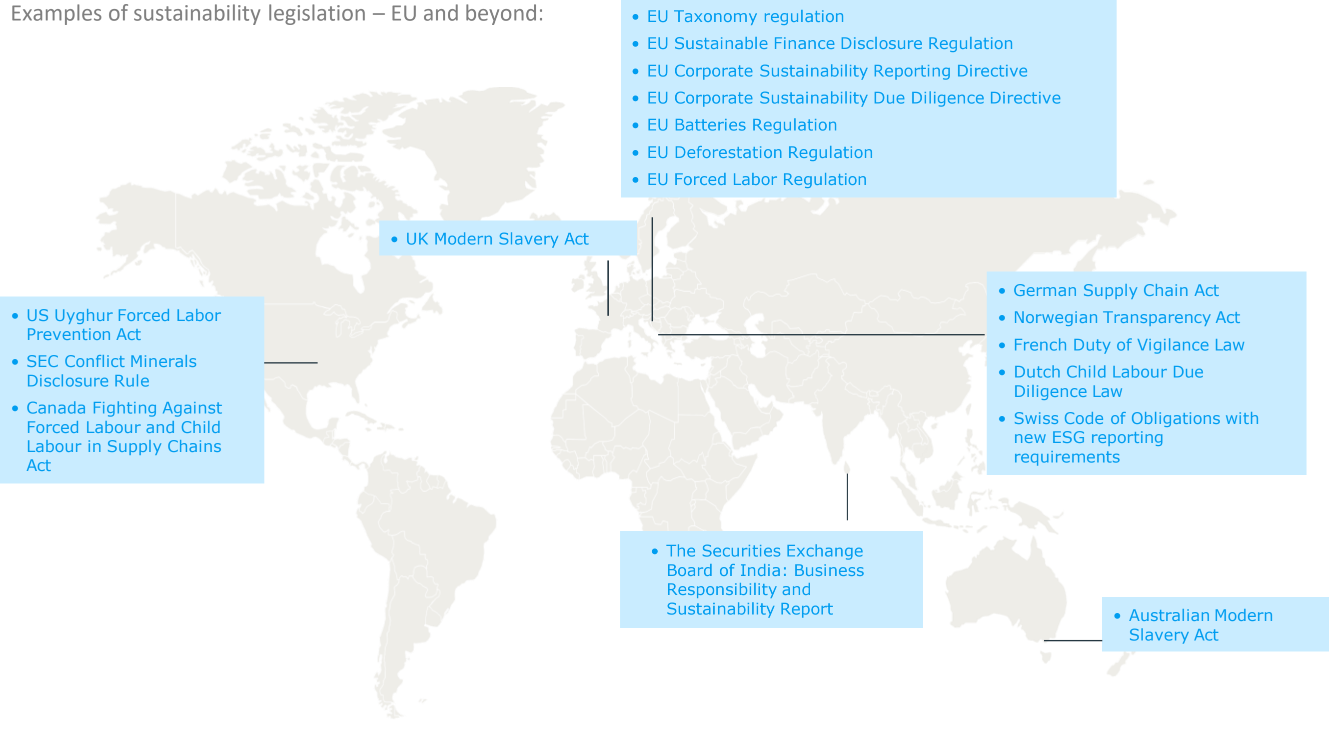
Voluntary ESG Standards: A Challenge for Global Supply Chains

Although meeting sustainability demands from multinationals and European customers is not new phenomenon for Eastern African companies, the current paradigm brings heightened enforcement and accountability. Historically, sustainability efforts in value chains have often focused on assessing environmental impact, ensuring basic labor practices—particularly in health and safety—and adhering to key business ethics like anti-corruption. However, these initiatives have often relied on voluntary frameworks, lacked standardization, and been implemented on an ad-hoc basis. As a result, the scope and effectiveness of these efforts have been limited, leading to weak enforcement and restrained ambition in advancing sustainability.

The move towards structured ESG legislation

In recent years, there has been a notable shift toward more formal and structured ESG legislation, both in the EU and beyond. However, the EU is at the forefront of this change, introducing comprehensive ESG laws that set clear sustainability requirements, requiring companies to document and report on their claimed sustainability initiatives throughout their supply chain, whether social or environmental. With these new regulations, multinational companies are now required to impose stricter demands and enforcement mechanism on their business partners, including those based in Eastern Africa.

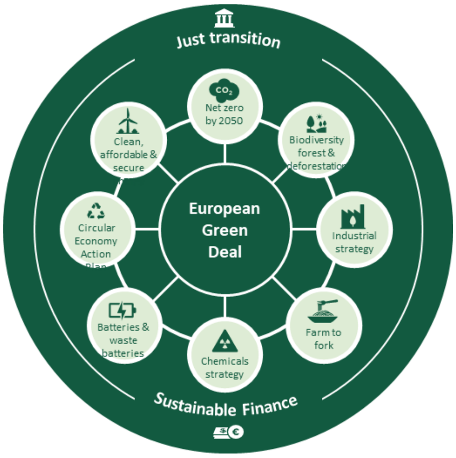
Examples of sustainability legislation – EU and beyond:



The Green Deal gives rise to a new EU ESG landscape

The primary driver for the increase in European sustainability demands is the **European Green Deal**. It consists of a series of policies and commitments designed to reshape the economic and environmental landscape of Europe to make the EU climate-neutral by 2050. It guides European companies' sustainability direction and requirements and provide initiatives that set new standards for sustainability practises along the value chain. The deal includes:

- Proposals to reduce greenhouse gas emissions by at least 50% from 1990 levels by 2030
- Policies to decouple economic growth from resource use
- Key actions to restore biodiversity
- A law that will direct the EU towards reaching net-zero greenhouse gas emissions by 2050.



The framework is supported by the **Sustainable Finance Strategy** to finance the transition, and the **Just Transition Mechanism**, which aims to ensure that the shift is fair and inclusive. Together, the framework represent an ambitious effort to elevate sustainability practices both within the EU and beyond.

Recent ESG regulations related to the EU Green Deal (with more to come):

Overview of recent ESG regulations:

Some of the most influential ESG legislations

Navigating the regulatory landscape related to the **European Green Deal** can be challenging, as it often involves multiple overlapping requirements. Several legislations address the entire value chain of companies, meaning that if European companies have suppliers or business relationships in Eastern Africa, they may have to launch new specific sustainability requirements to ensure compliance with social and environmental standards. Below is an overview of some of the most influential legislation that may impact Eastern African companies.

CSRD

The Corporate Sustainability Reporting Directive mandates around **50,000 companies** with activities within the EU to disclose their ESG impact across the entire value chain. The framework requires companies to conduct a **double materiality assessment** to evaluate their ESG impact, followed by substantial **sustainability reporting**. With over 1,100 data points spread across ten topical ESG standards, Eastern African companies will face pressure to deliver data and report on how they manage and govern potential ESG risks and impacts.

CSDDD

The Corporate Sustainability Due Diligence Directive requires large companies operating in the EU to proactively identify, assess, prevent, mitigate, and report on adverse **human rights and environmental impacts across their operations and value chains**. Eastern African suppliers and those in the value chain of EU companies may need to implement stricter sustainability due diligence practises to demonstrate how they manage social and environmental impacts.

EU Taxonomy

The EU taxonomy guides private investments by **defining which types of businesses can be considered sustainable**. It provides the first uniform and credible standard, allowing investors to align their activities with the transition to a low-carbon and sustainable society. Eastern African businesses seeking EU investments may need to prove that they meet sustainability criteria outlined by the EU taxonomy, by making sure that their products, production processes and activities are aligned with the framework's detailed requirements.

EU Forced Labour Regulation*

The regulation will allow customs and other authorities to **prohibit the import and export of products made with forced labour** into the EU. Eastern African exporters to the EU must ensure that their products are free from forced labour practices. This include enhanced due diligence processes and implementation of new control mechanism throughout the value chain.

EU Deforestation Regulation

The EU Deforestation Regulation is an EU mandate requiring companies to perform **extensive due diligence on the value chains** of products derived from **cattle, cocoa, coffee, palm oil, rubber, soy, and wood**. Eastern African businesses exporting these products to the EU will need to ensure their supply chains are deforestation-free, with detailed requirement of sourcing practises, traceability of products, compliance and enforcement mechanism as well as reporting obligations.

CBAM

The EU's Carbon Border Adjustment Mechanism (CBAM) is the EU's tool to put a **fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU**, and to encourage cleaner industrial production in non-EU countries. Eastern African exporters of carbon-intensive goods may face additional costs if their production processes have high carbon emissions. Accordingly, this will call for new investments and technological improvements to ensure greener and cleaner production processes.

The EU ESG legislation will increase demands on Eastern African suppliers in three areas

Sustainable production and products

New EU legislation like EUDR, ESPR, PPDW and CBAM aim to make sustainable products the standard in the EU by setting new requirements for using circular materials, encouraging cleaner production in non-EU countries and preventing deforestation.

These regulations are highly likely to result in increased demands for Eastern African suppliers to **ensure that their products are sustainably designed, manufactured and transported**. For example, agricultural exports must now comply with rules against deforestation and packaging materials will need to meet recycling and reuse standards.

Sustainability due diligence

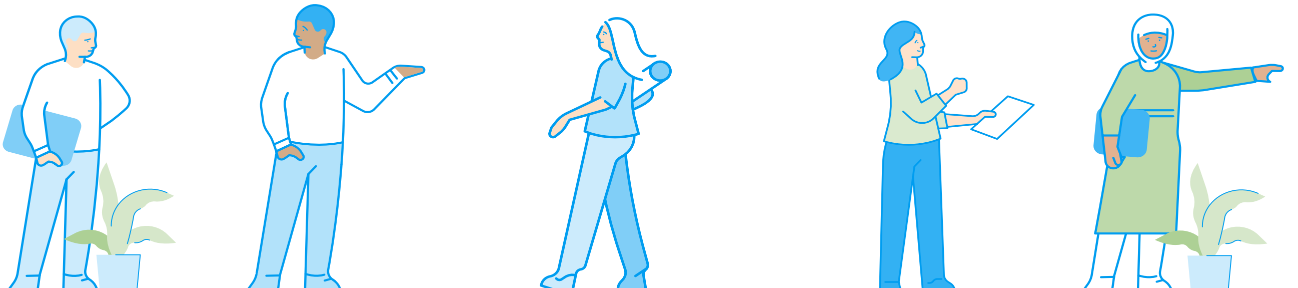
Several new EU ESG legislations, including the CSRD, SFDR, EU battery regulation, Conflict Mineral Regulation, EUDR and CSDDD, require businesses to practice sustainability due diligence. This means they must assess and address the environmental and social impacts of their entire supply chain.

These developments indicate a broader shift towards **holding businesses accountable for their negative impacts** on people and the environment. As part of the supply chain for EU companies, Eastern African suppliers will need to demonstrate how they are protecting human rights and the environment.

Corporate sustainability reporting

EU laws like the CSRD and the EU Taxonomy are raising the bar for sustainability reporting. European companies must now disclose detailed ESG data, covering not only their own operations but also the environmental and social impacts of their supply chains.

As an Eastern African supplier, this development is set to increase the **need to provide reliable ESG data and transparency** to EU partners. This means tracking and reporting on your environmental footprint and the social impacts of your business. Reliable data and strong transparency will be key to maintaining business relationships with European buyers.



The relevance of EU ESG legislation for Eastern Africa

EU as a significant trade partner for Eastern Africa

The Eastern African countries covered is this report—Burundi, Ethiopia, Malawi, Tanzania, and Uganda—share several common traits in their relationships with the EU. Overall, the EU is a significant trade partner for Eastern Africa, though the degree of export dependence varies across countries. In Burundi, the EU accounts for 18% of exports; in Ethiopia, the EU is the second-largest export partner, accounting for 15% of total exports; in Malawi, the EU is the largest export partner, with 34% of exports; in Tanzania, the EU is the fifth-largest export partner, representing 5.5% of total exports; and in Uganda, the EU is the largest export partner, accounting for 20% of exports.

In total the EU imports €2.75 billion worth of goods from Eastern Africa annually. Trade between the two regions predominantly revolves around agricultural, processed foods, natural resources (such as iron) as well as stones and metal products. Given the EU's role as an important trading partner, Eastern African companies must stay informed about legislative developments and comply with new requirements to maintain trade relations. This is especially important for small firms if they are to remain competitive in a rapidly changing regulatory landscape.

Increasing regulatory demands for Eastern African suppliers

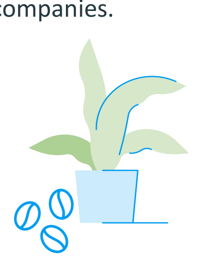
Due to their connection to the European market, the EU's new regulations will increase the pressure on Eastern African companies to improve their sustainability efforts. New legislation, such as the **CSRD** and the **CSDDD**, will call for improved reporting practises and the embedding of sustainability due diligence processes. Meanwhile, other EU ESG regulations including the EU Deforestation Regulation, EU Conflict Mineral Regulation, and CBAM will apply to EU Companies that operate in certain high-risk sectors.

Since many East African suppliers fall into these categories, the regulations will place increasing demands on businesses, especially those involved in agriculture and mining, to improve due diligence practices.

Eastern Africa's agricultural exports makes EU's ESG regulations particularly relevant

The EU Deforestation Regulation (EUDR) will impact many East African countries, as a large portion of their agricultural exports are directed to the EU. The regulations seeks to guarantee that products consumed within the EU are sourced responsibly, without contributing to deforestation or the degradation of forests across the globe. The regulation affects importers and exporters of certain goods like timber, rubber, palm oil, soy, cattle, coffee, and cocoa. East African companies exporting these products to the EU market must ensure they are not sourced from deforested or degraded land after December 31, 2020 – hereby putting higher demands for traceability.

The EU Conflict Mineral Regulation will primarily impact the mining sectors in countries like Burundi, Ethiopia, and Tanzania, where materials like tantalum, tin, tungsten, and gold are exported to the EU. The regulation put pressure on suppliers to ensure responsible sourcing of tin, tungsten, tantalum, and gold. Companies exporting these materials will need to improve supply chain transparency and meet stringent due diligence requirements. Consequently, further demands on European companies to engage with and put pressure on their Eastern African suppliers can be expected, leading to increased due diligence obligations for the companies.



€2.75 billion

The EU's imports from Eastern Africa amount to €2.75 billion and are mainly agricultural products.

Low awareness of EU ESG legislations among local firms

Limited awareness of EU's upcoming ESG legislations in East Africa

There appears to be limited collaboration and knowledge sharing between EU companies and their East African suppliers regarding the evolving regulatory ESG landscape. The study indicates that East African companies generally have low awareness of EU sustainability legislation, with **only 15%** reporting a high level of awareness of legislative developments.

More than half of the surveyed SMEs report being unfamiliar with the latest ESG regulations, and a significant portion of larger corporations as well. Looking at specific regulations, there is a concerning lack of familiarity with critical ones like the **EUDR** and **the Conflict Minerals Regulation** (see figure below). This knowledge gap poses significant risks, as several East African companies operate in sectors especially affected by the regulations. Addressing these gaps is essential to ensure that all firms, regardless of size, are prepared to meet upcoming compliance requirements.

Only 15%

of companies express high awareness of EU legislative development

Challenges in adopting ESG practices among Eastern African businesses

Although 71% of Eastern African companies report prioritizing sustainability, limited awareness presents significant challenges to the adoption of ESG practices. This lack of awareness are amongst companies highlighted as a consequence of weak domestic ESG regulations and low local demand for sustainable products, leading to fewer incentives for companies to engage in sustainability initiatives. This is particularly true for locally owned SMEs that face little international pressure to comply with sustainability standards. Agriculture is, within this context, outlined as a high-risk sectors, with a high number of small family-owned firms.

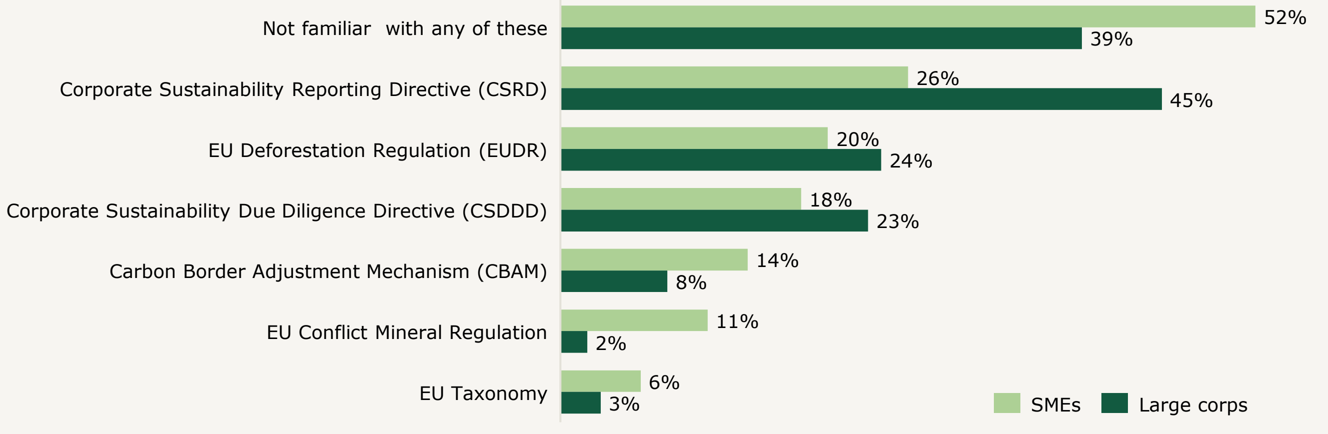
Sustainability is becoming a priority

Despite the low awareness of EU regulations, East African remain positive about the outlooks for sustainability. Sales and business opportunities, along with regulatory compliance, serve as the primary drivers for sustainability initiatives for companies. **94% of surveyed companies** indicates that sustainability will become an even greater priority in the next three years, suggesting a potential shift toward more proactive sustainability efforts in the region.

94%

Believe that **sustainability will become a more prioritized topic for their companies** to work with in the coming three years

Awareness of specific EU sustainability legislation (% of respondents)



Increasing customer demands for sustainability

Eastern African companies experience an increase in sustainability requests

The impact of the EU's ESG legislation on Eastern African companies is expected to grow rapidly in the coming years. Already now, 69% of the East African companies in the study report receiving regular customer sustainability demands – with almost half of the respondents indicating a profound increase over the last few years. With new EU sustainability legislation coming into place, many companies anticipate that this trend will be further accelerated.

The majority of demands are related to environmental sustainability

A significant portion of sustainability requests are reported to be related to **environmental** practices, with 61% of the companies experiencing it as the most critical area for their customers. Companies primarily encounter requirements related to environmental certification, followed by sustainable production processes as well as products and packaging. While environmental demands is perceived as the most critical request, the data indicates that social and governance demands are just as present. **Social demands** primarily focus on occupational health and safety, followed by working conditions and fair labour practises, such as working hours and adequate wages. In terms of **governance-related sustainability**, responsible business ethics continue to be a key focus, with growing emphasis on the management of suppliers.

Customer's sustainability demand are expected to have an impact on business

The rising demands for sustainability from customers can impact companies either positively or negatively, depending on how sustainable their operations are. Approximately **63% of East African companies** believe that new sustainability demands from customers will have a high or significant impact on their business. While many firms believe these new demands will enhance their reputation and increase sales, there is also a profound fear that new demands will cause higher costs and challenges in doing business with international companies. The impact is expected to be particularly challenging for SMEs, which may struggle to meet these increasing demands due to limited awareness and resources.

63%

Believe that **sustainability demands from customers will influence their businesses.** Both positively, but also negatively if the demands are not met.

Sustainability practices that customers are requesting (% of respondents)

Substantial support needed to uphold trade relations

The new EU legislation puts pressure on East African companies

East African companies perceive customers' sustainability demands as a potential business opportunity. However, the pressure to comply with new EU sustainability requests and meet the growing demands of multinational corporations and local customers is intensifying. As businesses prepare for upcoming sustainability requirements, nearly 40% report having little to no experience in addressing these demands. Specifically, companies express low capabilities in key areas tied to EU legislation, including sustainable production processes, ESG reporting and data collection, and conducting due diligence within own operations as well as across business relationships.

Challenges to sustainability progress

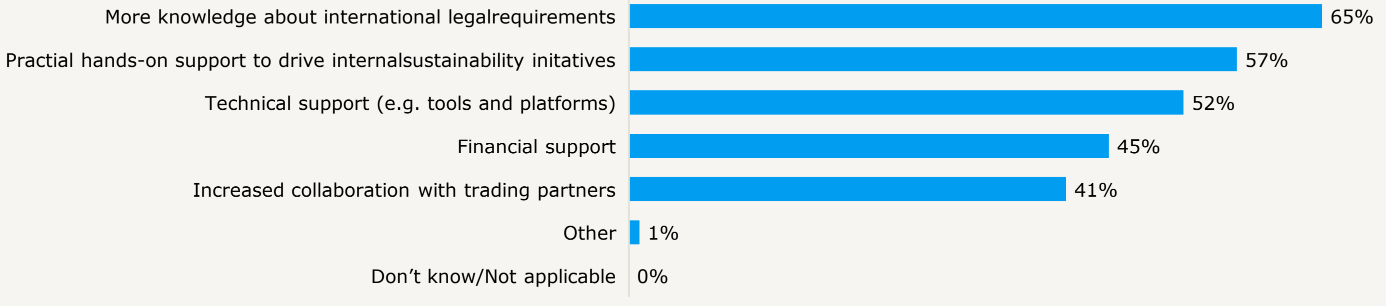
East African companies report facing several challenges in advancing their sustainability efforts, with The main barriers to meeting increasing regulatory pressures include insufficient resources, financial limitations, and restricted access to technology. However, the most pressing issue, cited by 61% of respondents, is a significant knowledge gap in sustainability work, which is viewed as the primary obstacle to progress. Accordingly, there is an urgent need for awareness training at all levels to improve understanding and develop the necessary skills – particularly amongst SMEs, who demonstrate less experience in understanding and working with sustainability requirements.

Support and collaboration key for East African firms to meet EU standards

The surveyed companies identify several support interventions to enhance their sustainability readiness. Along with awareness training, practical hands-on guidance and technical support through accessible tools and platforms was considered essential. The study also revealed that export-oriented companies are particularly seeking closer collaboration with European counterparts to better understand and meet the new sustainability expectations placed on them.

In this context, trade and business associations are seen as vital in helping local companies navigate sustainability challenges and facilitate value chain collaboration. 65% of the respondents emphasized the importance of their support in addressing sustainability issues and lowering the financial barriers to sustainability progress. This support is especially crucial for smaller firms, which often face limited access to in-house expertise or external consultants.

Valuable factors for local companies to facilitate future progress on sustainability (% of respondents)



Ways forward and where to start

How to navigate EU's regulatory landscape and meet rising sustainability demands:

Focus on awareness & training, especially for SME's

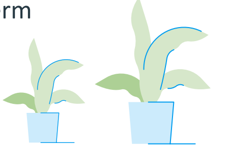
Due the important trade relationship between Eastern Africa and the EU it is essential, both in the short term and long term, to prioritize raising awareness and deepening understanding of EU legislation. In the short term, this can be accomplished through targeted initiatives like workshops, webinars, and information sessions. Many smaller companies are still unfamiliar with ESG terminology and business associations can play a crucial role in bridging this knowledge gap. Facilitating introductory ESG trainings can help SMEs establish a foundational understanding of ESG issues and recognize the associated business opportunities. Such efforts are crucial not only for immediate compliance but also for ensuring long-term competitiveness in a rapidly evolving regulatory landscape.

Enhanced collaboration to provide support and assistance

Partnerships among trade associations, local businesses, and international stakeholders play a central role in providing the practical assistance and collaboration necessary to navigate the evolving ESG regulatory landscape. By fostering networks and collaborations between East African businesses and EU partners, support organizations can enhance knowledge sharing on ESG regulations, which is important for market access and competitiveness. This can be achieved through industry- or sector-wide initiatives, workshops, and various engagement activities that promote mutual learning and the exchange of best practices.

Resource allocation for capacity building

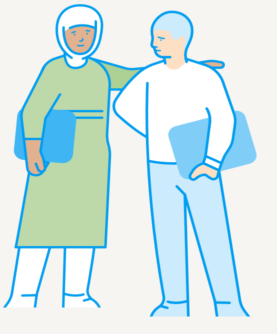
Continuous capacity building is essential for navigating the EU's evolving ESG regulatory landscape and enhancing trade relations. Adapting to new ESG requirements necessitates a comprehensive approach, with sustainability integrated throughout the entire organization. This involves strategically allocating both financial and human resources to initiatives that promote sustainability. Investing in sustainable practices that align with international standards not only enables companies to capitalize on emerging opportunities in EU trade, but also significantly strengthen the position of Eastern African companies in the global market. As the importance of sustainability continues to rise, staying ahead of these developments is crucial for maintaining long-term competitiveness.



We are happy to support you in your ways forward

Danish Industry (DI)

The Danish Industry is Denmark's largest business and employers' organization and works with employer and business membership organisations all over the world on sustainability matters. Through partnerships with Kenyan employer and business membership organizations, DI can help in navigating the EU's regulatory landscape, as well as providing programs aimed at enhancing growth and competitiveness, including sector focused trainings and climate strategy development.



East African Grain Council (EAGC)

DI collaborates with several East African organizations, including the East African Grain Council. EAGC promotes and facilitates the development of profitable grain trade throughout the Eastern Africa region. The Council bring together private and public sector stakeholders to foster coordinated growth within each segment of the grain value chain.

Welcome to contact us with any question

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