

Input into RIO Guide Review – ESG Trends in South(ern) Africa

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Effective implementation of the Principles for Responsible Investment requires that investors possess an understanding of the foundational concepts of ESG as well as a working knowledge of relevant thematic areas, such as the Climate Emergency and trends in the policy and regulatory environment, so that they are well-placed to take appropriate action, provide clear instruction and monitor performance of their service providers.

PRI's engagement with investors on the African continent suggests that the absence of this critical foundational understanding hinders the advancement of responsible investment across the continent.

This reflects the fact that, for investors in emerging markets in general, and in Africa in particular, issues like poverty, unemployment and inequality are palpable, while those of climate change are interpreted as more abstract. In this context, prioritising a broader set of ESG issues may feel misplaced. As a result, the ESG issues receiving priority in African markets often differ from those of 'Western' markets.

In South(ern) Africa, PRI's engagement with investors reveals prioritisation by investors of the 'G' and the 'S', with limited (if any) substantive attention paid to issues that would be categorised under 'E'. There is a significant focus on issues of governance, including those of anti-corruption, board composition and executive remuneration. In addition, issues such as the treatment of labour and supply chain management tend to receive comparatively greater attention from African investors. In South Africa, PRI has observed the prioritisation of transformation – which in this context relates specifically to issues of diversity and empowerment of previously disadvantaged communities (including at leadership levels as well as throughout organisational structures and supply chains). PRI has also observed an increasing focus by African investors on incorporating the SDGs into investment approaches and processes.

While it is indeed critical to address each and every one of these important issues, PRI would like to emphasise that the efforts to do so may be moot, should African investors not make a significant change in the way they currently perceive the urgency of the Climate Emergency – an ESG issue which is set to disproportionately impact African markets and which severely exacerbates the negative impacts of each of the issues currently prioritised in these markets.