Inquiry: Design of a Sustainable Financial System

Global Green Growth Institute

UNEP

The Experience of Governance Innovations in South Africa

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The Inquiry

The Inquiry into the Design of a Sustainable Financial System has been initiated by the United Nations Environment Programme to advance policy options to improve the financial system's effectiveness in mobilizing capital towards a green and inclusive economy—in other words, sustainable development. Established in January 2014, it published its final report, *The Financial System We Need*, in October 2015 and is currently focused on actions to take forward its findings.

More information on the Inquiry is at: *www.unep.org/inquiry* and *www.unepinquiry.org* or from: Ms. Mahenau Agha, Director of Outreach *mahenau.agha@unep.org*

The Global Green Growth Institute

The Global Green Growth Institute (GGGI) is an international organization dedicated to supporting and promoting strong, inclusive and sustainable economic growth in developing countries and emerging economies. Established in 2012, at the Rio+20 United Nations Conference on Sustainable Development, GGGI is accelerating the transition toward a new model of economic growth – green growth – founded on principles of social inclusivity and environmental sustainability.

About this report

This report has been written by Sharmala Naidoo (GGGI) and Alison Goldstuck. It draws on a series of semi-structured interviews, with 21 individuals undertaken between October 2014 and January 2015. Organizations included experts from and stakeholders South African universities, asset management companies, asset consultants, industry associations, consultants, international non-governmental organizations based in South Africa and parastatal organizations. Furthermore, the Inquiry recognizes the support of critical reviewers who gave insightful comments. Errors and omissions in this paper are the responsibility of the authors.

Comments are welcome and should be sent to *simon.zadek@unep.org*, *naidoo.sharmala@gmail.com* and *algold73@gmail.com*.

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EXECUTIVE SUMMARY

This paper explores the impact of four financial governance policy innovations in South Africa that have aimed to encourage the integration of environmental, social and governance (ESG) factors into investment decisions:

- **Regulation 28** requires that trustees of pension funds take ESG factors into consideration in their investment decision-making process.
- **The Code for Responsible Investment in South Africa** (CRISA) provides a voluntary set of principles and guidance for institutional investors and their service providers on how to execute investment analysis and be active investors to promote sound governance.
- **Integrated reporting** has been adopted by the Johannesburg Stock Exchange (JSE), making it a mandatory requirement for listed companies to provide both backward- and forward-looking analysis and data describing how the company creates and distributes value, and how it mitigates negative impacts.
- **The Financial Sector Charter** (FSC), focusing on black economic empowerment (BEE), was developed through sector leadership, but has a more formal monitoring approach, with outcome-based targets, backed up by incentives built into public procurement criteria.

The ESG governance innovations Regulation 28, CRISA and integrated reporting are based on a common ***disclosure-transparency-accountability*** model that encourages shareholders and stakeholders to ask questions, companies to disclose information and investors and analysts to consider ESG risks and related opportunities. The Financial Sector Charter, while sharing some elements of this model such as reporting on performance, also has a direct public incentive element as it is linked to public procurement criteria.

To date, while the governance innovations have successfully increased awareness of the interrelationship between ESG factors and financial performance, the issues are not systematically integrated into the investment process and outcomes. This finding implies they have had only made a limited contribution towards achieving their objectives.

Three specific weaknesses are highlighted:

- **Weak trustee capacity:** trustees have low financial literacy and little time, leading to reliance on outdated benchmarks and mandates
- **Lack of common information standards:** poor comparability of information makes it harder for stakeholders to compare information and hold actors accountable.
- **Lack of clear implementation standards and monitoring**: actors have considerable leeway to interpret the principles, and often their interpretation supports business-as-usual practices.

Interventions proposed by interviewees to strengthen the innovations focused on introducing stronger incentives (especially a stronger monitoring and evaluation system), while continuing to function within the free market system. They do not advocate for shifting to a system prescribing investment in particular assets, but one that strengthens the market mechanism.

ACRONYMS

ABSIP	Association of Black Securities and Investment Professionals
ASISA	Association of Savings and Investment South Africa
ATMs	Automatic Transaction Machines
BASA	Banking Association of South Africa
BEE	Black Economic Empowerment
B-EEE	Broad-Based Black Economic Empowerment
CRISA	Code of Responsible Investment in South Africa
E&S	Environmental and Social
ESG	Environmental, Social and Governance
EY	Ernst and Young
FS Code	Financial Sector Code
FSB	Financial Services Board
FSC	Financial Sector Charter
FTSE	Financial Times Securities Exchange
GEPF	Government Employees Pension Fund
IBA	International Banks Association
ICGN	International Corporate Governance Network
IIRC	International Integrated Reporting Council
IMASA	Institute of Management Associations of South Africa
IoDSA	Institute of Directors in Southern Africa
JSE	Johannesburg Stock Exchange
Nedlac	National Economic Development and Labour Council
NGO	Non-Governmental Organizations
PIC	Public Investment Corporation
POA	Principal Officers Association
PRI	Principles for Responsible Investment
SAIA	South African Insurance Association
SARB	South African Reserve Bank
SMEs	Small Medium Enterprises
WWF	World Wildlife Foundation

1 INTRODUCTION

South Africa is recognized as one of the world leaders in corporate governance; in particular, it has been an innovator in strengthening stakeholder-inclusive approaches to corporate governance aligned to the interests of society.

The paper explores four governance innovations that have emerged in South Africa. Three are aimed at integrating environmental, social and governance (ESG) factors into investment decision-making in South Africa: the amendment of Regulation 28 under section 36 of the 1956 Pension Funds Act (referred to as **Regulation 28**), the **Code for Responsible Investment in South Africa** (CRISA) and the Johannesburg Stock Exchange's **Integrated Reporting Standards.**[1] The fourth, the **Financial Sector Charter** is concerned with black economic empowerment and in particular access to financial services.

- **Regulation 28** is the piece of regulation that governs the South African pension fund industry to ensure prudent investment that supports economic development and growth. When the 1956 Pension Funds Act was revised in 2011, it made explicit the requirement that trustees' integrate ESG aspects into their investment decision-making process.
- **The Code for Responsible Investment in South Africa** is a voluntary set of principles and guidance for institutional investors and their service providers (such as fund managers and consultants). It gives guidance on how to execute investment analysis and investment activities, and exercise rights so as to promote sound governance. The Institute of Directors in Southern Africa (IoDSA), the Principal Officers Association (POA) and the Association for Savings and Investment South Africa (ASISA) have endorsed it. The Financial Services Board (FSB) and the Johannesburg Stock Exchange (JSE) support the principles of CRISA.
- **Integrated Reporting** is a requirement of South Africa's voluntary King III corporate governance code. The JSE adopted it, making it a mandatory requirement on a 'comply or explain' basis for listed companies. The integrated reporting guidance in King III calls for companies to provide both backward- and forward-looking analysis and data describing how the company creates and distributes value, and how it ameliorates negative impacts.
- **The Financial Sector Charter** focuses on financial inclusion and black economic empowerment, and has a somewhat different model of implementation and incentives, as it has a more formal monitoring approach, with outcome-based targets, backed up by incentives built into public procurement criteria.

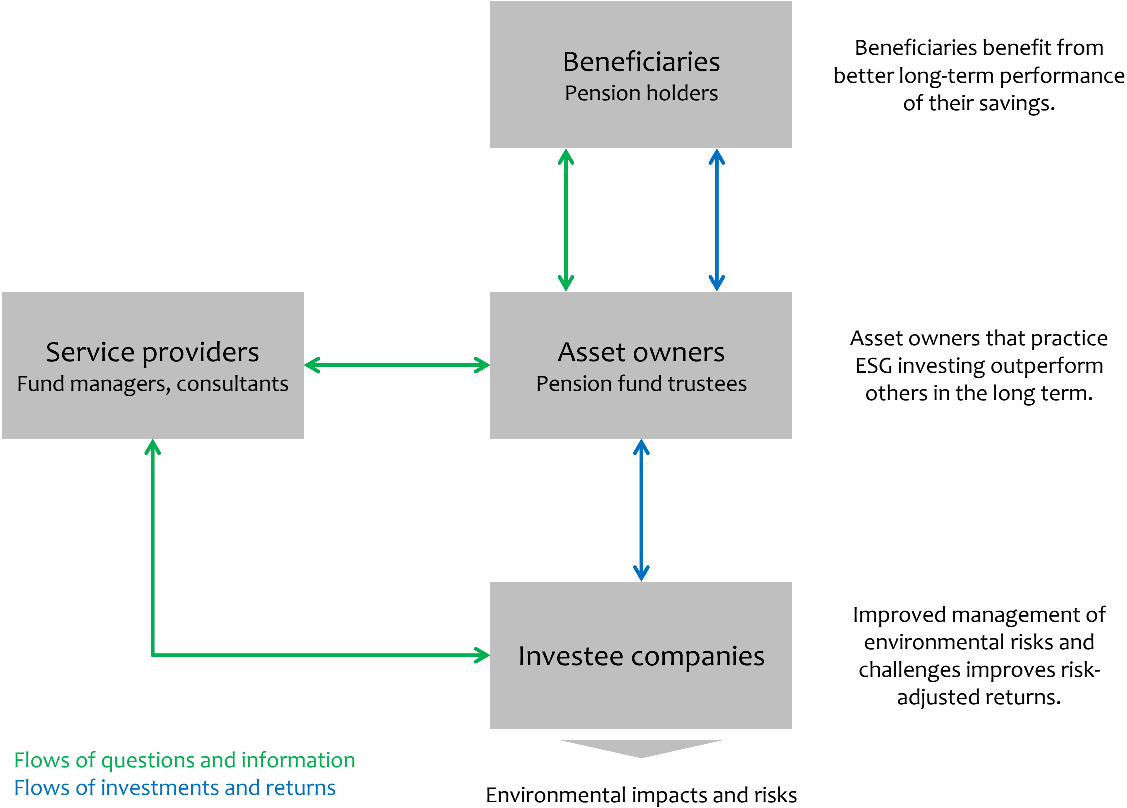
The first three governance innovations address broad ESG concerns. Similarly, they share a common approach based on principles and not rules, giving actors considerable leeway to interpret implementation standards. They rely on market forces to create positive and negative incentives that encourage implementation, such as peer pressure and stakeholder activism.

The approach can be described as a ***disclosure-transparency-accountability*** model that seeks to enable flows of information and accountability between businesses, institutional investors and their beneficiaries in order to stimulate better decision-making aligned to long-term financial performance. The theory

[1] *For the purpose of this paper, the term **'ESG investing'** is used, defined broadly as an approach to investment that explicitly acknowledges the relevance of ESG factors in assessing and managing risks and opportunities.*

is that if investors publicly disclose how they consider ESG factors in their investment strategies and companies explain how ESG factors are integrated into their value-creation model, then this information will be used to monitor performance and to shape investment decisions. It depends on competitive forces to drive the adoption of ESG investment strategies across the market.

Figure 1: The Disclosure-Transparency-Accountability Model



To be effective, this model depends on the presence of an effective demand for green investment by asset owners, acting in the interest of beneficiaries. This demand can come from a compelling business case that integrating ESG factors in investment decisions delivers improves risk-adjusted returns over the long term. As CRISA argues, "modern governance thinking advocates that in addition to economic considerations, boards of companies should consider all those factors which impact the long-term value of companies such as the natural environment and social factors. Such an approach will in the long term be in the interest of ultimate beneficiaries as part of the delivery of superior risk-adjusted returns on investment that has been done cognisant of the environmental and socio-economic context."

This study

The focus of this study has been to understand the *design* and *impact* of the four governance innovations and potential directions for their *future evolution*.

It draws on published literature and a series of semi-structured interviews with representatives from 21 organizations involved in the financial sector in South Africa including regulators, asset owners, asset consultants, asset managers, industry associations, lawyers, academics and policy think tanks (see Annex I). Many of these have been involved in both developing and implementing the three governance innovations.

2 SOUTH AFRICA'S CONTEXT

2.1 A Corporate Governance Innovator

South Africa's approach to corporate governance has developed from its particular history. During the apartheid years, South African companies operated in an environment where the dominant national interest triumphed over transparency, accountability and competitiveness, and where the majority of people were excluded from full economic participation. Sanctions created an economy dominated by large family-owned conglomerates that were unproductive and poorly managed compared to international standards (Schulschenk, 2012). The end of apartheid brought the challenge of developing a more inclusive economy and reintegrating it into the global financial system. The starting point was reforming corporate governance standards, taking into consideration international governance initiatives, especially the experience from the International Sullivan principles and the United Kingdom's Cadbury Code.

In 1992, IoDSA, a voluntary industry body, established the King Committee, drawing on the support of the Institute for Chartered Accountants, the Institute of Chartered Secretaries, Business South Africa, the JSE and international organizations. The Committee adopted a principles-based approach to corporate governance that draws on four values: *responsibility, accountability, fairness and transparency.* These values form the basis of a "practical and ethical framework which shows [firms] how to create value for shareholders and stakeholders." (Schulschenk, 2012)

The Committee has developed three iterations of South Africa's corporate governance code: King I (1994), King II (2002) and King III (2009). It provides general principles regarding ethical leadership and corporate governance, and specific principles related to board and directors, audit committees, risk and information technology, compliance with laws, codes, rules and standards, internal audit, stakeholder relationships and reporting and disclosure. It is a non-legislative code; however, companies listed on the JSE are obliged to follow the code with some principles mandatory and others applied on a 'apply or explain' basis.

2.2 The Challenge of the Transition to a Green Economy

South Africa has a natural resource-intensive economy. A cornerstone of this industrial model has been the availability of cheap electricity and fuels including through coal-to-liquid refineries. The abundance of minerals and mining deposits, together with a plentiful supply of energy, underpinned the development of the mining sector, its associated downstream input industries and upstream beneficiation activities.

Government policies such as the National Development Plan and the New Growth Path, the White Paper on the National Climate Change Response and the National Strategy for Sustainable Development acknowledge that South Africa's resource-intensive development path is problematic and that a more resource-efficient, inclusive model of economic activity is needed. The government has set ambitious targets to lower emissions and invest in cleaner, more resource-efficient technologies and proposed the introduction of a carbon tax.

This economic transition will clearly require significant capital investment in order to develop new value chains, skills, institutions and technologies. Implementing this strategy will require stimulating consumer

demand for new technologies, developing new business models in the private sector and revising service delivery models in the public sector. All of these changes will require investing in energy, water and environmental infrastructure based on cleaner technologies. A review of the government's high priority medium- to long-term mitigation options for electricity generation, transport and the liquid fuel sectors provide an indication of the billions of Rand needed.

The downgrading of South Africa's sovereign rating and the growing budget deficit[2] make it more difficult for the government to fund the transition directly. The private sector already plays a leading role in funding investment in renewable energy and energy efficiency, but more private capital needs to be channelled into low-carbon investments in other technologies and sectors. Key areas for green investments, based on the Industrial Development Corporation Green Jobs Strategy (2011), include natural resource management, technologies for emissions and pollution control, and bus rapid transit.

2.3 The State of ESG Investment in South Africa

The assets held by South Africa's savings and investment industry continue to reflect and encourage the resource intensity of its economy. WWF (2012) found that major investors have a large degree of exposure to sectors particularly vulnerable to climate change risks – including stocks in the basic resources, oil and gas sectors, and bonds issued by the state-owned electricity company Eskom. Basic resource stocks account for 30% of the asset value of the FTSE/JSE top 100. Therefore, portfolios benchmarked against the top 100 are exposed to assets with high carbon emissions and other environmental impacts. In fact, the Dirty Feet (2012) survey found that seven out of 10 major South African equity funds had greater carbon intensity than the JSE40 Index, indicating a bias towards carbon-intensive investment (Sinclair *et al.*, 2012).

Nevertheless, South Africa has an active 'socially responsible investment' sector that applies ESG criteria to investment portfolio. The African Investment for Impact Barometer survey (2014) surveyed 951 listed funds and 213 private equity funds and found that 41% of assets (amounting to US$67 billion) were managed according to some form of socially responsible investment criteria.[3] The majority of this relates to broad strategies such as 'ESG integration', investor stewardship, voting and engagement. The Barometer survey notes that limited available information makes it difficult to assess how consistently and comprehensively ESG issues are applied in practice.

The majority of ESG investment is undertaken by traditional asset managers, with larger institutional investors and pension funds signing up to standards such as the Principles for Responsible Investment and CRISA. ESG investment by traditional asset managers thus tends to reflect a broad approach, such as adopting responsible investment principles or broad commitments. Private equity investors have a smaller pool of assets, but have a greater proportion of their money under management using ESG investment strategies (see Figure 2).

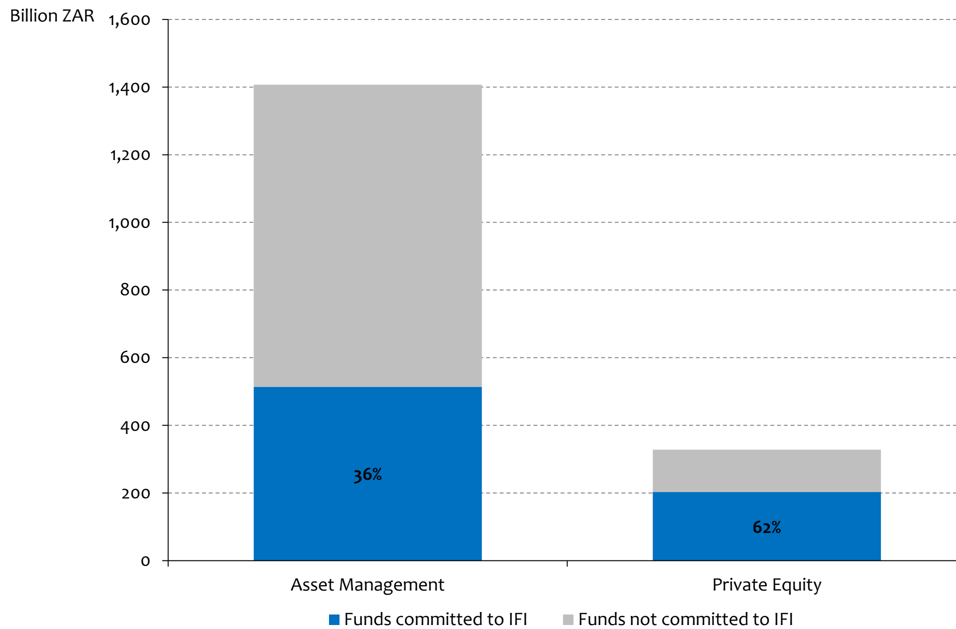
Among private equity firms, the rate of commitment to voluntary standards initiatives is lower; however, a greater proportion is following their own active ESG strategies, and a significant minority have developed 'impact investment' strategies, actively targeting positive environmental or social benefits in addition to financial returns. Impact investment funds tend to be smaller, while large private equity investors adopt more general responsible investment criteria that are more similar to those demonstrated by asset management.[4]

[2] *In January 2014, Fitch Ratings reaffirmed the South African government's debt credit rating of BBB with a negative outlook. Recently, Standard & Poor issued a warning that South Africa's sovereign credit ratings could be affected negatively (SARB, 2014, 22).*

[3] *The Barometer survey terms this 'Investing for Impact'*

[4] *Based on the survey, 31% of capital under large private equity investors' management is based on the traditional investing approach, whereas 65% of capital was allocated based on responsible investing principles and only 4% using impact investing. In contrast, for small private equity investors, who manage less than ZAR1 billion, the dominant asset management strategy is traditional investing (53% of funds under management), followed by responsible investing (39%) and impact investing at eight percent.*

FIGURE 2: INVESTING FOR IMPACT INVESTMENT AS A PROPORTION OF TOTAL ASSETS UNDER MANAGEMENT



Source: UCT Investing for Impact Barometer 2014 based on ASISA figures

Implementation of ESG investing varies considerably between pension funds, due to differences in trustees' financial literacy, governance time, values, curiosity, decision-making structure and resources for implementing ESG investing. In general, relatively small employer pension funds have been less active in adopting ESG principles and strategies than other institutional investors such as insurance companies and the Public Investment Corporation (PIC).5 Trade union-managed pensions are also actively engaged on ESG issues, especially social issues, even though these funds often have lower administrative resources and capacity than other large institutional investors.

Interviews with asset consultants confirmed that most trustees do not engage actively on ESG issues (such as asking specific questions, requesting letters be written to companies or writing ESG principles into investment mandates and monitoring). Those that do tend to be found among larger asset owners, trusts and university endowments whose trustees have intellectual curiosity for ESG issues, strong investment committees and the support of full-time employees.

Overall, ESG issues tend to be viewed with different degrees of priority:

- The area of governance is the most well-established with clear industry-standard expectations and codified frameworks.
- Social issues receive significant attention as they are recognized to be part of a business' license to operate (particularly in the mining sector) and the pressures from government and civil society are strong. Investors and firms recognize that crises, such as strikes and unrest, are financially material risks.
- Environmental issues are given a lower level of strategic priority and receive the least stakeholder attention. Although preventing the deterioration of natural systems is recognized as crucial to supporting economic development, environmental concerns are often seen as less pressing than immediate social issues.

[5] *The country's largest asset manager that is responsible for investing the South African Government Employees Pension Fund's capital.*

3 REGULATION 28

Description of innovation	Developed by	Responsibility for implementation	System of monitoring	Impact to date
Regulation 28 extends the traditional definition of financial prudence for pension fund managers to include ESG factors.	Financial Services Board National Treasury Investment and Saving Industry led by ASISA	Regulatory obligation on pension funds	Not clearly articulated. FSB can ask trustees for evidence of implementation but this has not been done	Increased awareness, but mandates relatively unchanged.

Regulation 28 is the piece of regulation governing the South African pension fund industry so that retirement savings are "invested in a prudent manner that not only protects the retirement fund member but is channelled in ways that achieve economic development and growth". When the Pension Funds Act was revised in 2011, it made explicit that for trustees to fulfil their fiduciary duties, they must give appropriate consideration to "any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character".

3.1 Development

Regulation 28 is the long-standing legal framework for prudential regulation of pension funds and has been periodically updated to reflect market changes. In recent years, retirement fund options have become significantly more complicated with the availability of derivatives, insurance policies, structured products and foreign investments. According to the National Treasury (2011), many of these new types of investment were not included in Regulation 28 as it stood in 1998, leaving a significant part of the industry open to many abuses because its practice was unregulated.

The National Treasury and the Financial Services Board revised the regulation in 2011 with stakeholder consultation over issues such as the proposed definitions, investment categories and investment category limits. Responsible investment pioneers saw the redrafting of Regulation 28 and the prescribed asset debate as an opportunity to embed the concept of responsible investment into the regulatory environment. Through ASISA, a working group on responsible investment was formed to input into the redrafting process of Regulation 28.

A key question in the debates leading to the development of Regulation 28 was whether it should make mandatory requirements for investment in specific subsets of assets such as development bonds. Organized labour was in favour of such an approach while business argued against. In the end, the developers of Regulation 28 agreed that sustainable investing should not mean policy-directed investment, but should take a market-based approach, based on integrating ESG factors in investment decisions.

A key measure the financial sector argued for was loosening the restrictions on investment in unlisted assets, such as infrastructure and private equity. They were successful and the restriction on the level of unlisted debt and equity that could be included in an asset portfolio was increased from 2.5% to 25%. Allowing investment in new instruments and increasing limits for unlisted investments gives asset owners freedom to design their own investment strategies and the opportunity to include a broader range of asset classes, instead of prescribing investment in developmental assets.

Another key question was between a principles- and rules-based approach. Those involved in developing Regulation 28 argued that the complexity of the issues made it difficult to reach agreement on a common definition of key terms (such as responsible investing and sustainability) and that a principles-based approach was better suited to the heterogeneity of the sector and the need for innovation in the real economy rather than prescribed investments.

3.2 Design

Regulation 28 takes elements of both the rules and principles approach. The preamble and investment principles set the context for the interpretation and application of rules specifying the prudential limits for different asset classes.

Regulation 28 works at several levels. First, a preamble and principles extend the definition of fiduciary duty to include ESG factors and seek to shift the mindset of boards towards thinking about responsible investment as a way of achieving their need for good quality long-term assets. Second is the requirement to develop and disclose Investment Policy Statements, which requires considering the risk appetite of beneficiaries, the skills of trustees and the requirements of service providers. This gives beneficiaries, asset managers and companies the information to understand the fund's expectations and requirements within the framework of Regulation 28's rules. The investment strategy is then operationalized through the mandates to asset managers and the monitoring of their performance.

The drafters of Regulation 28 strategically placed the preamble and principles before the rules, to convey that a fund and its board must consider the effect ESG factors have on a broader definition of fund performance when they create their investment strategies. The board of trustees must adopt an Investment Policy Statement that clearly defines how they intend to apply and integrate ESG criteria and disclosure, and must clearly communicate expectations and deliverables regarding ESG into service provider mandates.

The principles-based approach also gives pension funds the opportunity to differentiate themselves in terms of their investment strategies. Trustees have greater flexibility to design an investment strategy that suits their skills, risk appetite and the performance criteria of their fund (National Treasury, 2011). In terms of ESG investing, this freedom is important because trustees can increase a fund's exposure to unlisted assets, hedge funds and private equity. These asset classes, and in particular private equity, "have greater exposure and experience in integrating ESG factors in the region than their general asset management counterparts." (Girdwood, 2011)

Almost all interviewees classified Regulation 28 as 'light-touch regulation', without strong incentives. Trustees are obligated to 'consider' ESG risks, but the term has not been defined. This gives pension funds ample opportunity to decide whether and how they will integrate ESG risks and opportunities into their investment decision-making process. As a consequence, the regulation obligates trustees to only apply their mind, but not agree on an ESG approach and implement it consistently and comprehensively.

A few interviewees argued that establishing a legal definition for considering ESG and hence trustees' responsibility towards ESG investing practices needs to be tested by case law. Over time, as the regulation is tested, case law will build up providing greater clarity on its basic responsibilities, for example if

Box 1: Excerpts of Regulation 28

Preamble

A fund has a fiduciary duty to act in the best interest of its members whose benefits depend on the responsible management of fund assets. This duty supports the adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk adjusted returns suitable for the fund's specific member profile, liquidity needs and liabilities. Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character. This concept applies across all assets and categories of assets and should promote the interests of a fund in a stable and transparent environment.

Relevant Principles

2(b) A fund must have an investment policy statement, which must be reviewed at least annually;
2(c) A fund and its boards must at all times apply the following principles:
(iv) ensure that the fund's assets are appropriate for its liabilities;
(v) before making a contractual commitment to invest in a third party managed asset or investing an asset perform reasonable due diligence taking into account risks relevant to the investment, including but not limited to credit market and liquidity risks as well as operational risks for assets not listed on the exchange ;
(ix) before making an investment in an asset or while invested in an asset consider any factor which may materially affect the sustainable long-term performance of the asset including, but not limited to, those of an environmental, social and governance character.

Source: National Treasury (2011b)

beneficiaries take the board of trustees to court for not considering the importance of ESG risks for performance of their funds.

In addition, although Regulation 28 places accountability for compliance on the pension fund and its board, the Act does not indicate how the National Treasury and FSB will monitor compliance. Without the threat of a strong monitoring and enforcement system, pension funds face limited immediate and strong incentives to comply. However, interviewees mentioned, especially the drafters of Regulation 28, that the incentive for pensions funds to implement the regulation is the prospect of better risk-adjusted returns. Hence, the extent to which investors go beyond basic due diligence towards integrating ESG risks and opportunities is driven by market differentiation strategies.

3.3 Impact

Almost all interviewees agreed that Regulation 28 is conceptually sophisticated and pioneering. It has confirmed to trustees that considering ESG factors is part of their fiduciary responsibilities, which has stimulated more conversation about the issues.

The regulation and trustee training programmes developed by industry associations and asset consultants have raised the profile of ESG issues and the financial risks they pose. Strife at the Marikana mine and the collapse of African Bank have also stressed the financial implications of ESG risks. More trustees of pension funds are informally asking their asset consultants and asset managers about ESG risks. Nevertheless, most pension funds have not revised their investment strategies and mandates to reflect ESG issues. As one ESG manager at a parastatal relates, "pension fund boards have not yet reached a point where they

have started to review and revise the mandates and their fund managers, where they explicitly state what is expected of the fund manager, how frequently they need to report on these issues, nor have they established any form of incentives for the fund manager who actually implement these principles."

A Regulation 28 compliance specialist also noted there has not been any noticeable change in client mandates, which remain based on index benchmarks. Standard industry mandates tend to be used, and existing mandates are often renewed without change. An average mandate will state that it incorporates the responsible investment policy of the pension fund, but without including specific requirements for reporting and accountability. According to Ernst and Young (EY), this has been identified as a key weakness in the implementation of Regulation 28, where lack of integration into mandates means that the delegation of duties is unclear and monitoring and control mechanisms are not put in place (EY, 2013). However one asset consultant stated that measuring the uptake of ESG investing based on its inclusion in mandates understates the level of ESG investing, since changing mandates is a taxing legal and administrative process. Asset managers, he said, are increasingly implementing ESG screens in their investment processes, without changes in mandates but rather through increased awareness and better definitions.

Overall, interviewees felt that only a few pension funds have strongly applied the principles of Regulation 28. The majority of pension funds have not seized greater opportunities for ESG integration or active ownership as originally intended when Regulation 28 was drafted.

Two asset consultants gave examples of promoting ESG investing principles to their clients, only to be told that these issues are low priority. As one described, at best "Regulation 28 provides a little bit more of an impetus for [ESG investing], but it is more driven by intellectual curiosity and interest." The asset consultant drew on a client scenario to illustrate this point. In a strong bull market, an investment strategy focused on long-term sustainable assets may underperform the benchmark portfolio by 3% or 4%, even while achieving a good absolute rate of return. The client will judge this as comparative poor performance using a short-term investment benchmark.

Interviewees suggested reasons for the low level of impact of Regulation 28 among trustees, including a low level of capacity compared to the complexity of the subject; pressure for financial returns meeting benchmarks; lack of coverage of environmental and social issues by financial journalists and the power dynamics along the investment value chain that place trustees in a weaker position compared to asset consultants and asset managers.[6]

The key factor emphasized was the disjunction between the governance demands for managing a long-term active investment strategy and the governance budget of most funds. The average board of pension funds has only one or two professional trustees; the rest serve on a part-time basis and their level of financial literacy is poor. Trustees are dealing with many other changes to Regulation 28 and the ESG aspects are often seen as theoretical and low priority.

The principles-based nature and loose wording of the relevant sections of Regulation 28 allow them to be easily complied with, without funds undergoing significant change. Many funds have adopted a responsible investment policy or have written responsible investing into their investment policy statement using standard boilerplate statements that profess long-term investing is the most profitable way of investing but do not go into detail. According to one lawyer, a pension fund board may comply with the requirement to consider factors that may impact the long-term financial performance of a fund's assets simply by "saying we have considered it, and we feel we should not worry about it".

[6] *Trustees often have a weaker bargaining position with asset managers. Making it difficult for trustees to negotiate what they want in their agreement with asset managers. As a consequence when asset managers suggest signing the standards mandate, trustees agree to it. However these mandates are often based on the FSB precedent mandate and they are old, outdated and not of a good quality.*

Other interviewees thought the limited application of the principles was a case of trustees and their service providers grappling with something new. Trustees and asset managers are used to the rules on asset class limitations in Regulation 28; they focus on complying with this section and tend to ignore the preamble and the principles. In addition, interviewees across institutions acknowledged that a pension fund and its board find interpreting the principles difficult because they lack clear requirements. A lawyer commented that it is “one thing to have the regulation, but [trustees] do not know what it means or what they should be doing about it”. A regulator supported this view arguing that parties are waiting for more guidance to implement Regulation 28.

3.4 Potential Next Steps for Evolution

So far, Regulation 28 has raised awareness of ESG issues but trustee engagement has been limited and investment mandates have not been revised. Promoters of Regulation 28 argue that this reflects insufficient infrastructure, resources and knowledge on the part of trustees and call for interventions to increase demand for ESG investing and strengthen the market-based monitoring mechanism:

- **Improve the capacity of trustees** through education that includes technical skills, understanding their fiduciary duties and appreciating the importance of integrating environmental and social (E&S) issues into investment decisions.
- **Initiate an industry-led process to revise mandates** as part of a larger monitoring process.
- **Encourage the regulator to take a stronger stance on the professionalization of trustees** and monitoring whether pension funds are applying the principles of Regulation 28.

Monitoring was highlighted as a critical issue. The majority of interviewees echoed the sentiments of one academic that “no strict regulation means no obligation”. Roughly 70 per cent of interviewees called for trustees to be placed under greater pressure to apply the principles in Regulation 28 through regulatory scrutiny. Approximately 35 per cent of interviewees also mentioned that regulators should focus on the role of asset consultants and ensure they take ESG considerations into account and help trustees understand these issues, instead of passively waiting for trustees to bring them up.

One option suggested was for regulators to ask funds to supply a copy of their investment mandate pre- and post-Regulation 28. Some interviewees advocated a stronger approach where pension funds explain how the pension fund is applying the principles of Regulation 28, as part of the existing annual reporting process. Other interviewees felt that greater regulatory involvement in this area was not practical, when other more basic areas of compliance and governance were still weak. As one interview put it, “Pension funds have a poor track record of submitting their financial statements on time. This is a regulatory obligation and yet people do not do it. Regulators must focus on the fundamental things.”

The regulator is aware that the aspirations of Regulation 28 are ahead of the practice and that more guidelines are needed to encourage pension funds and their service providers. The regulator in theory supports closer monitoring of pension funds; however, with some 2,500 active pension funds there are practical limitations. A necessary step may be the consolidation into fewer, bigger funds. The regulator emphasized that any intervention must be sensitive to the needs of the industry and within the context of a principles-based regulatory regime. In this respect, the regulator has prioritized four areas:

- **Consolidation of the pension fund industry** into fewer funds that have stronger capacity for investment management and engagement with the regulator.
- **Regulating and supervising private equity** to enable more confidence in this asset class.
- **Increasing the capacity of trustees to engage with ESG issues** and implement a more complicated investment strategy through trustee qualification and prescribed training in valuation; upgrading standards for pension fund boards; and closer supervision from the FSB.

- **Providing guidance**, through a circular (not a directive), explaining what is expected of trustees in terms of fulfilling their fiduciary duty both in terms of short- and long-term responsibilities, when they 'consider' the impact of ESG issues on their fund's performance.

The professionalization of trustees is a sensitive topic, and regulators and policymakers will need to be careful because of concerns that it is a strategy to remove member-elected trustees.

4 CODE FOR RESPONSIBLE INVESTMENT IN SOUTH AFRICA

Description of innovation	Developed by	Responsibility for implementation	System of monitoring	Impact to date
Toolkit for institutional investors to fulfil their Regulation 28 obligations and King III governance standards	Voluntary industry-led code of practice led by IoDSA (secretariat and custodian) and savings and investment industry with substantial support from ASISA, especially the Committee on Responsible Investing.	Pension funds and insurance service providers are encouraged to adopt the code's principles and practices on an 'apply or explain' basis.	Market self-regulates itself through disclosure of information.	Endorsements are growing, covering around a third of assets under management to date. But little change to core investment practices.

At the same time that Regulation 28 came into effect, institutional investors set up a private initiative to encourage best practice by the investment community, shareholders and companies for responsible investing. The purpose of CRISA is providing institutional investors with a framework for operationalizing King Code III, and, in the case of pension funds, to fulfil their mandatory obligations under Regulation 28.

4.1 Development

During the development of King III, the South African Principles for Responsible Investment Network suggested that it include guidance on how institutional investors should hold directors of companies accountable, but the King Committee felt that drafting a separate code was more appropriate. IoDSA therefore launched the *Committee on Responsible Investing by Institutional Investors in South Africa,* comprised of asset owners, asset managers and sustainability consultants to develop a separate code for investors.

As the Government Employees Pension Fund (GEPF) is the pioneer of responsible investing in South Africa, it was given the leadership role for developing CRISA. This decision shaped the approach of CRISA. The GEPF is a supporter and advocator of the Principles for Responsible Investment (PRI): it signed up in 2007 and led the creation of the PRI network in South Africa in 2009. In 2010, the GEPF released its Responsible Investment Charter, which is based on the PRI vision that "ESG considerations should be integrated into investment decision-making with the goal of improving financial return across assets." (Giamporcaro *et al.*, 2014) CRISA has adopted a similar model. A few interviewees referred to CRISA as the 'South African version of the PRI', although it is also influenced by the King Code III.

Another incentive encouraging the development and implementation of CRISA was the threat of government intervention and prescribed investment. At the launch of CRISA, the Minister of Finance warned the industry that if self-regulation was unsuccessful, a more formal regulatory, government-led approach might be required. According to interviewees, the industry has taken this threat seriously.

4.2 Design

CRISA uses a principles-based approach. It calls on institutional investors to implement a policy on active ownership, but does not specify the responsible investment policy that must be followed.

The Code sets out five key principles with guidance under each. Since 1 February 2012, all institutional investors and their service providers are expected to implement CRISA principles. In January 2013, CRISA issued a Disclosure Practice Note, providing a framework for the disclosure of policies and practices, to help institutional investors disclose the policies underpinning their investment decisions and actions.

Box 2: The CRISA Principles

1. An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
4. An institutional investor should recognize the circumstances and relationships that hold potential for conflicts of interest and should pro-actively manage these when they occur.
5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to better enable stakeholders to make informed assessments.

Source Institute of Directors in Southern Africa (2011)

CRISA is focused on disclosure and relies on actors across the investment value chain to hold each other accountable. Institutional investors[7] as asset owners are responsible for ensuring that their service providers fulfil their mandates, and are expected to ask their service providers questions regularly to evidence how they have applied the CRISA principles. Asking these questions creates a domino effect, catalysing the integration of ESG factors into the business models of actors across the investment value chain. Asset managers are responsible for implementation and reporting on their level of implementation, both publicly and to institutional investors. Beneficiaries of funds hold trustees and management accountable for achieving sustainable returns. At the same time, public disclosure of an investor's responsible investment strategy also enables listed companies to engage meaningfully with institutional investors and their service providers (EY, 2013).

The overall drive for implementation was expected to come from institutional investors, particularly the trustees of pension funds, because of their legal obligations under Regulation 28. Bearing in mind most trustees' capacity constraints, developers envisaged that asset consultants would assist trustees with implementing CRISA or outsourcing requirements.

A key incentive for asset managers to adopt and implement CRISA is the prospect of investment by the PIC and the GEPF, which have embedded key elements of CRISA in their investment mandates and tender requirements. The leadership GEPF and PIC displayed motivated other large institutional investors to encourage their asset managers to implement CRISA.

[7] *For the purposes of CRISA, this is defined as 'any legal person or institution referred to in the definition of "financial institution" in section 1 of the Financial Services Board Act No 97 of 1990, to the extent that these legal persons or institutions own and invest in the equity of a company and have obligations in respect of investment analysis, activities and returns to ultimate beneficiaries.' For the purpose of this report, it denotes pension funds and collective investment schemes, and insurance companies.*

Box 3: The Public Investment Corporation's Active Investor Approach

Established in 1911, the PIC is one of the largest investment managers in South Africa, managing assets of over ZAR1.8 trillion. It invests funds on behalf of public sector entities, based on investment mandates set by clients. It is wholly owned by the South African government, with the Minister of Finance as shareholder representative.

The PIC takes an active approach to asset ownership through ongoing relationships with investee companies. As part of this, it uses a standardized system to rate the performance of companies on ESG factors. Before the PIC scores companies, it meets them to discuss issues and gathers additional information. It also discusses ESG issues following the companies' release of financial results. Key issues it focuses on are remuneration policy, transformation and governance issues.

Initially, the PIC's engagement approach was more confrontational, focusing on raising public questions at annual general meetings, and has subsequently evolved to build trust with management through ongoing engagement, while pushing for progressively greater disclosure.

The PIC is a long-term investor and will not divest immediately from a company whose business model either ignores ESG factors or that faces complex issues. Rather, it uses its influence as a major stakeholder to push for change.

Source: Semi-structured interview

4.3 Impact

Interviewees agreed that CRISA has indirectly affected ESG investing by increasing awareness, but it has not changed how institutional investors make investment decisions and hence has not placed pressure on service providers to integrate E&S factors into the investment decision-making process.

Over 90 per cent of interviewees either implicitly or explicitly agreed that CRISA has not achieved its intended results. The EY 2013 survey also supports this opinion as it found that "the industry is still largely characterized by a passive and selective approach to responsible investing." Developers of CRISA agreed with the survey's finding. However, they emphasized that the survey may also reflect early results in a longer process of change since the survey was conducted less than two years after the release of CRISA and a year after the Disclosure Guidelines were released.

Interviewees also agreed that the gap between expected implementation when CRISA was designed compared to today is due to lower than expected demand from institutional investors (especially pension funds). Institutional investors,[8] with assistance from asset consultants, have not placed their service providers under great pressure to implement CRISA. Despite effort from asset managers to sensitize institutional investors to ESG issues, they remain passive stewards. This inertia is echoed by an asset manager who developed CRISA: "Where we are is not where I envisaged we would be at this point. I thought it would be more mainstream. I thought there would be more demand from pension funds, particularly when Regulation 28 came out."

Both the interviews and the EY 2013 survey show that the implementation of CRISA varies across actors in the investment industry. One asset manager commented that "asset managers do something but not

[8] *In particular the trustees of pension funds because Regulation 28 creates a legal obligation to consider ESG issues as part their fiduciary duty.*

much; asset owners do very little but results are pushed up by the PIC and asset consultants are doing nothing." This variation can be traced back to available resources and market pressure. Asset managers, large institutional investors and asset consultants have similar resources to implement CRISA, but asset consultants face less peer pressure. Both asset managers and large institutional investors are incentivized to demonstrate their commitment to ESG investing in order to do business with the GEPF and PIC. Hence most asset managers and large financial groups have signed up to the PRI, which requires regular public reporting, increasing the transparency of these actors' action on ESG matters. Besides, compared to asset consultants, large institutional investors and asset managers are part of an industry organization.

Furthermore, compared to other industry actors, trustees' interest in ESG issues is also affected by intellectual curiosity and values. Asset consultants gave examples where pension funds, despite having limited resources, actively engaged with ESG issues because of their belief system about how markets work and they acknowledge the direct impact of social issues on their members' welfare. This is especially the case for trade union-based pension funds.

Box 4: Implementation of CRISA: Main Trends and Progress

A survey carried out by EY for the CRISA Committee among institutional investors and service providers found high levels of support for the principles: 87% of surveyed asset managers are PRI signatories and close to 60% support CRISA disclosure.

In practice, it found that almost 50% of surveyed institutions provide some form of disclosure relating to CRISA. However, most have adopted a selective approach to compliance:

- 30% provide details on how the CRISA principles are applied.
- Fewer than 20% disclosed the structures in place to control and ensure the effective implementation of CRISA.
- Fewer than 10% provide an explanation for not applying certain principles.

Differences between categories are strong: asset managers tend to be more compliant with disclosure requirements while only 30% of the pension funds reviewed provide any information at all. In each category, leaders have emerged that challenge traditional industry practices and promote a culture of responsible investment. Most of these leaders are the larger institutions within their category.

The study concludes that broader industry progress towards responsible investment is limited by a lack of clarity and knowledge around the meaning of sustainability and the integration of ESG factors. Progress is further impeded by market immaturity, lack of stakeholder readiness or incompatibility with short-term return objectives. Conventional performance expectations are still driving most investment decisions.

Source: EY (2013)

Interviewees mentioned that the power dynamics between trustees of pension funds and their service providers has complicated implementation. Fiduciary obligation rests on trustees of a pension fund and they have fewer resources than other actors in the investment value chain. As a consequence, trustees rely on guidance from asset consultants and asset managers to fulfil their fiduciary duties. But both these parties are not actively helping trustees to implement CRISA, which is a toolkit to fulfil Regulation 28 requirements.

Interviewees mentioned that asset managers often declare that they act on the instruction of the trustees; hence mandates must state CRISA needs to be implemented. However, for trustees to change mandates

is difficult because asset managers' technical knowledge and negotiation skills give them the upper hand. Trustees also face industry inertia[9] to keep mandates as open-ended as possible,[10] which allows asset managers to chase maximum returns instead of sustainable returns. Similarly, interviewees also raised concerns about asset consultants controlling investment decisions and acting as gatekeepers. A few interviewees also felt that asset consultants advise clients on the best investment choice considering their risk appetite and capabilities, but do not make investment decisions on clients' behalf. Furthermore, asset consultants confirmed that the majority of clients do not prioritize ESG issues and prefer profit maximization investment strategies; hence asset consultants' engagement on ESG is limited.

Another issue slowing down the implementation of CRISA is incompatibility in reporting standards and poor disclosure of information, since it prevents the intended transparency-disclosure-accountability model from working. The EY 2013 survey highlights that disclosure is not standardized and information is scattered among all of the actors in the value chain, making it difficult for stakeholders to find and use. A lack of transparency makes it more difficult for stakeholders to hold institutional investors and their service providers accountable. This has created a situation where actors publicly state that they apply ESG principles because this has become an expectation, even though their core investment processes have not changed, and they continue to focus on maximizing short-term returns. CRISA has shown that when stakeholder and shareholder activism is low and independent monitoring and verification is absent, there is a risk that actors receive reputational benefits but do not take action. Hence voluntary codes, which do not require verification of results, could slow down the pace of change by protecting actors from scrutiny.

Despite incentives being weaker than expected, implementation is gradually increasing. According to the African Barometer (2014), 18 asset management funds had endorsed CRISA, managing assets worth ZAR489 billion (out of a total value of assets of ZAR1.407 trillion). Anecdotal evidence from interviews supports this trend. For example, a domestic asset consultant said that most clients (roughly 75 per cent) have a Responsible Investment policy or have written ESG investing into their investment policy statement, they are starting to ask asset managers about E&S issues at feedback sessions; and a handful of clients have sent letters to asset managers requesting action on ESG issues.

4.4 Potential Next Steps for Evolution

Despite the implementation of CRISA falling short of expectations, interviewees argued that the approach based on voluntary guidance and disclosure implemented on an 'apply or explain basis' will be more effective than a mandatory, rules-based approach. However, this depends on pension funds adopting CRISA and taking on the responsibility of monitoring and overseeing their service providers, potentially encouraged by stronger incentives.

Three complementary interventions were highlighted:

- **Introduce a more formalized, standardized and stronger reporting and monitoring mechanism** ensuring that actors who claim that they implement CRISA apply the principles consistently. Some interviewees called for strengthening of the 'apply or explain' approach with clear evidence and verification of principles met, while others suggested industry guidelines and practice notes supporting more standardized industry disclosure are required.
- **Create a curriculum for trustees** that gives them the skills to be active shareholders and hold service providers accountable by asking the right questions. Empowering trustees and educating them is an important way of addressing skewed power dynamics in the investment

[9] *There is peer pressure for pension funds' performance to be in line with the industry benchmark. Interviewees commented that trustees and their service providers are measured on benchmarks and if implementing CRISA makes it more difficult to attain benchmarks than it is ignored (academic).*

[10] *When mandates do not articulate ESG investing responsibilities, the implementation of ESG strategies and policies is patchy because the delegation of duties is unclear and monitoring and control mechanisms are not put in place*

value chain so that trustees have the confidence to hold their asset consultants accountable. Furthermore, when trustees have a firmer understanding of investment fundamentals, they can create specialized investment strategies that include asset classes where ESG investing is more prominent (such as private equity) rather than following the standard industry approaches and benchmarks.

- **Support the creation of model mandates** that include ESG considerations. Mandates provide the critical contractual obligation for service providers and asset managers to integrate ESG investment. As a consequence, current mandates should be revised to include specific and measurable ESG responsibilities. The International Corporate Governance Network (ICGN) has produced model contract terms between asset owners and asset managers as part of its Model Mandate Initiative, and the CRISA Committee commissioned a review to adapt the language for South Africa.

5 INTEGRATED REPORTING

Description of innovation	Developed by	Responsibility for implementation	System of monitoring	Impact to date
Requirement for backward- and forward-looking sustainability reporting integrated as part of the annual report describing how the company creates and distributes value, and how it mitigates negative impacts	King Code Committee Johannesburg Stock Exchange	Mandatory requirement for JSE listed companies on an 'apply or explain basis'	Market regulates itself. The JSE does not monitor whether reports are fit for purpose.	Widespread reporting but variable quality. Little evidence of information being used.

5.1 Development

Since 1994, the King Code of Corporate Governance Principles (King I) laid out a framework for stakeholder accountability and corporate responsibility, and sought to encourage companies to integrate ESG considerations into their operations and their public information flows. King II, developed at the time of the Johannesburg Earth Summit in 2002, included a requirement for companies to publish environmental reports. In 2009, King III called for integrated reporting, arguing that "strategy, risk, performance and sustainability have become inseparable" and therefore recommending that organizations should publish integrated reports on their economic, social and environmental performance on an 'apply or explain' basis.

Integrated reporting practice has developed internationally, from the first environmental and sustainability reports towards integrated reporting, which seeks to develop an overall picture of how value is created including the role of social, human and natural capital.

5.2 Design

Interviewees and the literature concur that integrated reporting has a dual purpose: to provide stakeholders with information that makes for a more informed assessment of a company's total economic value, and to embed sustainability practices into governance strategy, processes and reporting (and ultimately mindsets) within the company (Schulschenk, 2012; Hanks and Gardiner, 2012).

King III sets out core principles for integrated reporting that includes both backward-looking reporting on how the company has (positively and negatively) impacted on the economic life of the community in which it operated and forward-looking statements on how the board of directors believes it can improve the positive aspects and eradicate or mitigate the negative aspects in the coming year.

The principle behind integrated reporting is getting directors to judge a company's performance by the value it creates for stakeholders instead of profits for shareholders. This exercise requires understanding

how financial and non-financial factors, often referred to as the six sources of capital (financial, manufactured, intellectual, human, natural and social), have shaped the firm's past performance and will affect the creation of value in the future.

Box 5: Selected Principles and Recommended Practice in King III

9.1 The board should ensure the integrity of the company's integrated report.
9.1.1. A company should have controls to enable it to verify and safeguard the integrity of its integrated report.
9.1.2. The board should delegate to the audit committee to evaluate sustainability disclosures.
The integrated report should:
9.1.3. be prepared every year;
9.1.4. convey adequate information regarding the company's financial and sustainability performance; and
9.1.5. focus on substance over form.

9.2. Sustainability reporting and disclosure should be integrated with the company's financial reporting.
9.2.1. The board should include commentary on the company's financial results.
9.2.2. The board must disclose if the company is a going concern.
9.2.3. The integrated report should describe how the company has made its money.
9.2.4. The board should ensure that the positive and negative impacts of the company's operations and plans to improve the positives and eradicate or ameliorate the negatives in the financial year ahead are conveyed in the integrated report.

9.3. Sustainability reporting and disclosure should be independently assured.
9.3.1. General oversight and reporting of sustainability should be delegated by the board to the audit committee.
9.3.2. The audit committee should assist the board by reviewing the integrated report to ensure that the information contained in it is reliable and that it does not contradict the financial aspects of the report.
9.3.3. The audit committee should oversee the provision of assurance over sustainability issues.

The requirement to produce an integrated reporting is mentioned in King III. The King Code is a principles-based governance approach that relies on the market to regulate itself. A handful of incentives, which work within a free-market capitalist system, encourage companies to apply the principles and stakeholders to monitor implementation and hold companies accountable. One of the strongest market incentives motivating implementation is that companies with better governance standards can attract more capital at a cheaper rate. Both company executives and investors presume that well-governed companies, those that apply the King Code, can create more value for stakeholders over the long term. It is assumed that executives of companies preparing integrated reports make better strategic decisions because they have a "clearer understanding of the [company's] mandate, which includes the purpose of the business of the company, its main value drivers, and the main stakeholders." (Hanks and Gardiner, 2012) In addition, preparing an integrated report on an 'apply or explain' basis is one of the JSE's mandatory listing requirements.

While the JSE and the King Code do not provide detailed guidance on reporting, the International Integrated Reporting Council (IIRC) – a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs – released a reporting framework in 2011.

5.3 Impact

Most interviewees acknowledged the pioneering role that the JSE has played as the initial compliance driver for integrated reporting. Interviewees were unanimous that the quantity of ESG disclosure has increased, that ESG disclosures are becoming less marginalized and that they are being integrated into the way companies communicate their performance.

Reporting surveys confirm this and find that the degree of ESG disclosure in South Africa is high compared with other emerging markets (Sinclair *et al.*, 2012). However, Solomon and Maroun (2012) point out that other regulatory requirements and standards predating King and integrated reporting also required companies to disclose specific ESG information. Hence they argue that the contribution of King III is to see this ESG information disclosed in the annual report and not in the stand-alone sustainability report. Their research also confirms that ESG disclosure has a greater presence throughout the integrated report (not limited to a section) and that companies are disclosing the effect of ESG factors in core sections, such as the operating review.

Over 80 per cent of interviewees (excluding the regulator) felt that companies do not use integrated reporting as a process to interrogate their business model and rethink how they create value. Instead, interviewees argued that companies view integrated reporting as a compliance-driven 'tick-box exercise'. A consequence of this approach is that companies retrospectively integrate ESG factors in their business model for reporting purposes, while the business follows a profit maximization strategy where ESG issues are peripheral. A domestic integrated reporting expert felt the market's acceptance of these reports may slow down the pace of real change: "The danger is that integrated reports give a flawed understanding of value. They give the impression that people have applied their minds when the reality is that executives have not rethought value creation models, and they are not being held to account."

Using integrated reporting as a retrospective communications exercise, predominately designed to meet reporting requirements, has affected the quality of ESG disclosure. Interviewees mentioned that most disclosure is immaterial and superficial – the level of reporting is too broad and a weak connection is made between E&S issues and the company's value creation model. For example, reporting on issues such a remuneration policy is too generalized and lacks targets. Coverage of performance in areas such as worker accommodation is limited to 'good news' stories rather than clear accounts of strategy, need, cost, financial and non-financial benefits and stakeholder engagement.

Given the weaknesses of integrated reports, asset managers often stated that they put little weight on the glossy, aspirational statements in integrated reports, and that their primary source of ESG information is one-on-one company interviewees and the annual financial statements. However, asset managers also recognized that a handful of companies, mostly in the mining sector, produce informative integrated reports that support investment decisions. The mining sector is a leader in integrated reporting because companies have embedded sustainability issues into strategy and governance practices in order to secure a social license to operate.

Shareholders and stakeholders' low level of engagement with companies on ESG issues has also weakened the quality of ESG disclosure. Companies that implement integrated reporting are not rewarded with greater access to capital, as institutional investors and their service providers are focused on short-term profit maximization, seldom showing an interest or an understanding of the broader social responsibility agenda and the effect that ESG factors have on financial performance. Furthermore, shareholders rarely ask executive management questions about ESG issues, including at the annual general meeting. Also, broader stakeholders are not comparing companies' actual ESG activities with their reported ESG commitments and holding them accountable. In particular, either financial journalists do not cover ESG issues or reporting is superficial.

Lastly, companies have interpreted low shareholder and stakeholder[11] activism as a sign that ESG issues are not important and people are not interested in integrated reporting. As a consequence, companies are reluctant to allocate resources (including executive management involvement) to integrated reporting, which negatively affects the quality of reports, resulting in fewer people reading the reports. This dynamic has reinforced the compliance-driven approach to integrated reporting and lowered the likelihood stakeholders will analyse reports, ask companies questions that expose or clarify material issues and hold companies accountable for the creation or destruction of value.

5.4 Potential Next Steps for Evolution

The concept and rationale for integrated reporting are sound, but the lack of shareholder and stakeholder activism means that the incentives for executives to rethink value creation are weak. The majority of interviewees[12] agreed that interventions are needed to create stronger incentives for executive management to lead the integrated reporting process. They raised four interventions:

- **Reform prices in the real economy**. More accurate pricing is needed to strengthen the business case linking ESG factors to business performance and investment returns. This would mean integrating the cost and benefit of environmental and social services into pricing, and reforming subsidies that distort the true cost of using resources, especially water and electricity.
- **Create more forums where executive management are asked to explain the effect ESG factors have on their performance.** The more frequently executives face questions, knowing their answers influence their financial performance and access to capital, the higher their motivation to implement an integrated reporting system. The involvement of rating agencies, investment analysts and institutional investors in holding executives accountable is particularly important. Regulators echoed this sentiment and confirmed that the focus companies have on environmental issues "is not there and will not be driven by integrated reporting, unless investors start to use integrated (reporting) to delve into [these issues in depth]."
- **Develop methodologies and metrics that create a stronger business for integrated reporting.** From the shareholder perspective, ESG information translated into quantifiable risk and performance measures, such as monetarizing the value of carbon emissions, would make it more user-friendly for rating agencies, investment analysts and institutional investors. From the companies' perspective, integrated reporting could be used to steer conversations with stakeholders and redirect focus away from isolated issues to appreciate the bigger picture. From a management perspective, a corporate performance management system could be built, that connects the dots that an E&S action has on value creation (such as innovation, reputation and risk profile) and financial performance (such as the cost of capital and the operating margin).
- **Use the stakeholder engagement processes to improve the relevance of reports.** It was felt the quality of integrated reports would improve if companies implemented an integrated reporting system that was not simply compliance-driven, but embedded in a business case and included a systemic and principles-based approach to stakeholder engagement. Better reports arising from such a process would be more useful for stakeholders and would support the process of holding companies accountable.

[11] *One interviewee mentioned that the JSE could perform its current regulatory role better: the 'apply or explain' requirement is not being adequately enforced, as the JSE is "not looking if anyone is applying and not asking them to explain it" (domestic integrated reporting specialist). However the JSE asserts that a company "must have the basics correct", in this case integrated thinking, before it can produce an integrated report "because a company cannot report on something it does not think about", and a company "cannot report on what is not there".*

[12] *A few interviewees felt interventions are premature. Companies need time to change their mindset and develop new systems and structures. One asset manager said "companies are struggling with the concept of integration – they do not know and do not understand it." In summary these arguments imply that implementation of integrated reporting will evolve alongside company experience and stakeholder expectations.*

6 THE FINANCIAL SECTOR CHARTER

Description of innovation	Developed by	Responsibility for implementation	System of monitoring	Impact to date
Scorecard on provision of financial services to disadvantaged communities, linked to public procurement criteria.	Financial sector in response to government and civil society pressure.	Multi-stakeholder Financial Sector Charter Committee	Companies required to report annually, scores independently verified.	Mixed – fell short of targets, but encouraged broader cultural shift in financial sector expectations.

Separate from the cluster of ESG-focused governance interventions already discussed, another experience from South Africa can provide lessons, both nationally and internationally.

Similar to CRISA and integrated reporting, the FSC is a voluntary-led industry initiative, using self-regulation to channel the resources of the financial sector towards developmental objectives (in this case financial inclusion). Similar to the governance innovations, the FSC is based on the principle of corporate citizenship and a stakeholder-inclusive concept of governance. It uses a similar disclosure-transparency-accountability model to encourage financial actors to integrate these governance principles into business practices. However, it demonstrates stronger multi-stakeholder governance, monitoring and public incentives.

6.1 Development

The FSC broke new ground as a national, collaborative and consultative process for renegotiating the social contract of the financial sector. A critical issue for South Africa at the end of apartheid was how to bring financial services, including bank accounts, loans and mortgages to the hitherto excluded majority of the population. With progress slow, the South African Communist Party mobilized in 2000 the "Make the Banks Serve the People" campaign – also known as the Red October campaign – and the South African government began to develop a Community Reinvestment Bill to legislate for low-income mortgage lending. The South African financial sector argued that such an approach would compel them to carry out 'unsound' lending, putting the country's financial stability and access to international capital at risk.

However, by 2002 the banking industry acknowledged that change was inevitable and had two choices: either adopt an industry-led approach or face a government-led process with targets imposed on the industry. The Banking Council describes it as a turning point "where the relationship between government and the sector could develop in two ways: an adversarial relationship, typified by animosity and negative legislation, or a constructive partnership." (BASA, 2014) The key driver for negotiating the social compact

include sector leadership, reputation, stakeholder activism, threat of regulation and, it is argued, implicit protection of the market's oligopolistic structure.[13]

In 2002, the National Economic Development and Labour Council (Nedlac) – a body that brings together representatives from government, organized labour, organized business and the community – convened a Financial Summit to consider policy and legislation. It set initial targets and a commitment to develop a charter, leading to the government agreeing to postpone the introduction of Community Reinvestment Act (BASA, 2014).

After the Summit, the Banking Council entered into discussions with the Association of Black Securities and Investment Professionals (ABSIP) to establish a platform for negotiations and bring in other actors in the industry including ASISA, the South African Insurance Association (SAIA), the Institute of Management Associations of South Africa (IMASA), the JSE, the International Banks Association (IBA) and the Institute of Unit Trusts. The government participated as an observer and agreed not to intervene in target setting. Targets were not framed as undertakings or obligations, but as stretch targets that balance the competing needs for urgent social transformation and the long-term sustainability of business (BASA, 2014).

A key further development was the Financial Sector Charter Council to oversee the Charter. Although the labour and community constituencies were not included in the drafting of the FSC, they agreed to participate in its governing structure. After fierce negotiation, the Financial Sector Charter Council was set up with membership including the Department of Trade and Industry, the National Treasury, the Presidency, ASISA, BASA, SAIA, IBA, ABSIP, labour and civil society.

6.2 Design

The FSC is a formal commitment between the financial sector and other stakeholders (labour, civil society and the government) for the transformation of the financial sector through Black Economic Empowerment. It aims to support a "transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy." (BASA website)

The FSC was developed by the financial sector, but is mainly incentivized through BEE legislation. When financial intermediaries meet transformation targets, they are awarded points in tenders for public contracts. As part of the FSC monitoring and evaluating process, financial intermediaries are required to complete each year an industry scorecard that has criteria and associated points for participation of black people in ownership, management control and employment, business policies and on skills development, procurement and local community development, and provision of financing in key areas such as black SMEs, affordable housing, black farmers and transformative infrastructure and its performance on providing access to finance (branches, ATMs, accounts, etc.) to low-income consumers and to underserved geographic areas. The government uses the results of the scorecard process to award BEE points.

The Council annually reviews the sector scorecard at an individual company and sector-wide level. Industry associations are also expected to contribute towards monitoring and evaluating performance

[13] *Hawkins (2015) postulates, using the Dedicated Banks Bill as an example, that there was a tacit understanding that the government would not change the sector's structure provided it participated in the FSC. She argues that the government realized the structure of South Africa's banking system made achieving FSC targets more difficult. Furthermore, allowing second tier banks into the system would probably allow non-traditional entrants (such as retailers and cell phone operators) to provide transaction banking services to lower-income earners at a lower cost than incumbents, as the new entrants had a network of payment systems that could possibly reduce the cost of providing services to the unbanked. However, there was a tacit understanding that the government would not change the sector's structure provided it participated in the FSC. Nevertheless, another explanation for the government's decision was mounting global pressure to implement legislation ensuring the sector's stability.*

against targets. In addition, a combined industry-wide gazetting committee oversees progress across the pillars of the FSC, providing another layer of oversight (Chamberlain *et al.*, 2011). The Council also publishes the results of the scorecard process giving stakeholders information to hold the sector and financial intermediaries accountable. Peer pressure among institutions and reputational risk are used to incentivize industry participation. An industry association representative remarked that public disclosure means "there is significant downside if you are not performing or if you are not buying into this process", such as losing consumers or weakening the relationship with the government. Although the FSC set transformation targets, it did not prescribe how they should be achieved. The initial product and service definitions in the FSC were quite broad, making it unclear how industry could meet FSC commitments. This led to a process where specific trade associations developed individual product standards that supported their members' ability to meet targets.

6.3 Impact

In 2008, the banking sector nearly met its FSC targets: 77 per cent of the target market had access to a banking service within 10 km of their residence and 74 per cent had access to a full banking service point within 15 km of their residence, both falling short of the 80 per cent target (Annual FSC Review, 2008). Initiatives[14] by the insurance and savings subsectors increased low-income earners' access to services (Chamberlain *et al.*, 2011). Despite this progress, the FSC did not reach its overall goal of financial inclusion.

The protracted process to align the FSC with the Broad-Based Black Economic Empowerment Act's generic Code of Good Practice distracted actors from achieving targets. The process began in 2007, but in 2008 stakeholders were deadlocked[15] and negotiations stalled primarily over issues of ownership. Negotiations resumed in 2011 and the FSC Code was gazetted on 26 November 2012.

First, the difficult negotiation process eroded goodwill among stakeholders. According to the BASA (2014), "the first five years of the FSC went quite well, until ownership debates started and BEE legislation was in place. From then, the focus shifted from the real intent and value of the broad-based charter to that of a narrow conception of BEE." Second, the lengthy negotiation process placed financial intermediaries under less pressure to meet certain targets. A few of the targets mentioned in the FSC were not measured in the Broad-Based Black Economic Empowerment Act's generic Code of Good Practice. This discrepancy raised uncertainty whether actors would be rewarded for achieving targets that dealt with access to financial services. In the end, even though no scores were required for access, actors pursued this target in accordance with the FSC standard, but the implementation rate did taper off (Chamberlain *et al.*, 2011).

However, it is argued that the FSC had an impact broader than increasing access to financial services and spurred product innovation opening up the development of new markets. The requirement to provide low cost 'Mzansi accounts' pushed banks to understand new markets, which catalysed the evolution of low-income banking products from a government-sponsored requirement to be superseded by competition for the market. Today, the four largest retail banks offer their own simple bank accounts as part of their standard product offering. However, improving access requires broader reforms in the institutional and regulatory framework that encourages a broader range of financial service providers to enter the market and apply technological innovations (World Bank, 2013b).

[14] *For example a set of life insurance product were launched under the Zimele brand, household content and structure insurance products was launched under the Mzansi brand, and a savings product for tertiary education savings was launched under the Fundisa product brand (Chamberlain et al., 2011: viii).*

[15] *The main alignment issue concerned increasing direct ownership from the FSC 10 percent target to the 15 percent required in the generic sector codes. A compromise was reached, resulting in FS Code 'to include either a target of 15% direct ownership or 10% direct ownership with the remaining 5% being met in equity equivalents' (Lamprecht, 2013).*

6.4 Key Lessons

A number of lessons can be drawn out of the FSC experience that may be applicable more widely:

- **Systematic sociopolitical shocks facing a sector cause uncertainty, which in the hands of strong sector leadership can create room for innovation**. The threat of socio-economic change was turned into an opportunity to adopt a collaborative and consultative approach to transform the sector. Leaders positioned the FSC as an initiative that would create more certainty in a volatile environment.
- **Both threats and opportunity can encourage incumbents to re-examine established assumptions and practices**. The negotiation of the charter was based on an acknowledgement that the future of the financial sector in South Africa was inextricably linked to the future stability and prosperity of the country. The initial impetus for participation came from avoiding heavy-handed regulation, but as the negotiation process unfolded, the sector realized that transformation also made business sense.
- **Negotiating change with incumbents can enable broad industry shifts, but can also lead to conservative approaches**. The FSC was implicitly a settlement that provided protection to South Africa's big banks rather than opening them up to competition from non-traditional providers such as mobile phone operators. However, the targets and approaches developed tended towards caution, compared for example with the M-Pesa approach in Kenya (Hawkins, 2015).
- **A well-designed system of incentives, reporting and monitoring can make voluntary targets compelling**. Outcome-based, measurable targets focused the sector's attention on action instead of only fulfilling reporting requirements. However, the financial inclusion agenda ultimately lost impetus primarily because it "was never made part of the mandate of any particular regulator." (Hawkins, 2015)

The FSC also demonstrates that the drivers for change within the financial sector do not have to be motivated only by the direct financial benefits to savers and beneficiaries, but also by benefits to them in their broader role as members of society interested in the impacts of their investments. For example, Bheki Ntshalintshai, Congress of South African Trade Unions Deputy General Secretary to the Finance Portfolio Committee on the Financial Sector Charter in the early 2000s, argued that "organised labour has long been committed to ensuring that our pensions contribute to the development of the country. Clearly, our members would be prepared to harness their pensions to achieve these objectives, including, if necessary, a lower rate of return, if their children could get jobs. With over two thirds of black youth unemployed, every worker's pay and pension must now stretch far too far."

7 CONCLUSION

7.1 Emerging Lessons from Experience of the ESG Governance Innovations

A broad consensus exists that the governance innovations have been effective in increasing awareness[16] of ESG issues and providing good guidance on ESG investing. The innovations have encouraged financial actors to think about the effect of ESG issues on performance and how to integrate these issues in their business models. Currently, ESG issues are factored into strategies and policies, but have not been systematically and consistently integrated in the investment decision process. Hence the innovations have not significantly increased investment in assets that support a low-carbon, equitable economy.

In addition, financial actors have not allocated the same priority to integrating the effect of ESG issues on their performance. Governance issues are considered as a core part of standard industry practice, whereas social issues tend to be considered more informally.[17] Environmental issues are still emerging onto the agenda.[18]

A gap exists between the intentions of the three governance innovations as they were designed and their current implementation and impact. Nevertheless, despite slow progress and limited impacts, interviewees believe that a strong potential remains in the three governance innovations, as they are still at an early stage of implementation and impact. Most were adamantly against turning to an alternative rules-based approach, on the grounds that it would threaten the financial system's stability and its ability to allocate capital into alternative assets such as green infrastructure. Interviewees felt that the state has insufficient resources to implement rules-based regulation effectively and that the complexity of the problem requires a dynamic and evolving market approach. They argued that the principles-based approach is better suited to the dynamics of economic transition as it allows for industry practices to be developed and codified through real-time learning processes, rather than through regulators' definitions.

Interviewees argued that the actors need time to experiment, learn and develop standard industry practice, and for mindsets to change. The disclosure-transparency-accountability model is a cycle that creates feedback loops, encouraging shareholders and stakeholders to ask questions, encouraging more information to be analysed and risks and opportunities uncovered.

However, many also highlighted specific weaknesses that need to be addressed in order to enable the disclosure-transparency-accountability model to work more effectively:

- **Weak trustee capacity:** A key gap in the chain of accountability concerns the capacity of trustees to carry out their fiduciary duty. Most trustees have limited financial literacy because

[16] *The majority of interviewees claimed the governance innovations were the catalyst that placed ESG issues on the strategic agenda for action, whereas the minority felt they codified and created a new language for existing practices.*

[17] *South Africa's socio-political history has made acting on these issues part and parcel of a business' license to operate. That being said, the governance interventions have helped actors gain a greater appreciation of the interconnection between social factors and performance, in terms of risk-adjusted return on assets and the financial profitability of companies*

[18] *Even though stakeholder action on environmental issues has been the weakest of the three, the governance policy innovations have had the largest effect on raising awareness about environmental issues. In South Africa, many actors perceive environmental issues to be a first world problem and the country's priority is addressing social issues.*

their position is by virtue of being either an employer or a member-elected trustee. They also receive no remuneration and meet for only a few hours a year. Trustees rely on asset consultants for advice and information; however, asset consultants are also constrained as they must propose strategies that are aligned with clients' capability. This can rule out complex, active investment.

- **Lack of common information standards:** When many actors base their disclosure of ESG practices on their own definition, it also weakens the disclosure-transparency-accountability model because poor comparability of information makes it harder for stakeholders to compare information and hold actors accountable.
- **Lack of clear implementation standards and monitoring:** Light-touch regulation means that it is relatively easy for institutional investors, pension funds and companies to be seen to be complying with requirements, gaining plaudits without making substantive changes. Actors have considerable leeway to interpret the principles, and often their interpretation supports business-as-usual practices.
- **Low level of shareholder and stakeholder activism**: Too few financial journalists are analysing the effect of ESG issues on financial performance and the standard of reporting on these issues is poor. In addition, despite regulators acknowledging the importance of ESG investing and integrated reporting, their involvement in monitoring actors' implementation and holding them accountable has not materialized.

Interventions proposed by interviewees confirm that the introduction of stronger incentives is accepted (especially a stronger monitoring and evaluation system). They do not advocate for shifting to a system prescribing particular assets, but one strengthening the market mechanism through disclosure, transparency, accountability and activism from shareholders and stakeholders.

Figure 3: Summary of key recommendations by interviewees

Regulation 28	CRISA	Integrated Reporting
Consolidation of the pension fund industry	Introduce a formalized monitoring mechanism	Regulator should take a tougher stance on the 'apply or explain' condition.
Regulating and supervising private equity	Create a curriculum for trustees	Need for methodology innovations to translate ESG information into quantifiable risk and performance measures
Increasing the capacity of trustees to engage with ESG issues	Support the creation of model mandates	
Providing guidance to trustees on their fiduciary duty		

7.2 Complementary Real Economy Measures to Strengthen the Business Case

The disclosure-transparency-accountability model depends on effective chains of accountability and information, and on the strength of the underlying business case that an ESG-sensitized investment approach can give better risk-adjusted returns. A recurring theme among interviewees was that implementation must make business sense and cannot simply be based on a promotional approach to ESG investing.

Interviewees described a problem where the voluntary checks and balances that the transparency and accountability mechanisms depend on are not working because few people are convinced of a direct benefit. Even when actors partially implement the governance innovations, they do so from a compliance perspective, focusing on satisfying technical requirements. While stronger monitoring of implementation might encourage stronger compliance, it would not solve the problem of demonstrating a compelling business case connecting the impact of E&S to financial performance.

Interviewees therefore also emphasized changes needed in policies and regulations outside of the financial sector to ensure that there are viable investment opportunities. Key measures mentioned included public-private contracts for low-carbon infrastructure along the lines of the existing Renewable Energy Independent Power Procurement Programme, pricing externalities through green taxes and removing subsidies from fossil fuels.

This analysis raises the question of whether financial actors are driven into business-as-usual investment patterns by the structure of the real economy or whether the rules governing the financial system create their own incentives to overinvest in unsustainable assets and take short-term positions (Sinclair *et al.*, 2012; WWF, 2012). Most likely it is a combination of both factors reinforcing each other; a combination of real economy policies and stronger monitoring and implementation of the governance innovations could transform a vicious cycle of low levels of stakeholder and shareholder activism into a positive cycle of mutual reinforcement.

7.3 Lessons from the Financial Sector Charter

The experience of the FSC is relevant given the striking differences in the monitoring and enforcement systems compared to the ESG governance innovations. While the governance innovations give actors considerable discretion on the format and level of detail in which they report and do not require verification, the FSC provides a standardized template that requires independent third-party[19] verification and evaluation of performance against FSC targets. At the same time, the FSC outcome-based targets focused the sector's attention on action instead of fulfilling reporting requirements. In addition to peer pressure and stakeholder activism, the FSC scorecard process was linked to points in awarding of public and private sector tender contracts

In South Africa, the BEE agenda has a strong legacy and has been economically transformative. Linkages between local environmental and social issues, and lessons from BEE could be applied to make the discussion of environmental issues more salient – pursuing green investment that demonstrably delivers socially inclusive benefits to South Africans in terms of cleaner and safer local environment and jobs and economic development opportunities.

Three characteristics of the FSC might be useful to adopt in the next phase of development of the governance innovations: clear and standardized definitions, outcome-based targets and linking incentives to substantive performance.

[19] *Companies submit their scorecards to a BEE rating agency for verification (Chamberlain, et al, 2011: 5). Afterwards scorecards are submitted for verification and evaluation to the Financial Charter Council Secretariat, which is an independent body within the Council and has no representatives from the financial sector (Chamberlain et al, 2011)*

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ANNEX I: INTERVIEW PROCESS

Interviews were carried out between October 2014 and January 2015 with representatives from 21 organizations including regulators, asset owners, asset consultants, asset managers, industry associations and relevant experts from academia, the legal profession and think tanks.

In addition to discussion of their role and of the overall development of ESG investment in South Africa, individual interviews focused on particular relevant governance innovations.

Interviewee	Regulation 28	CRISA	Integrated Reporting
Industry Association Representative		x	
Asset Manager (Large Corporate)	x		x
Asset Manager (Large Corporate)	x		
Compliance Manager (Large Corporate)	x		
Asset Manager (Specialist ESG)		x	
Senior Corporate Governance Specialist (Parastatal)		x	
ESG Manager (Parastatal)		x	
Senior Regulators			x
Sustainability Advisory and Legal Specialist	x	x	
Asset Consultant (South African Corporate)	x	x	
Academic (Business School)	x	x	x
Corporate Governance Expert (International NGO)			x
Industry Association Representative	x	x	x
Integrated Reporting Expert (Domestic)			x
Academic (Accounting)			x
Sustainability Consultant (International NGO)			x
Governance Expert (Big Four Consulting)	x	x	x
Asset Consultant (International Corporate)	x	x	
Compliance Manager (Large Corporate)		x	
Programme Manager (International NGO)	x	x	
Programme Managers (International NGO)	x	x	

A semi-structured interview protocol was used:

1. When the policy innovation was designed, what was its purpose, from the perspective of architects?
2. What is the decision-making mechanism underpinning the policy innovation and how does it support the purpose of the policy innovation?
3. What is the principle connecting the policy innovation's decision-making mechanism to influencing stakeholders' decision-making pathways and the outcome of their capital allocation decision process?
4. Have the envisaged benefits of the policy innovation identified by its architects, during the design phase, been realized?
5. What factors have helped and/or hindered the realization of the policy innovation's intended benefits?
6. Can any lessons be drawn from post-design execution experience, especially the decision-making mechanism underpinning the policy innovation and its direct and indirect effect on ESG lending and investing?

7. What is the most significant post-execution learning, and are there opportunities for the architects of the policy innovation to draw on learning's to refine the policy innovation?

8. What measures are used to gauge whether the policy innovation is achieving its intended objective? Are adoption rates, proportion of ESG lending and investing compared to traditional activities, and intermediary outcomes considered as measures?

9. If you could change/refine any design principle underlying the policy innovation, especially those dealing with the decision-making mechanism, what would it be? (what would the next generation of the policy innovation look like?)

10. Are there any new or emerging developments on the horizon that are pushing the creation of a financial sustainable system forward and what potential role can the policy innovation play in driving developments in ESG lending and investing?

With the exception of one interview conducted with a compliance manager at a large South African corporate, all of the interviews related to this report were recorded and transcribed. The average duration of an interview was 1.5 hours while, in a few particular cases, the researcher conducted additional targeted interviews in order to clarify specific issues.

Inquiry: Design of a Sustainable Financial System

International Environment House
Chemin des Anémones 11-13
Geneva,
Switzerland
Tel.: +41 (0) 229178995
Email: inquiry@unep.org - Twitter: @FinInquiry
Website: *www.unep.org/inquiry/*