Why South Africa should lead with the "S" Factor

By Santhuri Thaver, Head of Credit

32.9%[1] - South Africa's official unemployment rate as at Q4 2023. Africa's most advanced economy holds the global title of being the most unequal society in terms of income distribution. One would thus expect a spotlight on social outcomes. Why then is the Social or "S" Factor so overlooked in the local context?

Social considerations include how a counterparty interacts with its employees, clients and wider stakeholders. Part of the challenge in addressing these matters is the wider and undefined arena. How a company's social footprint impacts society and how this can be measured is challenging versus more clearly defined and quantifiable environmental outcomes. One can argue that it is easier to measure a targeted reduction in carbon emissions or reduced water usage versus an improvement in the quality and health of your workforce or how a product may be received by target markets. It certainly is easier to build a power plant than address the gender pay gap.

There is a however a measurable and easily quantifiable social outcome to address the inequality within the country and reduce the risk of social upheaval, and that is job creation. The multiplier effect of creating a job speaks to the ability of one income to uplift many lives. Anecdotally, I made an online purchase and was pleased to receive a complimentary Khayelitsha Cookie. Khayelitsha Cookies creates one meaningful job for every 1 000 cookies sold per day, employing previously unemployed women from informal settlements in the greater Cape Town region. These women are taught to bake and are provided with a food safety accredited factory. This reduces the level of unemployment faced by women, with the income providing independence and the ability to support at least five dependants. A real-life example of the multiplier effect. To address the continued high unemployment levels in South Africa, Ashburton Investments has partnered with the National Treasury Jobs Fund through our Impact Funds, the first-of-its-kind in the Southern Hemisphere to provide a measurable positive impact on society through investments that support job creation targets. Since the first fund's inception in 2015 and the second in 2018, our Impact Funds have successfully delivered financial returns in excess of its benchmark of CPI +3% along with social outcomes.

Over 17 000 local permanent jobs have been created to date exceeding 100% of the target with jobs created weighted towards underserviced provinces and Black African females who remain the most vulnerable in terms of unemployment. In addition, investments have unlocked funding to SMEs via intermediaries and which traditional fund providers considered risky, enabling the growth of this sector. Employment not only increases economic output, but it also reduces social disorder. The ability to earn an income, provide for oneself and dependants gives humans much needed dignity and an improved quality of life. While the impetus towards addressing climate change is noble and has our support, it is important to recognise that the solution for a developing country cannot only be based on developed metrics. A developed country is not plagued by the social inequalities facing Africa, parts of Asia and South America. South Africa remains afflicted by the effects of apartheid. The focus on environmental outcomes at the cost of social impact is not appropriate in our context.

Environmental, Social and Governance (ESG) factors are playing an increasing role in investment decisions. As primary allocators of capital the ESG analysis should be embedded in the fabric of an investment process as an overarching framework. Ultimately a sustainable investment creates greater and more stable returns for investors over the long term. Looking at governance, this is the glue that holds the environmental and social considerations together, without this foundation, the E and S factors will likely fall by the wayside. Environmental and Social considerations however should not and cannot always receive equal weighting and are bespoke to externalities.

Integration of ESG in an investment process is not black and white and should not be mistaken for an outright rejection of an investment scoring low on any factor but rather used as a tool to highlight the increased risk profile which could be mitigated. A company with a high environmental footprint may be one of the largest employers in the country, the latter cannot be ignored. ESG is therefore a journey, an outright decline or an immediate divestment is unlikely to achieve the economic and social impact that could result from being an agent of change. It is a journey that investors need to walk with counterparties to effect change for good.

In 2023, we saw a rise in the South African listed credit market issuance in terms of green, social and sustainability-linked instruments, with R18.8bn issued, up 6% on 2022 issuances. This is positive, however, green bonds dominated this area with 79% issued, according to Standard Bank Credit Research. The investment industry has supported these instruments in both the listed and unlisted credit markets, it is positive to see momentum in this space and we continue to engage with issuers around business as usual versus stretch targets to achieve environmental goals with greater positive impact and introduce more social goals.

To clarify, the intention is not to say that we should neglect a cleaner, greener future, it is well noted that improved environmental outcomes do lead to social justice, but this tilted approach is more appropriate for a developed country. Below 2 degrees, green energy, decommissioning the coal industry are concerns of the privileged and cannot be considered in isolation locally. A hungry nation teeters on the edge. If our people are starving, the level of clean energy generated does not matter. Let's do what is appropriate for South Africa and her people, focusing on the greatest positive economic and social impact in a measured manner. In the words of Hubert Humphrey: "There is no such thing as an acceptable level of unemployment, because hunger is not acceptable, poverty is not acceptable, poor health is not acceptable, and a ruined life is not acceptable."

[1] Quarterly Labour Force Survey (QLFS) Q1: 2024 - Stats SA.