An initial study of disclosures related to responsible investing implementation

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Date Submitted: 24 March 2021

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University of the Witwatersrand
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2020

Dedication and acknowledgment

Throughout the writing of this thesis, I received a great deal of support and guidance. I would like to give thanks to the following people:

- To my mom who provided me with all the support and encouragement I needed to get through the more challenging times.
- To my supervisor Wayne van Zijl who showed me patience and truly understood how to guide me as a student from both an intellectual and emotional perspective. Your insightful feedback pushed me to broaden my thinking, learn and elevate my analysis to a higher level. I am inspired by your passion for academics and learnt invaluable lessons from you.
- To my supervisor Zakiyyah Varachia who gave me so much of her time and effort. You provided me with valuable guidance and tools that allowed me to complete my research. I learnt so much from your diligence, work ethic and approach that I will carry forward with me always.
- To the School of Accountancy and Prof Nirupa Padia for providing me with the opportunity and support to complete my masters. This extends to Ms Lelys Maddock for editing and reviewing the writing.
- To my fellow academic trainees, specifically John Wilkinson and Tori Emdin, for our stimulating discussions and continuous support.

Table of contents

List of tables and figures

Abstract

Financial institutions (FIs) such as banks, insurance companies and pension funds have a significant impact on the environment through the financing they provide. Companies such as mining and oil and gas companies receive funding and use this for different projects, some of which have severe environmental and social consequences. This study examined the extent to which both the grantor of finance and the receiver of finance identify and apply responsible investment (RI) practices when making investment decisions. RI disclosure in the integrated reports of companies was examined to assist with the research. The study also examines if there is a relationship between companies listed on the FTSE/JSE RI index and the FTSE/JSE RI Top 30 index and the extent of their RI disclosure. The results of this research indicate that the extent of RI disclosure in FIs in South Africa is limited. The research further found that the extent of RI disclosure for the mining and oil and gas companies was stronger than for FI’s. Finally, the research found that there appears to be a correlation between companies listed on the indices and their RI disclosure. This was noted as companies on the indices have stronger RI disclosures than companies not on the index.

Key words: Financial Institutions, Responsible Investment, integrated report, ESG, South Africa

1. Introduction

1.1 Context of the study

Since the early 2000's there has been an increased drive towards environmental, social and governance (ESG) reporting to provide a holistic view to stakeholders (Raemaekers, Maroun, & Padia, 2016). Corporate reporting is the responsibility of an organisation to disclose the impact of their business operations on society and on the environment (Clayton, Rogerson, & Rampedi, 2015). This includes not only disclosing negative consequences but also evaluating the social and economic effects of the organisation on a global scale (Clayton et al., 2015). There have been increasing efforts towards an integration of sustainability and financial reporting (Hughen, Lulseged, & Upton, 2014). This has resulted in a combined report known as the integrated report (IR) (De Villiers, Unerman, & Rinaldi, 2014). IRs are reports to stakeholders on the various initiatives and strategies which will be taken to ensure the long-term growth of a business (Raemaekers et al., 2016). It is a report explaining a company's ability to create value over time through consideration of its external environments (IIRC, 2013). The IR is where a company's ESG practices would be identified and explained. As the need for ESG considerations becomes more recognised, there appears to be an incentive for companies to incorporate ESG consideration when making decisions and structuring operations (Fatemi & Fooladi, 2013). This is specifically relevant within the investment process. A responsible investment (RI) is one which incorporates ESG considerations within the investment process (Scholtens, 2014). It is an investment which integrates business operations and stakeholder interests which will assist in societies welfare (Adams & Zutshi, 2004). South Africa's regulatory environment is impacted both by governmental legislation and private self-regulation influenced by global corporate social reporting norms (Hönke, Kranz, Börzel, & Héritier, 2008). This, together with a growing interest in RI, places South Africa in a leading position with regards to sustainable reporting (Clayton et al., 2015).

RI is becoming increasingly prevalent in financial markets (Døskeland & Pedersen, 2016). Financial institutions (FIs), through the provision of funds, have a strong indirect impact on the environment and society through the selection of projects they finance (Lins, Wajnberg, Steger, & Ionescu-Somers, 2008) as well as the portfolio of companies that they invest in. This significant impact is seen through enabling and facilitating strategic economic activities (Carè, 2017). There is consequently a call for FIs to be held accountable for the environmental and social consequences of the projects or funds they choose (Coetzee, 2013). FIs in South Africa are banks, pension funds, insurance companies, the central bank and other financial intermediaries (Statista, 2018). Other financial intermediaries include financial services and investment instruments. This research will not be limited to FIs; however emphasis will be placed on FIs and RI through funds provided by FIs. In addition, two other sectors will also be considered namely mining companies and oil and gas companies. Mining companies are known to have a significant social and environmental impact (Sonnenberg & Hamann, 2006). This is also true for the oil and gas sectors (Frynas, 2009). As such mining and oil and gas companies need to consider the social and environmental impacts of the projects they choose to invest in (Maubane, Prinsloo, & Van Rooyen, 2014). For the purposes of this research mining and oil and gas companies will be referred to as companies in high impact sectors (CHIS).

To gain insight into the implementation of RI in FIs and CHIS, the research looks at the RI disclosure that has been included in the IR of the companies under review. Disclosures give insight into what ESG considerations were made and therefore the extent of RI implementation. Discussions on integrated reporting and the integrated reporting council did not provide detailed reporting guidance. As such, there have been significant variations in the IR prepared by South African companies (Raemaekers, 2016). Adding to this is that most of the principles under review are voluntary and the implementation of the principles is left to self-monitoring (IFC, 2018). As no specific standard must be met, the research looks to understand RI considerations through the disclosures made. The voluntary RI principles which will be focused on in this research will be Equator Principles (EPs) (The Equator Principle Association, 2020a), the UN principles for RI (UNPRI, 2019), the United Nations Global Compact Initiative (United Nations Global Compact, 2020), the UN principles for responsible banking (UNEP-FI, 2019), the UN principles for sustainable insurance (UNEP, 2012), Regulation 28 of the Pension Funds Act (Fasken, 2019) and the Code for Responsible Investing in South Africa (CRISA) (Foster, 2020).

RI is currently being applied in South Africa through the Johannesburg Stock Exchange (JSE) social responsible investment (SRI) indices launched in May 2004 (Herringer, Firer, & Viviers, 2009). This index was the first formal corporate sustainability benchmark in South Africa, intending to identify companies with successful sustainability practices (Sonnenberg & Hamann, 2006). This would influence RI as FIs could select to invest in companies on the indices. This research seeks to gain insight as to whether having the indices is positively influencing RI in South Africa. Research performed to date suggests that companies listed on the index do not understand the criteria or the procedures for reporting (Maubane et al., 2014). As a result, there appears to be no strict adherence to the required procedures if the minimum requirements of the index are met. This may render the index inefficient, casting doubt on the integrity and credibility of the institution’s reports (Maubane et al., 2014).

1.2 Purpose of the study

The research aims to understand whether RI principles are currently being integrated and implemented within the investment process in South Africa. This cannot be observed directly. This research will conduct a content analysis for evidence of RI reporting as an initial step in this process. The research further aims to assess whether there is an association between a company appearing on the Financial Times Stock Exchange (FTSE)/ JSE Responsible Investment Index and its extent of ESG disclosure. At present there are no studies which have investigated the disclosure of RI principles applied in South Africa. This study, as a result, constructed a RI disclosure checklist, drawing on the principles of RI to understand the implementation of RI in South Africa.

1.3 Research question

To complete the research, the following questions will be addressed:

RQ1: What is the extent of RI disclosures in the IR of FIs listed on the JSE in South Africa?

RQ2: What is the extent of ESG disclosure in the IR of companies in the (1) mining and (2) oil and gas sectors listed on the JSE in South Africa?

RQ3: Is there an association between companies appearing on the FTSE/ JSE Responsible Investment Index and their ESG disclosure score?

1.4 Assumptions, limitations, and delimitations

This study is limited only to companies listed on the JSE. This study is focusing on the extent of RI disclosures in IR of the selected sectors. The implementation of RI in South Africa cannot be observed directly. This study is using disclosures to evaluate the implementation of RI within the relevant institution. The research is limited as this is an insufficient proxy as to whether RI is being integrated within a company's practices. It is further acknowledged that a disclosure can be broad, vague or haphazard (Van Zijl, Wöstmann, & Maroun, 2017). This could lead to misleading disclosures.

The disclosure may not be providing full evidence of whether the institution has implemented RI practices. The research further states that the principles will be applied to all companies under review even if they are not signatories to RI initiatives. This is because it has become common practice for many companies to act responsibly and behave as good corporate citizens (Schwab, 2008). As a result, the ideas of the principles should be implemented by all companies. An updated version of the EPs will be released in July 2020. For the purposes of this research the 2006 EPs will be used as the most recent revised version of the EPs as of May 2020.

2. Literature review

2.1. Responsible Investing

In the early 1970's US investors began refusing to invest in South African companies because of the Apartheid practices adopted at the time (Giamporcaro & Pretorius, 2012). During the 1980's, trade unions in South Africa refused to invest their member contributions in businesses supporting the Apartheid regime or those practising poor industrial relations. This global concern and push for human rights resulted in the establishment of the first RI fund in South Africa (Suzette Viviers, 2007). RI implies investors becoming more conscious of their decisions and their potential consequences (Sethi, 2005). This means combining an investors' financial objectives with his/her social values (Martin, 2008). The intention of RI is to incorporate ESG practices within the investment process without jeopardising an investor financial objectives (Suzette Viviers, 2007). Despite many investors questioning the rationale and impact this will have on their investments, developed countries are seeing RI become a vital consideration in their investment strategies (Suzette Viviers, 2007).

For a period, South African companies have been considering how to be more socially responsible. As a result, there has been a growing shift toward RI in South Africa (Sonnenberg & Hamann, 2006). Despite this, the South African investment community still shows a limited willingness to adopt ESG considerations within their investment process (Sonnenberg & Hamann, 2006). This is concerning as investors who embrace RI practices can valuably influence the ESG considerations of an investee (Sparkes & Cowton, 2004). Research suggests that, although the South African government has taken various steps to address the need for socio-economic development in South Africa, involvement has been needed from the private sector to impact the lives of South Africans. In saying this, RI can be a means by which the private sector could allocate funds to areas which will positively impact all South African stakeholders (Suzette Viviers, 2007). As a start, an understanding of why it is important for FIs and CHIS to adopt RI and ESG practices must be established.

2.2. Stakeholder theory

The need to consider more than simply financial returns to shareholders is informed by stakeholder theory. Stakeholder theory is a management theory which has become instrumental in increasing awareness about corporate responsibility and business ethics (Fassin, 2010). Stakeholder theory states that management have a fiduciary duty to stakeholders (Stieb, 2009). This theory brings companies' attention to the importance of relationships with stakeholders to the company's ongoing success (Freeman, Wicks, & Parmar, 2004). Such relationships must be carefully developed and managed by taking the time to understand grievances and preferences of stakeholders as a result of corporate behaviour (Stieb, 2009). Understanding stakeholder theory reinforces the importance and applicability of considering environmental and social consequences of investment decisions.

Stakeholder theory contrasts with shareholder theory. Shareholder theory states that the primary responsibility of a company is to maximise wealth for shareholders (Ferrero, Michael Hoffman, & McNulty, 2014). The problem with this model is that, although it aims to create value for shareholders it often does so in a manner which is self-serving and exploitative to other stakeholders (Tse, 2011). Shareholder constituents and the drive for profit-making are vital in achieving economic value. Stakeholder theory, however, argues that profits need to be the result, rather than the driver in the value creation process (Freeman et al., 2004). Stakeholder theory is further supported by King IV. King IV suggests that various stakeholders need to be considered and that a company must be transparent in their decisions (Deloitte, 2016). King IV suggests that people, planet and profit must be considered, not solely profit (Deloitte, 2016). Disclosing RI principles within the investment process shows that a company has considered its impact on various stakeholders. RI disclosure supports stakeholder theory and King IV by holding companies and specially FI accountable for more than simply the financial returns they achieve for their investors.

Recurring financial crises and market instability have resulted in investors reconsidering the way they invest (Woods & Urwin, 2010). This has resulted in investors' growing recognition of the importance of ESG considerations (Majoch, Hoepner, & Hebb, 2017). Stakeholder theory suggests that all stakeholders have the same right to be treated fairly within an organisation (Fernando & Lawrence, 2014). The theory emphasises managements' accountability to any impacted stakeholders (Fernando & Lawrence, 2014). As such, many companies run their operations in line with stakeholder theory recognising the need to incorporate ESG considerations within investment decisions (Freeman et al., 2004), (Majoch et al., 2017).

2.3. The role of RI for FI in South Africa

South Africa's financial sector is sophisticated despite the "emerging market" status of the country (South African Embassy in the Netherlands, 2013). FIs have a significant role to play in the progression of the economy, the protection of the environment and social consequences through the indirect and direct impact though companies they choose to allocate capital to (O'Sullivan & O'Dwyer, 2009). From a banking perspective, there is a strong indirect impact on the environment and society through the financing provided (Lins et al., 2008). Banks are the facilitators of industrial activities and development. This can result in significant environmental and societal damage (Coetzee, 2013). Consequently, banks have a very important role to play in enforcing RI standards (Carè, 2017).

The paper refers to general FIs which include asset managers, investment instruments, investment services, and specialty finance. Financial markets and instruments have the power to influence the ESG considerations of investees by selecting where they will invest (Giamporcaro & Pretorius, 2012). Events in history such as Apartheid practices, the Exxon Valdez Oil spill in the Gulf of Alaska as well as the overwhelming amount of information available regarding human impact on global warming and ozone depletion has increased the attention of the global investment community on RI practices (Giamporcaro & Pretorius, 2012). An interview was conducted by Herringer et. al (2009) with asset managers concerning RI in South Africa. The asset managers interviewed stated that they reviewed companies from both a financial and ESG perspective to get a rounded view of the company under consideration. The asset managers interviewed commented that they are expecting RI in South Africa to grow, and that RI should be an important strategic objective (Herringer et al., 2009). Eccles et al. (2008) contradicts Herringer et al. (2009). Eccles et al. (2008) states that South African asset managers and investment advisory service providers view RI as practices which increase investment risk and reduce returns. In addition, Eccles et al. (2008) found that even where such FI understood the importance of considering ESG issues when determining investment value, 39% said they are doing nothing about it and 42% said they had a limited proportion of assets in RI (Eccles N.S, Nicholls S, & De Jongh D, 2008). This is problematic as asset managers and pension funds are suggested to be the two most influential groups in the investment chain in South Africa (Eccles N.S et al., 2008).

Key sustainability considerations are becoming increasingly significant for the overall success of the insurance sector (McDaniels, Robins, & Bacani, 2017). An insurance company plays a pivotal role in the development of a sustainable company through the products and services offered (Kanojia, 2014). An insurance company's ability to understand and deal with various types of risk is at the core of an insurance providers activities (Kanojia, 2014). Insurance companies need to invest where they will enjoy long-term sustainable returns. Ensuring their capital is provided to sustainable companies will be an effort in achieving long term sustainability (McDaniels et al., 2017). The integration of ESG concerns into an insurance company's core business practices will result in sustained economic activity which will contribute to a sustainable global economy (UNEP Finance Initiative, 2009).

Pension funds have become major investment vehicles (Williams & Sharamitaro, 2002) representing a significant portion of investment on the JSE (Sonnenberg & Hamann, 2006). Pension funds, as a result of their significant holding of equity in publicly traded companies, can have a valuable influence on such a company's operations (Sethi, 2005). This influence can enforce ESG considerations within that company's operations (Sparkes & Cowton, 2004). The nature of pension funds, requires long-term sustainable growth to meet their future liabilities. This confirms the pension funds necessity to invest responsibly to ensure the sustainability of their investment decisions (UNEP-FI & UKSIF, 2007). Research suggests that pension funds in South Africa generally adopt very poor RI practice particularly about environmental considerations (Giamporcaro & Pretorius, 2012).

All large corporates have come under pressure to conduct their business in a more responsible and transparent manner (Clayton et al., 2015). Mining and energy sectors are the core strength of the South African economy (Fine, 2018). The decisions of mining and oil and gas companies is subjected to moral debate and is likely to have significant social and environmental impacts (Garcia, Mendes-Da-Silva, & Orsato, 2017). CHIS would be classified as a sensitive sector and was included in this research because of the significant impact of their decisions (Garcia et al., 2017). In the past such sectors have thought of their responsible practices in terms of their supported charities or help provided to good causes (Hamann, 2004). Sensitive sectors are under scrutiny for their own irresponsible treatment of affected communities and the environment (Hamann, 2003). Mining companies have significant social consequences in that their operations impact indigenous people in the affected areas (Jenkins & Yakovleva, 2006). This is also true of oil and gas companies. All stages of oil management, from exploration and production to the use of petroleum products, are accompanied by significant negative environmental impacts (Gossen & Velichkina, 2006). Should societies fail and global eco-systems deteriorate, companies themselves will not be able to operate (Assadourian, 2005). CHIS need to take steps to ensure their investment decisions mitigate negative and maximise positive consequences while still maintaining profitability (Hamann, 2003). As such social and environmental considerations need to be taken into account when looking at the consequences of CHIS activities (Coetzee, 2013). Reassuringly Hamann (2004) suggests that there appears to be a shift toward broadening their interpretation of corporate social responsibility.

2.4. Approaches to RI

Given the shift towards RI principles in South Africa, the next step is understanding how such principles are implemented. There are various approaches to RI. The three general approaches are shareholder advocacy, human development and screening (Martin, 2008). Shareholder advocacy states that RI can be achieved through shareholder communication (S Viviers, Bosch, Smit, & Buijs, 2009). Shareholders, through coordinated action, can use their unique rights to facilitate change (Sparkes & Cowton, 2004). Human development as a strategy also suggests that RI can be achieved by directing investors' attention to local communities which lack resources. There should be initiatives to create jobs, encourage environmentally friendly products and services or create affordable housing (Schueth, 2003). This research focuses on the screening strategy. This entails looking at the non-financial criteria which will be applied to all potential investments (S Viviers et al., 2009). There is a convergence of these 3 approaches as they are not mutually exclusive (Martin, 2008). For instance, if there were new ESG concerns it is noted that these would first be expressed by shareholders (advocacy) and then form part of the screening process (Williams & Sharamitaro, 2002).

There are positive, negative, and best of sector screening. Positive screening is when a company selects an investment in a company deemed to be good corporate citizens. Negative screening entails avoiding investing in morally questionable companies. Lastly, best of sector screening involves considering both positive and negative screening (Suzette Viviers, 2007). Best of sector is a relative criterion. It chooses the relatively best company within a particular industry based upon certain criteria (Martin, 2008). The screening process is not a definitive process. It is specific to the country and the different sectors under consideration. Sectors have their own specific risks and need to be evaluated independently, whereas countries will place more of their attention where there is public focus (Suzette Viviers, 2007).

The JSE SRI index was updated on 3 June 2015 in partnership with FTSE Russell, the global index provider, to establish the FTSE/ JSE Responsible Investment Index, as well as the FTSE/ JSE Responsible Investment Top 30 index (JSE, 2015). This is an example of a screening process identifying companies with leading ESG practices (JSE, 2015). These indices have led to increased attention toward RI practices in emerging markets such as South Africa (Herringer et al., 2009). Eligible companies for the FTSE/ JSE Responsible Investment index are all constituents of the FTSE/ JSE Shareholder Weighted All Share Index[1] which includes companies who have securities in the FTSE All World Index[2] excluding investment trusts (JSE, 2019). Eligible companies for the FTSE/ JSE Responsible Investment Top 30 index comprise of the Top 30 FTSE ESG rated companies included in the latter index ranked by FTSE ESG ratings. Where 2 companies have the same rating, the company with the higher investable market capitalisation will be included (JSE, 2019). Any constituent with an FTSE rating of 2.9 or more qualifies to be on the index (JSE, 2019). Members of the index whose FTSE ESG rating falls below 2.4, will be deleted, subjected to a 12-month period to prove otherwise (JSE, 2019).

These indices were initially established to achieve 3 broad objectives. These are to highlight companies with strong sustainable practices, to provide a basis for financial social responsible investment products and as an acceptable method for establishing the sustainable performance of a listed company (Sonnenberg & Hamann, 2006). Participation in the index screening process is voluntary as such those who have not considered these requirements have not failed at ensuring any compliance (Herringer et al., 2009). The screening process is extensive. The ratings comprise of 3 pillars, namely, ESG considerations, further broken down into 14 themes and over 300 indicators (FTSE Russell, 2020a). Sonnenberg &

[1] This index is based on an existing FTSE/ JSE market capitalisation weighted index (FTSE Russell, 2020).
[2] This index represents the performance of the large and mid-cap stocks from the FTSE Global Equity Index Series covering 90-95% of the investable market capitalisation. This index covers developed and emerging markets (FTSE Russell, 2020b).

Hamann (2006) conclude that the criteria for the index are so significant that for the first time they provide a comprehensive definition of what it means to be a good corporate citizen of South Africa

2.5. Risk versus return trade-off

Behaving responsibly is crucial for the long-term success of an institution (Adams & Zutshi, 2004). In line with stakeholder theory, there is a recognition that an institution has a responsibility to broader society and is not merely earning money for shareholders (Adams & Zutshi, 2004). From a financial perspective, Adams and Zutshi (2004) argue that it is in a business's best interest to act responsibly. It is suggested that companies incorporating RI practices may be consistently better financial performers over the long term (Martin, 2008). Firms failing to incorporate such behaviour may face a gradual erosion in their market values (Fatemi & Fooladi, 2013). Lastly, corporate responsibility builds trust with stakeholders, improves corporate reputation and minimise the risk of financial liability (Adams & Zutshi, 2004).

Incorporating RI principles, on the other hand, constrain the number of investment opportunities (Martin, 2008). Martin (2008) argues that RI is mostly neutral with regards to investment returns and, in some cases, desirable. Research has proven that a screened RI does not statistically perform better than an unscreened investment (Guerard Jr, 1997). Further, no theoretical model exists for determining how much RI is appropriate (Berry & Junkus, 2013). There appears to be a trade-off between RI considerations and other investment criteria for example risk and return (Berry & Junkus, 2013). The problem for an investment professional is how to serve his/her fiduciary role while still pursuing RI practices. Various principles and policies within a South African context guide investment professional in solving this (Martin, 2008). The standards use their regulatory frameworks to prescribe appropriate business behaviour and define the responsibilities of the investor (Berry & Junkus, 2013).

2.6. Constructing the disclosure checklist

Hardenbrook (2007) notes that in most developing countries, such as South Africa, the government has failed to establish the appropriate RI regulation. Despite the lack of regulation, the public still places a significant amount of pressure on FIs to consider the impacts of their investment decisions (Hardenbrook, 2007). FIs are voluntarily adopting RI principles (Hardenbrook, 2007). For this reason, ESG implementation in South Africa's finance sector is based on self-regulation and voluntarism (Moyo & Rohan, 2006). This paper investigates whether the voluntary principles are implemented. Within the South African environment, policies such as the EPs, the Code for Responsible Investment (CRISA) and the various principles established by the United Nations (UN) are relevant. Regulation 28 of the Pension Funds Act (PFA) will also be considered although it is not voluntary (Ward & Naude, 2019).

The paper will use the principles mentioned in the various policies above to inform what disclosures are expected within the IR of the companies under review. The various policies differ in what applies to the different members within FIs and CHIS. Consequently, separate disclosure checklists are constructed for the general, banking, pension fund, insurance and CHIS sectors according to what is relevant to each sector. Where an investor is not a signatory to the principles, the concepts of the principles will still be used to evaluate their RI disclosure. The exception will be where a policy applies specifically to a particular sector. For example, the EPs will only apply to banks and will not be applicable to the other sectors. As such guided by the approach adopted by Van Zijl et. al (2017) where a principle discussed is relevant to a sector the principle will be added to the applicable disclosure checklist.

<u>The Banking Association of South Africa</u>

BASA is the national association of domestic and international banks operating in South Africa (BASA, 2019). Membership of BASA is voluntary (Parliamentary Monitoring Group, 2011). The aim of BASA is to create a sustainable and profitable banking environment which is able to contribute to the social and economic development of South Africa (BASA, 2018). Members of BASA drive transformation initiatives within the banking sector (Parliamentary Monitoring Group, 2011). BASA released principles on Social and Environmental risk management in 2014 which made reference to international standards such as the EP and the United Nations Environment Program finance initiative, discussed below (IFC, 2018).
As a starting point the following will be posed for the banks' disclosure checklist:

- *The banks disclose whether they are members of BASA.*

<u>Equator principles</u>

The Sustainable Banking Network (SBN) was established in an International Green Credit Forum hosted by the IFC and the China Banking Regulatory Commission. The intention of establishing the SBN was to create a global knowledge network on sustainable finance (IFC, 2019). This informal groups seeks to develop sustainable banking practices, policies and guidelines in emerging economies (Durrani, Masyitah, & Ulrich, 2020). South Africa is a member of the SBN (IFC, 2019). One of the set of policies established by the IFC are the EPs (IFC, 2020). The EPs are a global risk management framework for regulating social and environmental risk for banks (Standard Bank, 2018). These risks involve environmental damage as well as the implications of social unrest. The EPs exist to manage these concerns (Conley & Williams, 2011). South Africa was one of the first emerging market signatories of the EP (IFC, 2018). There are 10 equator principles which the subscribing banks must adhere to. These principles govern only project finance in excess of $10 million dollars (ING, 2006).

As a result, the following questions will be added to the banks disclosure checklist:

- *The banks disclose that they are a signatory of the EPs.*
- *The banks disclose their commitment to the EPs.*

Table 1: The Equator Principles (The Equator Principle Association, 2020b)

Principle:	**Objective of the principle:**
Principle 1	Principle 1 requires the financial institutions to review and categorize any new or expanded projects in accordance with the International Finance Corporation's (IFC) screening criteria. The IFC screening criteria looks at the risks and impacts of the project.

Principle 2	Principle 2 requires all category A (high risk)[3] and category B (medium risk)[4] projects to conduct a Social and Environmental assessment to identify the risks associated as well as mitigations for such risks.
Principle 3	Principle 3 is applicable to all category A and B projects in Non-Organisation of Economic Corporation and Development countries (OECD) or non-high-income OECD countries[5].These specific projects must rely on the IFC Performance Standards and the applicable industry specific Environment, Health and Safety guidelines.
Principle 4	Principle 4 stipulates that; the borrower needs to incorporate a risk management and mitigation plan to ensure the ongoing evaluation of the risks of the project.
Principle 5	Principle 5 requires that as part of the borrower's risk management and mitigation, the affected communities need to be consulted.
Principle 6	Principle 6 requires all high and medium risk projects to create grievance mechanisms for the affected communities.
Principle 7	Principle 7 requires an independent review of the social and environmental assessment, action plan and the consultation process in place.
Principle 8	Principle 8 refers to the promises which the borrower undertakes. The borrower must promise to comply with the action plan, provide reports of the action plan and decommission the action plan where appropriate.
Principle 9	Principle 9 states that a social and environmental expert needs to be appointed for all high and medium risk projects to ensure the borrowers adherence to the action plan.
Principle 10	Principle 10 commits the borrower to reporting on adherence to the equator principles.

The EPs financial institutions need to disclose the minimum requirements annually (The Equator Principle Association, 2020b). Principle 2 will not be used to add to the disclosure checklist as South Africa is not an OECD country (OECD, 2019a). Based on the remaining principles and information above, the following questions will be included in the disclosure checklist for banks:

- *The banks disclose that all project finance meets the applicable EP requirements and have complied with the principles.*
- *The banks disclose the total number of project finance transactions falling within the EP ambit specified above.*

[3] Category A projects are likely to have a significant impact on the environment. The risks to the cultural heritage sites or natural habitat may be irreversible and extend beyond the projects life (Hardenbrook, 2007).
[4] Category B projects pose potentially adverse environmental impacts on human populations or other important areas such as grasslands, forests, wetlands or natural habitats. These impacts are site specific and can often be mitigated and are rarely irreversible (Hardenbrook, 2007)
[5] An OECD country is a country that is a member of an international organisation that develops policies to improve people's lives (OECD, 2019b).

- *The banks disclose the total number of project finance transactions falling within the EP ambit specified above.*
- *The banks disclose the number of total project-related corporate loans which have reached financial close during the reporting period falling within the EP ambit specified above.*
- *The banks disclose the classification per the risk Categories A, B or C for each EP transaction.*
- *The banks disclose the sector, region and country designation for each EP project.*
- *The banks disclose that category A and B transactions were subjected to a social and environmental assessment.*
- *The banks disclose that grievance mechanisms are in place in affected communities for category A and B projects.*
- *The banks disclose that all EP transactions were subjected to independent reviews.*
- *The banks disclose that the independent review was carried out.*
- *The banks disclose the number of independent reviews.*
- *The banks disclose the number of new EP transactions entered into during the current year of assessment.*
- *The banks disclose any indication of instances where there has been non-compliance with the EP or that the potential for such instances has been considered.*
- *The banks disclose the mandate of the EP reviewers.*
- *The banks disclose the respective roles of the reviewers, business lines and senior management in the transaction review process.*
- *The banks disclose an explanation of the incorporation of the EP in its credit and risk management policies and procedures.*

CRISA

The need for an institutional investor code was highlighted on the release of King III. The King committee took the decision to include responsible investing principles in a separate code to create a focus on this area (Foster, 2020). CRISA is intended to provide guidance on investment analysis and activities (Foster, 2020). Signing up for CRISA will be applicable to all sectors under review.

The following is added to all disclosure checklists:

- *The FI/CHIS discloses they are a member of the CRISA.*
- *The FI/CHIS discloses their commitment to the CRISA.*

Table 2: CRISA (Foster)

Principle:	**Objective of the principle:**
Principle 1	An institutional investor should incorporate sustainability considerations into its investment analysis and activities as part of its delivery of risk adjusted returns to beneficiaries.

Principle 2	An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and activities.
Principle 3	Institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA.
Principle 4	Institutional investors need to recognise the circumstances and relationships in which a potential conflict of interest may occur and to proactively manage this.
Principle 5	Institutional investors need to be transparent about their policies contents and implementation and how CRISA is being applied to ensure stakeholders are making informed decisions.

Where an investor is not a signatory of the CRISA the principles will still be looked at analogously within their investment process. The following is added to all the disclosure checklists:

- *The FI/CHIS disclose that ESG factors were taken into consideration within their investment analysis and decision-making process.*
- *The FI/CHIS disclose that ESG considerations were taken into consideration within their ownership policies and practices.*
- *The FI/CHIS disclose that they have recognised the circumstance and relationships where a potential conflict of interest may exist.*
- *The FI/CHIS disclose that where a potential conflict of interest exists, steps have been taken to proactively manage this*
- *The FI/CHIS disclose information regarding their policy contents and implementation of the CRISA.*
- *The FI/CHIS disclose how CRISA is being applied to ensure stakeholders are making informed decisions*

The United Nations Environmental Program – Finance Initiative

A further framework applied by FIs is the UNEP-FI. UNEP- FI began in 1991 by a small group of commercial banks. Over 200 representatives in the banking, insurance and investment sectors have adopted this policy in order to address ESG issues in the financial sector (IFC, 2018). UNEP- FI views South Africa as the key country In Africa to adopt ESG considerations into their investment decisions (IFC, 2018). There are the Principles of RI for institutional investors (UNEP-FI, 2019), the Principles for Responsible Banking (UNEP-FI 2019), as well as the Principles for Sustainable Insurance (UNEP, 2012). Those committed to the principles for responsible banking agree to operate in line with the Paris Agreement and Sustainable Development Goals (SDGs) which will be discussed below (George 2019).

The United Nations have established 6 Principles for RI that offer guidelines for investors to incorporate ESG into the investment process (UNPRI, 2019). The objective of the principles for RI is to create a sustainable financial system that is focused on long-term investment which will benefit the environment and society (UNPRI, 2019). The principles are not associated with any government and are supported by the United Nations (UNPRI, 2019). FIs and CHIS implementing the principles of RI will provide insight into whether action has been taken to include ESG within their investment process.

The addition to the disclosure checklists is:

- *The FI/CHIS discloses their commitment to the principles for RI.*

Table 3: Principles for Responsible Investment (UNPRI, 2019)

Principle:	**Objective of the principle**
Principle 1	Principle 1 states that ESG considerations will be incorporated within the investment analysis and decision-making process.
Principle 2	Principle 2 that the FI will be active owners and incorporate ESG considerations into ownership policies and practices.
Principle 3	Principle 3 states that appropriate disclosures on ESG issues will be sought out in the entities in that are invested in.
Principle 4	Principle 4 commits the company to promoting the acceptance and implementation of the principles within the investment industry
Principle 5	Principe 5 commits the company to working together to enhance the effectiveness in implementing the principles.
Principle 6	Principle 6 commits the company to report on activities and progress towards implementing the principles.

When comparing the CRISA to the Principles for RI there appear to be various commonalities. As such Principle 1 and Principle 2 were not used in compiling the disclosure checklist. The following is added to the disclosure checklist for all the relevant FI and CHIS:

- *Before an investment decision is made ESG considerations of the investee are looked into.*
- *The FI/CHIS is committed towards promoting the acceptance and implementation of the Principles for RI within the investment industry.*
- *The FI/CHIS is committed to working together to enhance their effectiveness in implementing the Principles for RI.*
- *The FI/CHIS disclose the relevant activities and progress towards implementing the Principles for RI*.
- *The FI/CHIS disclose that training is provided to staff members on how to implement RI principles into the investment process*.

There are 6 Principles for Responsible Banking (UNEP-FI 2019). The Principles for Responsible Banking is a framework to assist banks with aligning their strategy and practice with the SDGs and Paris Climate Agreement (UNEP-FI 2019) (George 2019). Within four years of signing onto the principles, the relevant FI must implement fully the three key steps as follows. Firstly, the impact analysis must include all positive and negative impacts on the environment, society, and economy. Measures taken to reduce the negative and increase the positive impacts must be determined (Garfunkel). Secondly, two or more targets covering two or more priority areas must be determined. The steps taken to meet and monitor these targets must be determined (Garfunkel). Thirdly, there needs to be a report published on the implementations of the principles and how their targets were met. The impact analysis must be published. These assessments must be subjected to limited assurance (Garfunkel).

As a start, the following must be added to the disclosure checklist for banks:

- *The banks disclose that they are a signatory of the principles for Responsible Banking.*
- *The banks disclose their commitment to the principles for Responsible Banking.*

Table 4: Principles for Responsible Banking (UNEP-FI 2019)

Principle:	**Objective of the principle**
Principle 1	Principle 1 seeks to align business strategy with the environment and social consequences of the project.
Principle 2	Principle 2 seeks to increase a company's positive impact and reduce any negative impacts.
Principle 3	Principle 3 states that the banks must work closely with their clients and customers to encourage sustainable practices for the client.
Principle 4	Principle 4 states that the bank will appropriately interact with stakeholders to achieve societies goals.
Principle 5	Principe 5 commits the banks to adopting a culture and governance of sustainable practices with regard to responsible banking.
Principle 6	Principle 6 ensures periodic review of the implementation of the principles as well as transparency with regard to any positive or negative impacts.

Principle 1 is a repetition of the concept embodied in principle 1 of RI and will be omitted. UNEP-FI provides FI with a reporting and self-assessment template which should be used to meet the six principles (UNEP-FI 2019). Using this template and the principles above, the following disclosures applicable to the investment decisions of banks is added:

- *The bank has published a report on the implementation of the principles and how the targets are met.*
- *The bank has published an impact analysis.*
- *The bank provides a description of how it plans to align its goals with the Paris Climate Agreement and SDG's.*
- *The bank provides a description of any identified areas of the bank that will have the most significant positive and negative impacts.*
- *The bank discloses a minimum of 2 SMART (Specific, Measurable (can be qualitative or quantitative), Achievable, Relevant and Time-bound) targets in relation to the banks provision of goods or services.*
- *The bank discloses that these targets are linked and drive alignment toward the Paris Climate Agreement and SDG's.*

- *The bank discloses an analysis and acknowledgment of significant (potential) negative impacts of the targets on other dimensions of the SDG/climate change/society's goals.*
- *The bank provides a description of actions set out to mitigate the above negative impacts and maximize the positive impacts.*
- *The bank provides a description of the actions and milestones set to meet the above targets.*
- *The bank provides a description of the way to measure and monitor progress against the set targets.*
- *The bank discloses that previously set actions have been implemented to meet the set target.*
- *The bank provides a description of their progress within 12-18 months of signing onto the principles.*
- *The bank provides a description of the policies and practices in place to ensure the promotion of responsible relationships with customers.*
- *The bank provides a description of how they have worked with or are planning to work with their clients and customers to encourage sustainable practices.*
- *The bank discloses the stakeholders consulted, engaged, collaborated or partnered with for the purpose of implementing these principles and improving the banks' impacts.*
- *The bank provides a description of the governance structures, policies and procedures in place to manage any negative and positive impacts.*
- *The bank provides a description of the various initiatives they have or will implement to create a culture of responsible banking.*
- *The bank provides a description of the remedial action in place in the case where targets are not achieved or there are unexpected negative consequences.*
- *The bank provides a description of the existing and emerging international/regional good practices that will apply to the implementation of the 6 Principles for Responsible Banking.*
- *The bank provides a description of the changes made to existing practices to be in line with international/ regional good practices.*

UNEP-FI has also established Principles for Sustainable Insurance. The Principles for Sustainable Insurance are a framework to ensure ESG factors are incorporated into an insurance company's asset allocation and stewardship activities (McDaniels et al., 2017). These principles provide guidance to develop a risk management framework to address renewable energy, food availability, water concerns and sustainable cities and communities (Kanojia, 2014). As such the addition to the insurance sectors disclosure checklists is:

- *The insurance company discloses that it is a signatory of the Principles for Sustainable Finance.*
- *The insurance company discloses its commitment to the Principles for Sustainable Insurance.*

Table 5: Principles for Sustainable Insurance (UNEP 2012)

Principle:	**Objective of the Principle:**

Principle 1	Principle 1 states that ESG considerations are embedded in decision-making in all insurance business
Principle 2	Principle 2 states that the insurance company will work together with clients and business partners to raise awareness of ESG issues, manage risk and develop solutions.
Principle 3	Principle 3 states that the insurance company will work with the government, regulators and other key stakeholders to promote widespread action across society on ESG considerations.
Principle 4	Principle 4 states that accountability and transparency in regularly disclosing publicly the insurance companies' progress in implementing the principles.

In comparing the Principles for Sustainable Insurance with the Principles for RI and CRISA, principle 1 will not be used to add to the disclosure checklist as it is a repetition of the concepts of the previous principles. The following will be added to the checklist relating to insurance companies:

- *The insurance company discloses it is working together with clients and business partners to raise awareness of ESG issues, manage risk and develop solutions.*
- *The insurance company discloses that it will work with the government, regulators and other key stakeholders to promote widespread action across society on ESG considerations.*
- *The insurance company discloses its progress towards achieving the appropriate implementation of the Principles for Responsible Insurance.*

FI's who have signed up to the United Nations principles also agree to operate in line with the Paris Agreement and Sustainable Development Goals (SDG's) (George, 2019). The UN 17 SDGs are a call to action to end poverty, protect the planet and improve the lives of people everywhere (United Nations, 2020)

Table 6: The 17 SDG's (United Nations 2020)

1. No poverty	2. Zero hunger	3. Good health and well being	4. Quality education	5. Gender equality
6. Clean water and sanitation	7. Affordable and clean energy	8. Decent work and economic growth	9. Industry innovation and infrastructure	10. Reduce inequality
11. Sustainable cities and communities	12. Responsible consumption and production	13. Climate action	14. Life below water	15. Life on land
16. Peace, justice and strong institutions	17. Partnerships for the goals			

The UN Global Compact Initiative (UNGC) is a drive to ensure that institutions meet their SDG goals by 2030. The UNGC was launched in South Africa in 2007 and consists of 71 participants (United Nations Global Compact, 2020). There is a growing emphasis on government organisations and businesses to work together to achieve common social responsibility objectives. The UNGC is an initiative established to guide this process (Hamann, 2003). There are 10 principles established for a company to meet their fundamental responsibilities towards human rights, labour, environment and anti-corruption (United Nations Global Compact, 2020).

Table 7: UN Global Compact Initiative (United Nations Global Compact 2020)

Principle:	**Objective of the principle:**
Principle 1	Business must support and respect the protection of human rights.
Principle 2	Business must ensure they do not take part in any form of human right abuses.
Principle 3	Business needs to comply with the freedom of association and recognise the right of collective bargaining.
Principle 4	Business must ensure the elimination of all forms of forced or compulsory labour.
Principle 5	Business must ensure the effective abolition of child labour.
Principle 6	Business must ensure the elimination of any discriminatory practices with respect to employment and occupation.
Principle 7	Business must support precautionary approaches to environmental challenges.
Principle 8	Business must undertake initiatives to ensure greater environmental responsibility.
Principle 9	Business must look to including environmentally friendly technologies.
Principle 10	Business must work against any and all forms of corruption.

Disclosure of the SDG considerations before an investment decision is made will give an understanding of whether the SDGs are considered within the investment process. This will provide further insight into the RI practices of the companies under review. For CHIS, the disclosure noted will be what considerations were made before commencing a project. For FIs, the disclosure noted will be what SDGs were considered before investing in a selected institution. The following is added to all disclosure checklists:

- *The FI/CHIS consider the impact the investees operations will have on human rights.*
- *The FI/CHIS is satisfied that their investment decision will not result in any human rights abuses.*
- *The FI/CHIS has had a discussion with the investee before the investment decision is made regarding their employee wages and salaries.*
- *The FI/CHIS has considered that their investment decisions will not result in compulsory or forced labour.*
- *The FI/CHIS has considered that their investment decisions will not include any form of child labour.*
- *The FI/CHIS has considered that the investee will not adopt any discriminatory practices.*
- *The FI/CHIS has considered that the investee follows a precautionary approach to environmental challenges.*
- *The FI/CHIS has considered that the investee includes measures that will enhance their environmental responsibilities.*
- *The FI/CHIS has considered that the investee has looked to use environmentally friendly technologies.*
- *The FI/CHIS has considered the possibility of any corruptions of their potential investment decision.*

To address goal 13 of the SDG's countries adopted the Paris Agreement (PA) (United Nations, 2020). In 2015, almost 200 leaders signed the PA. One of which was South Africa. (United Nations, 2020). The objective of the Paris agreement is to strengthen the global response to climate change (Dimitrov, 2016). The agreement further seeks to help countries deal with the impacts of climate change. (United Nations, 2020). A RI means that the FI/CHIS has considered the steps taken by the investee to contribute to the SDG's. The FTSE/JSE Responsible Investment indices are aligned with the SDG's in incorporating the 17 SDGs within all 14 themes mentioned above (FTSE Russell, 2020a). As such the following is added to al the disclosure checklists:

- *The FI/CHIS disclose that they consider the SDGs of the investee before making their investment decision.*

<u>Regulation 28</u>

Regulation 28 of the PFA, 1956 was published requiring pension funds in South Africa to consider ESG considerations when making investment decisions (Fasken, 2019). This regulation ensures that investors saving towards retirement are protected from risky or poorly diversified portfolios (Prudential Investment Managers, 2017). Regulation 28 sets out principles which need to be applied by a fund and its board. Should the pension funds suffer losses as a result of negligence in failing to consider this regulation the board members can be held liable for the losses suffered (Fasken, 2019). There are some pension funds which are not subject to the PFA as they have not been established under the PFA and their liabilities are underwritten by the state (Fasken, 2019). These pension funds should still consider ESG principles within their investment decisions (Fasken, 2019).

The following is added to the pension funds disclosure checklist:

- *The pension fund discloses whether it is subjected to regulation 28 of the PFA.*

Table 8: Summary of Regulation 28 (Fasken 2019)

Principle:	**Objective of the principle:**
Principle 1	A pension fund must at all times comply with regulation 28.
Principle 2	A pension fund must have an investment policy statement that must be reviewed at least once a year.
Principle 3	A pension fund and its board must at all times: • Promote education for the board members with regard to investment, governance and other matters, • Monitor whether advisors and service providers are complying with regulation 28, • Promote broad- based black empowerment (BBBE) in contracting services to the board or pension fund, • Ensure the fund's assets are appropriate for its liabilities. • Before making a contractual commitment to invest in a third-party managed asset or investing in an asset, perform a reasonable due diligence looking at all risks including credit, market, operational and liquidity risks, • The same applies to an investment in any foreign assets including currency and country risks, • In performing the above due diligences, credit ratings may be taken into account but cannot be looked at in isolation or in substitution of the pension funds own due diligence and it does not relieve the pension fund of any other obligations in assessing the investment, • Understand the changing risk profile of the assets of the pension fund over time with reference to a comprehensive risk analysis and • Before investing in an asset, consider any other factors that could affect the sustainable long-term performance of the asset including any ESG considerations.
Principle 4	In the case that a third party is hired to ensure compliance with the above principles, the pension fund must accept full responsibility for compliance with the above principles

The following must be added to the disclosure checklist for pension funds:

- *The pension fund discloses that they always comply with the principle of regulation 28.*
- *The pension fund discloses that they have an investment policy statement.*
- *The pension fund discloses that the investment policy statement has been reviewed at least annually.*
- *The pension fund discloses that education has been provided to board members with regard to investment, governance and other matters.*
- *The pension fund discloses that the advisors and service providers have been compliant with regulation 28.*
- *The pension fund discloses that Broad-Based Black Economic Empowerment incentives has been promoted in contracting services.*
- *The pension fund discloses that the pension funds' assets are appropriate for its liabilities.*
- *The pension fund discloses that before making a contractual commitment to invest in a third-party managed asset or investing in an asset, a reasonable due diligence is performed.*
- *A description of the due diligence performed ensuring it looks at all risks including credit, market, operational and liquidity risks.*
- *A description of the same due diligence applied to any foreign transactions.*
- *The pension fund discloses that credit ratings were considered but were not the only factor looked at.*
- *The pension fund discloses that they understand the changing risk profile of the assets of the pension fund over time.*
- *The pension fund discloses that a comprehensive risk analysis has been performed on the changing risk profile.*
- *The pension fund discloses that before an investment is finalised ESG related factors that could impact the long-term performance of the investment was analysed.*
- *The pension funds disclose their acceptance of their full responsibility of adherence to the principles in the case that a third party is hired to ensure compliance with the above principles*.

3. Method

3.1. Methodology

This research adopted a quantitative research method. Quantitative research is a numerical representation of the research findings used to explain the phenomena the research findings reflect (Sukamolson, 2007). This research method was selected as the relevant variables will be measured in numbers and analysed using statistical procedures in order to address the research questions (Sogunro, 2002).

3.2. Data collection

3.2.1. Data instrument

A detailed literature review was used to construct a disclosure checklist to assess the implementation of RI principles (Appendix I). This was done using the guidance of the EP (The Equator Principle Association, 2020a), the UN Principles for RI (UNPRI, 2019), the United Nations Global Compact Initiative (United Nations Global Compact, 2020), the UN Principles for Responsible Banking (UNEP-FI, 2019), the UN Principles for Sustainable Insurance (UNEP, 2012), Regulation 28 of the PFA (Fasken, 2019) and the

CRISA principles (Foster, 2020). The United Nations Global Compact Initiative addresses the 10 SDG's. The SDG analysis was divided into two parts. The first was the 10 SDG principles which the FI or CHIS considered before making an investment decision. The second was an overall SDG score (overall SDG disclosure). This was done as the 10 principles established for a company to meet the SDG's do not require a statement from the investor that they considered the SDG's of their investment decisions (United Nations Global Compact, 2020).

The disclosure checklist is an easy-to-understand list looking at the implementation of the different principles of RI. The different principles were read in detail to understand fully what is required of companies in terms of RI. This was done to ensure the validity and reliability of the disclosure checklist. The disclosure checklist was separated into categories per the relevant sectors. The sectors include banking, insurance, pension funds, general FI and CHIS. General FIs include asset managers, investment instruments, investment services, and specialty finance. This was done as there are different RI principles which apply to each sector. Before commencing with the disclosure checklist, the principles were compared to eliminate any repetition. The requirements of the principles were used to inform each disclosure item which, in aggregate, forms the checklist.

RI disclosures were searched for using specific keywords relating to RI disclosures. The disclosures were analysed to obtain a set of preliminary key words. These included: investment, environment, social, governance, conflict, stakeholder, implement, effective, human, labour, responsibility, principle, society, Equator Principles, impact, consequence, and sustainable development goals. A pilot study was then conducted to ensure the validity, reliability and completeness of the keywords and the disclosure checklist. Five companies from the selected sample were selected in alphabetical order and read in detail from start to finish. The research took note of all RI aspects. A test was then conducted using the above keywords to ensure all sections were noted. A test was also conducted to ensure that no disclosures of RI existed that were not included in the disclosure checklist. Where a section was omitted, the relevant keywords were added and where a key word was unhelpful it was removed. The final list of key words was then compiled including investment, environment, social, ESG, SDG, conflict, stakeholders, human, labour, principle, training, commit, sustain, fair, corruption, industry, code for responsible investment, decision, Equator Principle, Banking association of South Africa, due diligence, policy, pension. This list was then used for all the companies in the selected sample. No disclosures were noted that were not considered by the disclosure checklist. Where disclosures relating to RI were identified the sections in which those keywords were contained were isolated and analysed. These sections were then read in detail to identify any other RI disclosures. Once the disclosures were located, they were examined to note which RI principle it related to to analyse the extent of the implementation (see below) (Malola & Maroun, 2019).

To reduce subjectivity, the quality of disclosures was not assessed but for specific disclosures, the detail accompanying disclosed was captured (see below). This is an inherent limitation in the research. It is however necessary to ensure the results are comparable across the companies and to reduce the extent of subjectivity in analysing the disclosures (Van Zijl et al., 2017, Raemaekers, 2016). Where the RI discussions in the IR referred to other documents, those documents were analysed in the same fashion as were the IR. The scoring system followed an unweighted scoring approach as all disclosure requirements were viewed as equally important (Tagesson, Blank, Broberg, & Collin, 2009). This means that no regard was given to the perceived usefulness of each disclosure to stakeholders (Raemaekers et al., 2016). As an example, no reference was made about whether it is relevant to the implementation of RI that an employee has been trained or whether the company has subjected their EP transactions to independent reviews.

3.2.2. Data population and sample

The population is all companies listed in the financial services, banks, mining and oil and gas sectors of the JSE as, on 30 November 2019, have published integrated reports. The sample excluded real estate investment trusts (REIT's) as there is currently no mechanism which gives investors the opportunity to invest in socially responsible real estate (Pivo, 2005). The mining and oil and gas sectors were included in the research because of their high impact on the environment (Maubane et al., 2014). There were 109 companies which were selected from the JSE, as some companies were suspended and there were companies which did not produce an integrated report, 100 companies were included in the sample for analysis. Table 9 below provides the breakdown of the sample. The most recent publicly available IR of the selected companies as of 31 July 2020 was analysed. The relevant IR will be obtained from the respective companies' website.

Table 9: Selected sample

	Pension funds	Banks	Insurance	General	CHIS	Total
Companies listed in the sector	8	6	8	35	52	109
Companies suspended				-1	-6	-7
Companies who did not have IR	-1				-1	-2
Sample selected	**7**	**6**	**8**	**34**	**45**	**100**

3.2.3. Recording data

Where RI disclosures were identified, they were coded. There are 2 types of disclosures, namely, binary and non-binary. For binary items a '1' indicated an item is present whereas a '0' indicated an item is not present. Non-binary items were coded according to Table 10 below. Refer to Appendix 1 for which checklist items are binary and non-binary (Van Zijl et al., 2017, Raemaekers, 2016).

Table 10: Non-binary disclosure

0	Not disclosed
1	Disclosed with no/minimal detail
2	Disclosed with significant detail

To confirm the reliability of the scoring process the disclosure checklist was piloted using 2 companies' IR. The same 2 companies were then analysed 2 days later to confirm consistency and accuracy of the scoring. Once the completeness and consistency of the disclosure checklist were confirmed, the remaining reports were scored.

3.2.4. Data Analysis

A spreadsheet was used on Microsoft Excel to aggregate the results by obtaining an individual score for each company. The final score sheet is used to generate initial descriptive statistics (Raemaekers et al., 2016). The RI voluntary principles were allocated as shown in Table 11 based on the applicable principles relevant to a sector.

Table 11: Voluntary principles allocated

Pension funds	CRISA	The UN Principles for RI	SDG	Regulation 28		
Banks	CRISA	The UN Principles for RI	SDG	The EP	The UN Principles for Responsible Banking	BASA
Insurance	CRISA	The UN Principles for RI	SDG	The UN Principles for Sustainable Insurance		
General	CRISA	The UN Principles for RI	SDG			
CHIS	CRISA	The UN Principles for RI	SDG			

The companies were first analysed per sector (banks, insurance, pension funds, general and CHIS). Based on the principles applicable to each sector a maximum score was calculated. The scoring process is shown in table 12 below. Once the disclosure checklist was completed for each company, the score achieved for the company was summed to obtain the individual score. Table 12 shows the score available to each sector per the principles allocated. Table 12 also shows the total each sector can score. The sector score was then summed up and compared to the score available per sector to obtain the percentage score. Lastly the mean, minimum and maximum scores the companies in that sector achieved were calculated.

Table 12: Sector scoring

Sector	Number of companies	Score available per company	Score available per sector
Pension fund	7	52	364
Banks	6	93	558
Insurance	8	41	328
General	34	34	1156
CHIS	45	34	1530

Total	3936

The research then looks at the specific RI principles individually. Each voluntary RI principle was analysed individually to obtain a score per principle. The scores will then be used to compare the extent of disclosure across the sectors (Van Zijl et al., 2017, Raemaekers, 2016). The scores will also be analysed per sector. A score of less than 40% will be considered low (Soliman, 2013). The research considers this reasonable as the disclosures are voluntary and 50% may be too high of an expectation. Further, scoring less than 40% implies that less than 1574 of the 3936 items have been disclosed. An analysis of the principles indicates that CRISA, The UN Principles for RI and the SDG considerations were common among all sectors (common disclosure) as depicted in Table 11. The score per principle was then calculated. The maximum a company could score for CRISA was 14, 9 for the UN Principles for RI, 10 for the SDG and 1 for overall SDG disclosure. The common disclosures descriptive statistics were calculated in the same manner as described for the individual sectors. The percentage, mean, minimum and maximum score were also obtained. In addition, each voluntary principle was analysed to determine which disclosure was most considered among companies as well as which disclosure was least considered by companies. A Kruskal Wallis test is used to assess if there are significant differences between the selected sectors in terms of disclosure. This provided further insight into the extent of implementation of RI principles between the various sectors. For the Kruskal-Wallis test the Banks, Pension Funds and Insurance companies were grouped as one sector (group 1) which was then compared to the general FI (group 2) and the CHIS (group 3). A Kruskal Wallis test is used because the data are measured on an ordinal scale and are unlikely to be normally distributed and there are more than two groups which are being compared. The research followed the same process in calculating the descriptive statistics and analysing the scoring matrix for the specific RI voluntary principles. The specific voluntary RI principles are depicted in Table 10 and include Regulation 28 applicable to Pension funds, BASA, the EP's and the UN Principles for Responsible Banking applicable to banks and the UN Principles for Sustainable Insurance applicable to Insurance companies.

FTSE/ JSE RI index analysis

Companies in the financial services, basic materials and oil and gas sectors of the JSE which appear on the FTSE/ JSE RI index and the FTSE/ JSE RI Top 30 index was noted. For the common disclosures an average disclosure score was obtained per principle for companies who appear on both the FTSE/JSE Responsible Investment Top 30 Index and FTSE/JSE Responsible Investment Index. An average score was also obtained for companies only included on the FTSE/JSE Responsible Investment Top 30 Index, as well as companies not listed on either index. These averages were plotted on a bar graph to assess visually the impact of the indices. A Kruskal Wallis test was then run to show whether there is a statistically significant difference between a company on the indices and its RI disclosure score.

4. Results

First, the extent of RI disclosure overall will be discussed. This is followed by a comparison of the voluntary principles common across all sectors. The disclosures applicable to a specific sector was then analysed. Lastly, the results looked at the associations of the FTSE/JSE RI index and their RI disclosure score.

4.1. The extent of RI in the IR of FI's and CHIS listed on the JSE in South Africa.

Total RI disclosure scores per sector

Table 13 presents the descriptive statistics of the total RI scores, grouped by sector. Based on Table 13, the extent of RI disclosure for the CHIS sector is the highest (57%). Table 13 shows that there was not one company within any sector which disclosed all voluntary principles, but the highest score achieved is from a CHIS company which disclosed 82.4% of the required information. This finding is in line with Garcia et al (2017) who found that companies in more sensitive sectors tend to disclose more extensive ESG considerations to protect their reputations (Garcia et al., 2017). Hamann (2004), in line with Garcia et al. (2017), states that CHIS viewed their ESG responsibilities as an attempt to further their company image and reputation. This is true as CHIS face significant market pressures from institutional investors, local government and community groups to consider the impacts their decisions are having (Hamann, 2004). The results support Garcia et al. (2017) and Hamann (2004) as CHIS achieved the strongest RI disclosure score.

The banking sector followed CHIS, disclosing 45% of the required information. Pension funds disclosed least information (35%). This was closely followed by the disclosure of the general sector at 37% and insurance companies at 36%. This illustrates that, besides banking, the extent of RI disclosure in FI in South Africa is lacking. In terms of the score per company, the lowest score belonged to a company within the general sector with only one item disclosed, resulting in a score of 1 (2.9%). The overall low disclosure by sectors is consistent with prior research. This is consistent with Suzette Viviers (2007) who found that RI within institutions in South Africa has been slower than in Europe and the United States. This is further consistent with Sonnenberg & Hamann (2006) who states that the South African community is showing a limited willingness to include ESG within the investment process. The findings by Giamporcaro & Pretorius (2012) are still applicable in 2020 as RI principles in South African relating to environmental concerns need more attention. The results per table 13 indicate that little progress has been made as companies are still lacking in their RI disclosure. A possible reason for the low disclosure is due to a lack of demand from investors (Eccles N.S et al., 2008). There is little incentive for FI to push for RI practices. A further suggestion for the low disclosure rate could be attributed to the lack of regulatory enforcement (Herringer et al., 2009; Sonnenberg & Hamann, 2006). The Minister of Finance commented at the launch of the CRISA that should a voluntary principle approach be unsuccessful, a more stringent stance will need to be adopted to encourage RI (Ward & Naude, 2019). These findings suggest that this voluntary approach adopted may not be achieving the level of RI implementation desired.

Table 13: Descriptive statistics across industries

	Sector				
	Pension funds	**Banks**	**Insurance**	**General**	**CHIS**
Score achieved	129	251	119	422	865

	Sector				
	Pension funds	**Banks**	**Insurance**	**General**	**CHIS**
Total score available for sector	364	558	328	1156	1530
Percentage scored – per sector	35%	45%	36%	37%	57%
Mean	18.43	41.83	14.88	12.41	19.22
Standard deviation	8.08	20.24	8.06	7.20	4.91
Total score available per company within sector	52	93	41	34	34
Minimum score achieved	7	14	3	1	7
Percentage – minimum score	13.5%	15.1%	7.3%	2.9%	20.6%
Maximum score achieved	28	66	25	26	28
Percentage – maximum score	53.8%	71.0%	61.0%	76.5%	82.4%

Specific RI voluntary principles

Continuing with an analysis of the voluntary principles, the research begins with the common disclosures. These principles include the CRISA, UN Principles for RI and SDG's. Thereafter the remaining principles relevant to each sector will be analysed.

Overall analysis of CRISA, Principles for RI and SDGs across sectors

A Kruskal Wallis test was conducted to identify whether the differences among the sectors in the disclosure scores are statistically significant. The results reflect statistical significance from the asymptotic value (p-value) at a 95% confidence level. Where p<0.05, there is a significant difference between the sectors and where p>0.05, there is no significant difference between the sectors. For comparability, this analysis only looked at the principles common across all sectors.

Table 14: Results of Kruskal Wallis test grouped per sector

	CRISA	**Principles for RI**	**SDG**	**Overall SDG disclosure**	**Common Disclosure**
Kruskal-Wallis H	5.674	12.312	35.457	11.844	16.485
Asymp. Sig. p	0.059	0.002*	0.000*	0.003*	0.000*

* Significant at the 1% level

Table 14 above suggests that there are statistically significant differences at the 1% level for the UN Principles for RI, SDG, overall SDG disclosure and the total common disclosure score. There is no statistically significant difference for CRISA at the 1% level. This indicates that sector may not influence the extent of the CRISA disclosure but, for the most part sector is having an influence on the extent of RI disclosure. Prior research suggests that strong ESG performance is associated with companies in sensitive sectors as discussed above (Garcia et al., 2017). The analysis of each principle per sector follows.

CRISA

Table 15 illustrates the CRISA disclosure scores between the 5 different sectors.

Table 15: CRISA descriptive statistics

	Sector				
	Pension funds	**Banks**	**Insurance**	**General**	**CHIS**
Score achieved	54	58	47	225	347
Total score available for sector	98	84	112	306	630
Percentage scored	55%	69%	42%	47%	55%
Mean	7.71	9.67	5.88	6.62	7.71
Total score available per company within sector	14	14	14	14	14
Minimum score achieved	3	6	3	1	5
Percentage	21.4%	42.9%	21.4%	7.1%	35.7%
Maximum score achieved	11	13	8	11	10
Percentage	78.5%	92.9%	57.1%	78.6%	71.4%

Based on table 15, banks achieved the highest percentage disclosure as 69% of the CRISA is disclosed. Insurance companies disclosed least with only 42% of the required disclosure presented. This is closely followed by the general sector disclosing 47% of the CRISA. CHIS and pension funds disclosed just more than half of the required (55%). The total disclosure score that each company could achieve for the CRISA is 14. The lowest disclosure score across all sectors is 7.1% from the general sector, indicating that only one requirement of the possible 14 was disclosed. This appears to be in line with the overall sector analysis above where the lowest disclosure is from the general sector. One bank disclosed 92.9% of the possible disclosure which is the highest score achieved. Based on the above, it appears that the banking sector is outperforming other sectors. The general sector, as well as insurance companies, have worst CRISA disclosure. For the remaining sectors, the extent of CRISA disclosure appears to be appropriate.

In terms of the specific disclosures regarding banks, an analysis indicates that no bank disclosed its commitment to the CRISA in the IR, with only two banks disclosing that they are members of CRISA. Only 2 banks (33.33%) disclose that they are members of CRISA. All banks disclosed that ESG considerations were taken into discussion within their ownership policies and practices. The banking sectors disclosure score was highest (69%) despite the lack of disclosure of their commitment and membership of the code. Only 37.5% of Insurance companies and 8.8% of general FI disclosed their commitment to CRISA, making it their lowest disclosure for the CRISA. Pension Funds lowest scoring disclosure was information regarding their policy contents and implementation of the CRISA (7.14%). No CHIS disclosed their commitment or subjection to CRISA which is expected.

Ward & Naude (2009) commented that RI within the South African and global banking sector was not progressing but was declining. The results of this research suggest that, despite this, the banking sector is still disclosing comparatively more than the other FIs. Van Zijl et al. (2017) also found that the banking sector had more comprehensive ESG disclosure when compared to other investment firms. Commercial banks deal with customers daily. There is more pressure placed on the banking sector by customers than is on invetsment instituions who are driven by the market (Van Zijl et al., 2017). Banks are under more pressure and scrutinty to include ESG considerations within their decisions. The banking sector has approached RI through the guidance of voluntary principles and limited legislation (Ward & Naude, 2019). Supporters of a voluntary response comment that it allows for innovative responses to ESG considerations. Despite the level of disclosure, there is still pressure placed on the National Treasury to introduce stronger and more regulated responses to RI practices in the banking sector (Ward & Naude, 2019).

UN Principles for RI

Table 16 provides an analysis of the descriptive statistics for the UN Principles for RI disclosure. Th extent of the general sectors disclosure is the lowest (30%). There appears to be a trend where general FI are consistently achieving lowest scoring disclosures. General FI disclosure is further of concern as it is less than half of the banking disclosure score, with their average disclosure score being 2.47 out of the possible 9. Adding to this, is that general FIs' lowest scoring disclosure was their commitment to the UN Principles for RI (11.8%). In 2008, Eccles et al. (2008) conducted a study which found that only a third of South African asset managers and pension funds, heard of the Principles for RI. It seems that no significant change has been made since the 2008 study as general FI (30%) still are disclosing a concerningly low amount of RI information and pension funds overall achieved the worst RI disclosure of 35%. The findings here further contradict Herringer et al. (2009) as the asset managers interviewed expected RI, as an important strategic objective, to grow. This study was conducted in 2009. The poor results found in 2020 suggest that the expected growth has not been achieved. Regarding the general sector, their highest scoring disclosure is their commitment towards working with their sector to enhance the effectiveness in implementing the UN Principles for RI (50%). Eccles N.S et al (2008) found that asset managers are reluctant to consider ESG in their decisions as there is no demand for it from investors. The highest scoring disclosure perhaps suggests that efforts are being taken to encourage the understanding and demand for ESG considerations.

Banks achieved highest disclosure score (63%). Banks outperforming the other sectors supports the findings under CRISA. Banks highest scoring disclosure for the UN Principles is that they are committed to spreading the awareness and enforcement of the UN Principles for RI within the banking sector (83%). The lowest scoring disclosure for banks was their commitment to the UN Principles for RI (33.3%). This was also the lowest disclosure item for CRISA. There appears to be an adherence to the principles by banks in the various codes yet a reluctance to disclose their commitment. Based on the analysis, it seems that banks are not consistently disclosing the same items or leaving out the same items. This may suggest that banks are not engaging with one another and are working autonomously in terms of disclosure of RI principles.

CHIS' highest scoring disclosure is their commitment towards working with their sector to enhance the effectiveness in implementing the UN Principles for RI (76.7%). The lowest score was 6.7% relating to CHIS disclosure concerning their commitment to the UN Principles for RI. Pension funds' highest scoring disclosure was that they consider the ESG considerations before making an investment decision (64.2%) and insurance companies highest scoring disclosure was their commitment to the UN Principles for RI (75%). Pension funds' (42.8%) and Insurance companies' (12.5%) lowest scoring disclosure is whether training is provided to staff on how to implement RI in the investment process. The training disclosure score was also low for General FI (17.6%). The fact that training provided is a low disclosure item for Pension Funds, Insurance companies and General FI is consistent with prior research which suggests that one of the biggest challenges to RI in South Africa is insufficient and inadequate human capital and skills in the sectors (Herringer et al., 2009). Herringer et al. (2009) suggest that there is a shortage of skills especially when trying to match financial and ESG skills in South Africa. Herringer et al. (2009) suggest that investments are long term in nature and retaining a person with the sufficient ESG skills for the duration of the investment is challenging.

Table 16: The UN Principles for RI descriptive statistics

	Sector				
	Pension funds	**Banks**	**Insurance**	**General**	**CHIS**
Score achieved	36	34	37	93	194
Total score available	63	54	72	306	405
Percentage scored	57%	63%	51%	30%	48%
Mean	5.14	5.67	4.63	2.74	4.31
Total score available per company within sector	9	9	9	9	9
Minimum score achieved	0	1	0	0	0
Percentage	0%	11.1%	0%	0%	0%
Maximum score achieved	9	9	8	9	9
Percentage	100%	100%	88.9%	100%	100%

SDGs of investment decisions

Table 17 looked at the SDG considerations which the investors considered in their investment decisions.

Table 17: SDG descriptive statistics

	Sector				
	Pension funds	**Banks**	**Insurance companies**	**General**	**CHIS**
Score achieved	21	23	14	94	299
Total score available	70	60	80	340	450

Percentage scored	30%	38%	18%	28%	66%
Mean	3.00	3.83	1.75	2.76	6.64
Total score available per company within sector	10	10	10	10	10
Minimum score achieved	3	0	0	0	0
Percentage	30%	0%	0%	0%	0%
Maximum score achieved	9	9	5	9	10
Percentage	90%	90%	50%	90%	100%

Except for CHIS, it is of concern that all other sectors only disclosed 18% to 38% of the 10 SDG principles. Insurance companies disclose least (18%) while CHIS disclose most (66%). Based on table 16, it does indicate that it is unlikely a detailed assessment of investment decisions is being made. The research further looked at whether the sectors disclose that before an investment decision is made the SDGs of the investment decision is considered (overall SDG disclosure). No insurance company disclosed before making an investment decision the SDGs of the investee are considered. CHIS achieved the highest score as 56% of CHIS disclosed that before a project commences, they do consider that their investment decision will comply with the SDG's. General FI (29%), banks (17%) and pension funds (29%) also scored low indicating that FIs hardly disclosed that SDG is considered before an investment decision is made. This together with table 16 prove that the extent of SDG disclosure for FI is low. Table 18 below provides highest and lowest scoring disclosure items per sector for the SDG considerations of an investment decision.

Table 18: SDG disclosures

	Highest scoring disclosure		Lowest scoring disclosure	
	Disclosure	**%**	**Disclosure**	**%**
Pension funds	• human rights • human rights abuses • discriminatory practices • precautionary approach to environmental challenges • measures that will enhance their environmental responsibilities	43%	• environmentally friendly technologies	0%

Insurance	• human rights	38%	• employee wages and salaries	0%
Banks	• human rights • discriminatory practices • precautionary approach to environmental challenges • measures that will enhance their environmental responsibilities	50%	• employee wages and salaries	17%
General	• precautionary approach to environmental challenges	56%	• human rights abuses	6%
CHIS	• precautionary approach to environmental challenges • human rights	98%	• child labour	27%

The above again reinforces that FI are not disclosing specific details in making investment decisions. The findings here contradict the findings by Herringer et al. (2009) as they raise doubt over whether a rounded view of the companies under consideration is obtained. Table 18 further found that other than insurance all other sectors highest disclosure items included environmental considerations. This contradicts Giamporcaro & Pretorius (2012) who found that RI in South Africa is focused on social transformation and very little attention is placed on environmental considerations. This may suggest that RI in South Africa is shifting to include more emphasis on environmental considerations. In the next section, the results from disclosures specific to certain sectors will be analysed

Disclosure specific to sectors

The analysis will begin with Regulation 28 which is applicable to pension funds. This is followed by specific disclosures relating to the banking sector. This includes BASA, the EPs and the UN Principles for Responsible Banking. Lastly, the UN Principles for Sustainable Insurance for insurance companies is discussed.

Regulation 28

Table 19: Regulation 28 descriptive statistics

	Principle
	Regulation 28
Score achieved	16
Total score available	126
Percentage scored	13%
Mean	2.29
Total score available per company within sector	18
Minimum score achieved	1
Percentage	5.56%
Maximum score achieved	3
Percentage	16.67%

Table 19 reveals that pension funds disclosed only 13% of what is required by Regulation 28. The min score was 1 and the max was 3 out of the possible 18. This shows poor disclosure by pension funds. There is no specific disclosure which was considered by all pension funds. The disclosure items which scored highest (71.4%) related to an analysis of ESG related factors which may impact the long-term performance of the investment before an investment if finalised. Of the disclosure items required there were 10 disclosures which no Pension Fund considered as shown in table 20 below.

Table 20: Regulation 28 not disclosed

Disclosures no pension fund considered
• The pension fund always complies with Regulation 28
• The investment policy statement has been reviewed at least annually
• The advisors and service providers have been compliant with Regulation 28
• The pension fund's assets are appropriate for its liabilities.
• A description of the due diligence performed to ensure it looks at all risks including credit, market, operational and liquidity risks.
• A description of the same due diligence applied to any foreign transactions.
• The pension fund considered credit ratings, but it was not the only factor looked at.
• The pension fund understands the changing risk profile of the assets of the pension fund over time.
• A comprehensive risk analysis has been performed on the changing risk profile.
• The pension fund accepts full responsibility to adhere to Regulation 28 in the case that a third party is hired to ensure compliance with the above principles.

The lack of disclosure and the fact that 10 disclosure items were not considered at all proves that Regulation 28 is not considered appropriately by pension funds. The research acknowledges that certain pension funds are not governed by Regulation 28 of the PFA but all pension funds should be considering ESG risks with regard to their investment decisions (Fasken, 2019). The poor findings here, as well as the fact that pension funds had the worst overall disclosure score (35%), suggest that the extent of pension funds RI disclosure is lacking. In 2018, the financial services board and the Registrar of Pension Funds released a draft directive and disclosure requirements aimed at monitoring Regulation 28 (Ward & Naude, 2019). In 2019, a Pension Fund lawyer commented that failure to consider financial risks from ESG concerns amounts to a breach of fiduciary duties for pension fund boards and will make them liable to legal action (Ward & Naude, 2019). Ward & Naude (2019) comments that the actions of the financial services board, Registrar of Pension Funds and the pension fund lawyer suggests there is a growing frustration at the lack of progress being made by pension funds. Regulation 28 is an example of a regulated and stricter stance (Ward & Naude, 2019). This stricter stance seems to be proving ineffective. According to table 20, pension funds did not even go far enough to disclose that Regulation 28 is always adhered to

BASA

All banks disclose they are members of BASA. This reassuring finding suggests that all listed banks are committed to driving initiatives and allowing for transformation in the banking sector (Parliamentary Monitoring Group, 2011).

The EP’s

Table 21 looks at the descriptive statistics for the EP’s. Table 21 reveals that the extent of the banking sector’s EP disclosure is narrow. Banks disclosed 30% of the required disclosure relating to the EP’s. Two banks made no reference to the EP at all and the minimum disclosure score for the EP’s was 0%. These two banks are not signatories to the EP which may suggest why no reference is made to the EP. The average disclosure was 5.67 out of 19 for the EP. Of the 6 banks in the sample, no bank disclosed the respective roles of the reviewers, business lines and senior management in the transaction review process as required by the EP. The highest disclosure item was that the bank discloses that they are a signatory of the EP, and the bank discloses that all EP transactions were subject to independent reviews (66.7%). Prior research suggests that a minimum appeasement strategy is being adopted by signatories of the EP to appear as if their operations are meeting the EP requirements (O'Sullivan & O'Dwyer, 2009). It is in line with prior research that 66.7% of banks disclose they are signatories, but the extent of disclosure is less than half (30%). O’Sullivan and O”Dywer (2009) concern is that the EP were used as a check box exercise where implementation is not taken seriously. Their concern was owing to minimum disclosure, a lack of accountability mechanisms and a lack of implementation (O'Sullivan & O'Dwyer, 2009). The results of this research are in line with their concern, given the disclosure which is worryingly low.

Table 21: The EP's descriptive statistics

	Principle
	EP
Score achieved	34
Total score available	114
Percentage scored	30%
Mean	5.67
Total score available per company within sector	19
Minimum score achieved	0
Percentage	0%
Maximum score achieved	11
Percentage	57.89%

The UN Principles for Responsible Banking

Table 22 looks at the descriptive statistics for the disclosures of the Principles for Responsible Banking. Only 41% of that which is required of the Principles for Responsible Banking is being disclosed by banks. Of the sample of banks selected 50% of the banks were signatories to the UN Principles for Responsible Banking but the extent of disclosure of 41% is low. More is required from South African banks in terms of their commitment to the UN Principles for Responsible Banking.

Table 22: The UN Principles for Responsible Banking descriptive statistics

	Principle
	Principles for Responsible Banking
Score achieved	95
Total score available	234
Percentage scored	41%
Mean	15.83
Total score available per company within sector	39
Minimum score achieved	6
Percentage	15.38%
Maximum score achieved	23
Percentage	58.97%

Table 23 below shows the 6 disclosure items which were not considered by any bank under review. Banks' highest scoring disclosures are how it plans to align its goals with the Paris Climate Agreement and SDGs, that stakeholders were consulted, engaged, collaborated or partnered with for the purpose of implementing these principles and improving the bank's impacts and the various initiatives they have to create a culture of responsible banking (91.7%). The overall low level of commitment to the UN Principles for Responsible Banking discussed is consistent with the previous findings from BankTrack (2020). BankTrack along with other NGO's have written a letter to the signatories of the UN Principles for Responsible Banking, requesting the banks to end the current practice of appearing to be environmentally and socially conscious when, in reality, that is not true (BankTrack & Rainforest Action Network and partners, 2020).

Table 23:The UN Principles for Responsible Banking not disclosed

Disclosures no bank considered
• A report has been published on the implementation of the principles and how the targets are met.
• An impact analysis has been published.
• An analysis and acknowledgment of significant (potential) negative impacts of the targets on other dimensions of the SDG/climate change/society's goals.
• A description of their progress within 12-18 months of signing onto the principles.
• A description of the remedial action in place in the case where targets are not achieved or there are unexpected negative consequences.
• A description of the existing and emerging international/regional good practices which will apply to the implementation of the 6 Principles for Responsible Banking.
• A description of the changes made to existing practices to be in line with international/ regional good practices.

The UN Principles for Sustainable Insurance

Table 24: Principle for Sustainable Insurance Descriptive Statistics

	Principle
	Principles for Sustainable Insurance
Score achieved	21
Total score available	56
Percentage scored	38%
Mean	2.63
Standard deviation	2.62
Total score available per company within sector	7.00
Minimum score achieved	0
Percentage	0%
Maximum score achieved	7
Percentage	100%

Table 24 analyses the extent of the disclosure for the Principles for Sustainable Insurance. Only 38% of these was disclosed. The min score was 0 as 3 insurance companies did not make reference to any of the principles at all. An analysis of the UN Principles for Sustainable Insurance reveals that only 25% of the insurance companies (2 out of 8 companies) in this research are signatories of the UN Principles for Sustainable Insurance and disclosed their commitment to the principles. The highest scoring disclosure item was that the insurance company discloses that they are working together with clients and business partners to raise awareness of ESG issues, manage risk and develop solutions and that the insurance company discloses their progress towards achieving the appropriate implementation of the Principles for Sustainable Insurance (50%).

Prior research suggests that within insurance companies, investment management has the lowest level of ESG integration and that communicating ESG factors needs to be increased (UNEP Finance Initiative, 2009). Research shows that it was only in 2017 that, globally, insurance regulators and supervisors were beginning to include ESG considerations (McDaniels et al., 2017). Communication gaps and barriers still need to be overcome within the sector as a whole (UNEP Finance Initiative, 2009). This may explain the low extent of disclosure from insurance sector in South Africa and should communication improve perhaps so too will disclosure. Adopting the Principles for Sustainable Insurance will provide a more holistic global sustainability framework adding greatly to the Principles for RI (UNEP Finance Initiative, 2009). The research will continue by addressing the last research question i.e., whether there is an association between companies on the FTSE/JSE RI index and their disclosure scores.

4.2. The association between companies appearing on the FTSE/ JSE RI index and their disclosure score

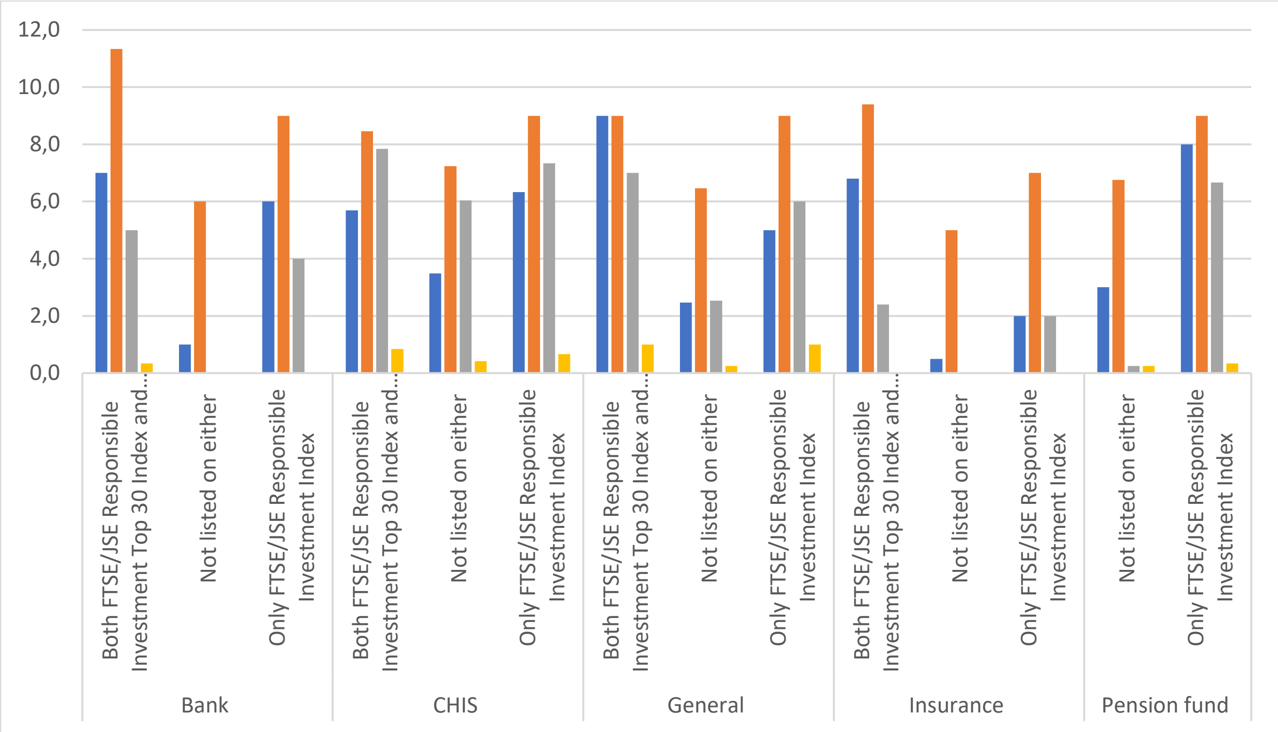
Table 25 illustrates the number of companies listed on the indices as per the sample of companies selected for this research.

Table 25: Companies Listed on the Indices

	FTSE/JSE RI Top 30 Index	Both FTSE/JSE RI Top 30 Index and FTSE/JSE RI Index	Neither
Banks	2	3	1
Insurance	1	5	2
Pension funds	3	0	4
General	1	1	32
CHIS	3	13	29
Total	**10**	**22**	**68**

Based on Table 25, 10% of companies are listed on the FTSE/JSE Responsible Investment Top 30 Index, 22% are listed on both FTSE/JSE Responsible Investment Top 30 Index and FTSE/JSE Responsible Investment Index and 68% are not on either index. To understand whether there is an association the average disclosure scores will be compared for companies listed on the indices versus not

Figure 1: Indices disclosure analysis[6]



- Average of the UN Principles for RI
- Average of CRISA
- Average of SDG
- Average of overall SDG disclosure

Figure 1 reveals that in all sectors companies listed on both indices and listed only on the FTSE/JSE Responsible Investment Index have higher disclosure scores compared to companies not listed on either. The above figure suggests that companies on the indices do have stronger disclosure scores and there is an association for the companies on the indices and their RI disclosure score. A Kruskal- Wallis test was performed in table 26 below to identify whether the differences noted in figure 1 are statistically significant.

Table 26:Results of the Kruskal Wallis test grouped by indices

	CRISA	Principles for RI	SDG	Overall SDG disclosure	Total
Kruskal-Wallis H	20,395*	36,027*	12,452*	5,577	29,728*
Asymp. Sig. p	0.000*	0.000*	0.002*	0.062	0.000*

*Significant at the 1% level

According to the Kruskal Wallis test there is a statistically significant difference between the CRISA, the UN Principle for RI, SDG, and total common disclosure score of those companies on both the FTSE/JSE RI Top 30 Index and FTSE/JSE RI Index, companies only on the FTSE/JSE RI Index and companies not listed on either at the 1% level. The Kruskal- Wallis test confirmed that the differences noted above are statistically significant and hence that companies listed on the indices have a stronger RI disclosure score.

[6] All insurance companies scored 0 for their overall SDG disclosure. Banks not listed on either index or listed only on the FTSE/JSE RI scored 0 for overall SDG disclosure.

Sonnenberg & Hamann (2006) found that there is still an unacceptable absence of comparable and quantitative information in the IR of companies on the indices. This research, however, suggests that, although there may still be problems with the disclosures of companies listed on the indices, there companies are still disclosing comparatively more than companies not listed on the indices do. Maubane et. al (2004) found that companies on the indices only report on selected issues and not on their sustainability performance as a whole. The research has also found that comparatively, companies listed on the indices have a stronger disclosure score than companies which are not. This may mean that companies on the indices are increasingly trying to reflect their sustainability performance as a whole as opposed to simply trying to meet the minimum requirements. Supported by the results of this research, the indices are increasing the awareness of good corporate citizenship and are catalysts for extensive ESG reporting among companies (Sonnenberg & Hamann, 2006; Webber Wentzel, 2015).

5. Conclusion

This paper has examined the extent of RI disclosure in FIs, and CHIS listed on the JSE in South Africa. In line with stakeholder theory, investors are increasingly recognising the importance of ESG considerations within their decisions (Majoch et al., 2017). RI means ESG considerations were incorporated within the investment process. RI is an important consideration and expected to be accounted for within the investment process. Government in South Africa has failed to establish the appropriate regulation (Hardenbrook, 2007). The South African finance sector, despite this, has adopted voluntary RI principles because of the public pressures they are facing (Ward & Naude, 2018, Hardenbrook, 2007). This paper seeks to understand the disclosure of the relevant voluntary RI principles adopted in South Africa to gain insight of their implementation. The paper further extended the principles to CHIS. This is because these companies have a high ESG impact and should too be considering RI principles within their investment decisions.

The research finds that the banking sector in South Africa discloses more RI principles than other FIs such as pension funds and other FIs. Overall, banks disclosed 45% of the required where the remaining FIs had poor disclosure ranging between 35% to 37% with pension funds achieving worst RI disclosure scores. Eccles N.S et al. (2008) suggests that a reason for the poor disclosure for FI is due to a lack of demand from institutional investors. On the other hand, banks have more direct contact with customers, unlike the other FIs under review, which place more pressure on the banking sector to consider ESG consequences (Van Zijl et al., 2017). The results of this research confirm the allegations suggested by Ward (2019) and Van Zijl et al. (2017) that despite the overall poor results seen from FIs, the banking sector is disclosing comparatively more than other FI.

The research also addressed the extent of RI disclosures for CHIS. The research found RI disclosure in CHIS to be the most comprehensive as it achieved the highest RI disclosure score of 57%. Interestingly the extent of RI disclosure in CHIS is found to be strongest despite not being directly required to abide by the RI principles. Hamann (2004) suggests that a reason for this is the significant market-based pressures CHIS face from various stakeholders. This pushes them to disclose their RI to protect their image (Hamann, 2004).

In understanding the extent of RI disclosure in South Africa the research analysed principles that were specific to a sector. These included the EPs, the Principles for Responsible Banking and BASA for banking, the principles for sustainable insurance for insurance and Regulation 28 for pension funds. Given the fact that 40% is considered low for the purposes of this research, the disclosures presented for the above principles (except BASA) were low and inadequate. Regulation 28 had the worst RI disclosure score of 13%. The findings again confirm the findings from Eccles N.S et al. (2008) in the lack of understanding and limited willingness of FI to consider RI principles. The finds also confirm Ward & Naude (2019)'s growing frustration about pension funds for their lack of adoption of RI. Consistent with the above, the specific disclosures for banking were comparatively higher than insurance and pension funds. An overriding theme appears to be that demand is driving RI disclosure. Perhaps if the public were to understand the significant indirect ESG impact of the pension fund, insurance and general sectors decisions, their RI disclosure would improve. This will be because of the pressure the FI's will consequently face from impacted stakeholders.

Lastly, the paper looks at the association of companies on the FTSE/JSE RI index and the FTSE/JSE RI Top 30 index and their RI disclosure score. The findings suggest that there is an association among companies listed on the indices and their RI disclosure as the companies on the indices had better RI disclosure scores. The differences noted were statistically significant as confirmed by a Kruskal- Wallis test. The indices, used as a screening approach to RI, proved to be an effective tool in encouraging RI implementation.

The research is limited and discovers various areas of future research. For starters, the research found that pressure from stakeholders increases the FI's willingness to consider ESG within the investment process. Further research should be done to appropriately understand what drives RI disclosure in South Africa. The research further found that the voluntary adoption of principles is not achieving an appropriate level of RI disclosure. The research also analysed Regulation 28 which provides a more stringent and regulated stance. This stance was unsuccessful in encouraging RI disclosure. An important area of future research can be to analyse the impact of a voluntary response compared to a more regulated stance to identify which is more effective. The findings also suggest that, specifically, banks but also insurance companies and general FI were reluctant to disclose their commitment to the principles but still seem to be adhering to the principles required. This was noted through the analysis of the CRISA and the UN Principles for RI. For the UN Principles for RI, Banks, General FI and CHIS lowest scoring disclosure was their commitment to the UN Principles for RI. An important area of future research and analysis can be to understand the reason for this. The research also identified that many investors feel that considering ESG within the investment process will reduce investors returns. Future research is needed to understand how considering ESG would influence a portfolios performance over time in a South African context.

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Appendix I: Disclosure Checklist

Legend - Disclosure checklist

(B): binary

(NB): non-binary

General

Disclosure	Source	Binary
The FI/CHIS discloses they are a member of the CRISA.		B
The FI/CHIS discloses their commitment to the CRISA.		B
The FI/CHIS disclose that ESG factors were taken into consideration within their investment analysis and decision-making process.	(Foster, 2020)	B
The FI/CHIS disclose that ESG considerations were taken into consideration within their ownership policies and practices.	(Foster, 2020)	B
The FI/CHIS disclose that they have recognised the circumstance and relationships where a potential conflict of interest may exist.	(Foster, 2020)	NB
The FI/CHIS disclose that where a potential conflict of interest exists, steps have been taken to proactively manage this	(Foster, 2020)	NB
The FI/CHIS disclose information regarding their policy contents and implementation of the CRISA.	(Foster, 2020)	NB
The FI/CHIS disclose how CRISA is being applied to ensure stakeholders are making informed decisions.	(Foster, 2020)	NB
The FI/CHIS disclose their commitment to the Principles for RI.		B
The FI/CHIS disclose that before an investment decision is made ESG considerations of the investee are looked into.	(UNPRI, 2019)	B
The FI/CHIS disclose their commitment towards promoting the acceptance and implementation of the principles for RI within the investment industry.	(UNPRI, 2019)	NB
The FI/CHIS discloses their commitment towards working together to enhance their effectiveness in implementing the Principles for RI.	(UNPRI, 2019)	B
The FI/CHIS disclose the relevant activities and progress made towards implementing the Principles for RI.	(UNPRI, 2019)	NB
The FI/CHIS disclose that training is provided to staff members on how to implement RI principles into the investment process.	(UNPRI, 2019)	B

The FI/CHIS considers the impact the investees operations will have on human rights.	(United Nations Global Compact, 2020)	B
The FI/CHIS is satisfied that their investment decision will not result in any human rights abuses.	(United Nations Global Compact, 2020)	B
The FI/CHIS have had a discussion with the investee before the investment decision is made regarding their employee wages and salaries.	(United Nations Global Compact, 2020)	B
The FI/CHIS has considered that their investment decisions will not result in compulsory or forced labour.	(United Nations Global Compact, 2020)	B
The FI/CHIS has considered that their investment decisions will not include any form of child labour.	(United Nations Global Compact, 2020)	B
The FI/CHIS has considered that the investee will not adopt any discriminatory practices.	(United Nations Global Compact, 2020)	B
The FI/CHIS has considered that the investee follows a precautionary approach to environmental challenges.	(United Nations Global Compact, 2020)	B
The FI/CHIS has considered that the investee includes measures that will enhance their environmental responsibilities.	(United Nations Global Compact, 2020)	B
The FI/CHIS have considered that the investee has looked to use environmentally friendly technologies.	(United Nations Global Compact, 2020)	B
The FI/CHIS has considered the possibility of any corruptions of their potential investment decision.	(United Nations Global Compact, 2020)	B
The FI/CHIS discloses that they consider the SDG's of the investee before making their investment decision.		B

Insurance companies

Disclosure	Source	Binary
The insurance company discloses that it is a signatory of the Principles for Sustainable Insurance (B).		B
The insurance company discloses its commitment to the Principles for Sustainable Insurance (B).		B

The insurance company discloses that it is working together with clients and business partners to raise awareness of ESG issues, manage risk and develop solutions.	(UNEP, 2012)	NB
The insurance company discloses that it will work with the government, regulators and other key stakeholders to promote widespread action across society on ESG considerations.	(UNEP, 2012)	NB
The insurance company discloses its progress towards achieving the appropriate implementation of the Principles for Responsible Insurance.	(UNEP, 2012)	B

Banks

Disclosure	Source	Binary
The banks disclose whether or not they are members of BASA.		B
The banks disclose that they are a signatory of the EP.		B
The banks disclose their commitment to the EP.		B
The bank discloses that all project finance meets the applicable EP requirements and have complied with the principles.	(The Equator Principle Association, 2020b)	B
The bank discloses the number of total projects that exceed $10 million falling within the EP ambit.	(The Equator Principle Association, 2020b)	B
The bank discloses the total number of project finance transactions falling within the EP ambit specified above.	(The Equator Principle Association, 2020b)	B
The bank discloses the number of total project-related corporate loans which have reached financial close during the reporting period falling within the EP ambit specified above.	(The Equator Principle Association, 2020b)	B
The bank discloses the classification per the risk Categories A, B or C for each EP transaction.	(The Equator Principle Association, 2020b)	B
The bank discloses the sector, region and country designation for each EP project.	(The Equator Principle Association, 2020b)	B

The bank discloses that category A and B transactions were subjected to a social and environmental assessment.	(The Equator Principle Association, 2020b)	B
The bank discloses that grievance mechanisms are in place in affected communities for category A and B projects.	(The Equator Principle Association, 2020b)	B
The bank discloses that all EP transactions were subjected to independent reviews.	(The Equator Principle Association, 2020b)	B
The bank discloses that the independent review was carried out.	(The Equator Principle Association, 2020b)	B
The bank discloses the number of independent reviews.	(The Equator Principle Association, 2020b)	B
The bank discloses the number of new EP transactions entered into during the current year of assessment.	(The Equator Principle Association, 2020b)	B
The bank discloses any indication of instances where there has been non-compliance with the EP or that the potential for such instances has been considered.	(The Equator Principle Association, 2020b)	NB
The bank discloses the mandate of the EP reviewers.	(The Equator Principle Association, 2020b)	B
The bank discloses the respective roles of the reviewers, business lines and senior management in the transaction review process.	(The Equator Principle Association, 2020b)	B
The bank discloses an explanation of the incorporation of the EP in its credit and risk management policies and procedures.	(The Equator Principle	B

	Association, 2020b)	
The bank discloses that they are a signatory of the principles for Responsible Banking.		B
The bank discloses their commitment to the principles for Responsible Banking.		B
The bank has published a report on the implementation of the principles and how the targets are met.	(UNEP-FI 2019)	B
The bank has published an impact analysis.	(UNEP-FI 2019)	B
The banks provides a description of how it plans to align its goals with the Paris Climate Agreement and SDG's.	(UNEP-FI 2019)	NB
The banks provides a description of any identified areas of the bank that will have the most significant positive and negative impacts.	(UNEP-FI 2019)	NB
The bank discloses a minimum of 2 SMART (Specific, Measurable (can be qualitative or quantitative), Achievable, Relevant and Time-bound) targets in relation to the banks provision of goods or services.	(UNEP-FI 2019)	NB
The bank discloses that these targets are linked and drive alignment toward the Paris Climate Agreement and SDG's.	(UNEP-FI 2019)	B
The bank discloses an analysis and acknowledgment of significant (potential) negative impacts of the targets on other dimensions of the SDG/climate change/society's goals.	(UNEP-FI 2019)	NB
The bank provides a description of actions set out to mitigate the above negative impacts and maximize the positive impacts.	(UNEP-FI 2019)	NB
The bank provides a description of the actions and milestones set to meet the above targets.	(UNEP-FI 2019)	NB
The bank provides a description of the means to measure and monitor progress against the set targets.	(UNEP-FI 2019)	NB
The bank discloses that previously set actions have been implemented to meet the set target.	(UNEP-FI 2019)	B
The bank provides a description of their progress within 12-18 months of signing onto the principles.	(UNEP-FI 2019)	NB
The bank provides a description of the policies and practices in place to ensure to promote responsible relationships with customers.	(UNEP-FI 2019)	NB
The bank provides a description of how they have worked with or is planning to work with its clients and customers to encourage sustainable practices.	(UNEP-FI 2019)	NB
The bank discloses the stakeholders consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving the bank's impacts.	(UNEP-FI 2019)	B

The bank provides a description of the governance structures, policies and procedures in place to manage any negative and positive impacts.	(UNEP-FI 2019)	NB
The bank provides a description of the various initiatives they have or will implement to create a culture of responsible banking.	(UNEP-FI 2019)	NB
The bank provides a description of the remedial action in place in the case where targets are not achieved or there are unexpected negative consequences.	(UNEP-FI 2019)	NB
The bank provides a description of the existing and emerging international/regional good practices that will apply to the implementation of the 6 Principles for Responsible Banking.	(UNEP-FI 2019)	NB
The bank provides a description of the changes made to existing practices to be in line with international/ regional good practices.	(UNEP-FI 2019)	NB

Pension funds

Disclosure	Source	Binary
The pension fund discloses whether or not they are subjected to regulation 28 of the PFA.		B
The pension fund discloses that they comply with the principle of regulation 28 at all times.	(Fasken, 2019)	B
The pension fund discloses that they have an investment policy statement.	(Fasken, 2019)	B
The pension fund discloses that the investment policy statement has been reviewed at least annually.	(Fasken, 2019)	B
The pension fund discloses that education has been provided to board members with regard to investment, governance and other matters.	(Fasken, 2019)	B
The pension fund discloses that the advisors and service providers have been compliant with regulation 28.	(Fasken, 2019)	B
The pension fund discloses that Broad-Based Black Economic Empowerment incentives has been promoted in contracting services.	(Fasken, 2019)	B
The pension fund discloses that the pension funds' assets are appropriate for its liabilities.	(Fasken, 2019)	B
The pension fund discloses that before making a contractual commitment to invest in a third party managed asset or investing in an asset, a reasonable due diligence is performed.	(Fasken, 2019)	B
A description of the due diligence performed ensuring it looks at all risks including credit, market, operational and liquidity risks.	(Fasken, 2019)	NB
A description of the same due diligence applied to any foreign transactions.	(Fasken, 2019)	NB
The pension fund discloses that credit ratings were considered but were not the only factor looked at.	(Fasken, 2019)	B

The pension fund discloses that they understand the changing risk profile of the assets of the pension fund over time.	(Fasken, 2019)	B
The pension fund has disclosed a comprehensive risk analysis has been performed on the changing risk profile.	(Fasken, 2019)	B
The pension fund discloses that before an investment is finalised ESG related factors that could impact the long term performance of the investment was analysed.	(Fasken, 2019)	B
The pension funds discloses their acceptance of their full responsibility of adherence to the principles in the case that a third party is hired to ensure compliance with the above principles.	(Fasken, 2019)	B