



The collective environmental consciousness of society has shifted. This movement has prompted many well-known businesses to change their business models to focus more on their Environmental, Social and Corporate Governance (ESG) strategies.

**A**s of 2018, US\$30.7 trillion has been invested in sustainable projects globally, while South Africa is standing on a mere US\$29.1 billion in terms of capital deployed. This is only 3% of the local financial assets that could be invested into sustainable projects and, with the global average above 10%, an indication that options in South Africa are limited.

These figures may indicate a greater tendency overseas to invest in green investments, but that does not mean that South Africans do not share the global sentiment. Because South Africa is a more established financial market than the rest of the continent, it is at the forefront in Africa.

#### Perception of green investments

So, are green bonds a good investment option and why is South Africa lagging behind the rest of the world?

The perception among investors seems to be that green investments do not yield good returns. But what constitutes a good return? There has been a lot of movement in terms of sustainable ventures, so just because it is green does not mean it has to be a donation. If we look at the United States, investors are happy with four percent returns because inflation is at one percent. That is  $CPI + 3$ . If we agree that  $CPI + 3$  is a good return, you would be looking at returns of between eight and nine percent in South Africa. Would green investments yield that? Definitely.

If returns exceed that, the question should be whether it is sustainable to expect returns

of 20%, or whether you are buying into something too risky? As with any other forms of investing, you have to be sure that the fundamentals of the product are sound.

#### South Africans pushed into distrust

South Africa is not behind in its thinking that the market is ready for green bonds. One financial institution in the country recently introduced green bonds into an underperforming investment market and they were oversubscribed. People want to invest in green projects.

By nature, South Africans are pushed into distrust, so if they see something that is green with a fair return, they ask the question "is this too good to be true?" Although there is a noticeable increase in socially conscious investors, there is still a prevalent distrust amongst the South African investor community. Investors are still unsure of the model's effectiveness and whether the funds are applied as proposed.

This will change as Millennials start getting control of a greater share of the financial assets. This market segment has a strong social conscience and green investments are particularly well suited to them. Millennials see green bonds as an avenue of future-proofing our world. Although these types of investments did not exist before, which already means they are contributing to alleviating climate change, Millennials will question whether it is enough. It is therefore reasonable to believe that more and more investment opportunities will incorporate green bonds, making it a particularly appealing diversification tool.

#### Softer points need to be ironed out

With more funds emerging, investors will increasingly be able to invest in funds that almost exclusively invest in companies that strive for good ESG ratings. The Financial Sector Conduct Authority (FSCA) is publishing the ESG requirements for pension funds in a draft paper. If this legislation is passed, pension funds will be forced to conform.

If our credit rating is downgraded, certain institutional investors might feel pressured to withdraw, but that does not necessarily mean that they will. They may still want exposure in Africa and South Africa but would just change where they are exposed. They may look at investing in a renewable project rather than a government bond. That way they get their ESG credits overseas, while earning good returns, even after a currency swap.

Considering what South Africa can do, what our financial markets can handle, and the green bonds we have already issued, everything is set up for green investments to succeed – both locally and on a global scale. It is the softer points, such as trust in the procurement processes and delivery on projects that need to be ironed out.

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