

How SA made worldwide ethical investment mainstream

By Wayne Visser

The political transformation of South Africa is widely regarded as one of the great motivators and success stories of ethical investment. In this third and final article in a series on ethical investment, we examine why this is the case, and how South Africa continues to influence this growing worldwide movement.

Many would argue that it all began in 1970. South Africa had just been ejected from the United Nations for its apartheid policies, and Reverend Leon Sullivan proposed that this be reinforced by the adoption of a set of minimum standards by US companies with SA operations. These standards, formalised as the Sullivan Principles in 1977, included clauses on nonsegregation of facilities on racial grounds, affirmative action for blacks, and social upliftment for underprivileged employees. Various civil rights, labour and religious groups took it upon themselves to monitor and report on companies' adherence to these principles.

In 1982, Connecticut became the first US legislature to require all its investments to be screened against the Sullivan Principles, setting the precedent for similar action by other bodies. Then, as the South African regime toughened its stance on apartheid, complete disinvestment began. As a result of increasing stakeholder pressure and led by Citibank and Chase Manhattan Bank, 135 US industrial companies pulled out of the country between 1985 and 1987. Over the same period, the level of US Funds screened for South African links rose from less than \$100m to nearly \$400m.

Similar ethical investment forces were at work in the UK over the same time. Lobby organisations like Christian Concern for SA, End Loans to SA, and the Anti-Apartheid Movement, put tremendous pressure on the major UK banks (Midlands, Standard Chartered and Barclays) to withdraw from South Africa. There were also campaigns against users of South African gold and suppliers of oil to South Africa (especially Royal Dutch Shell). These were given added weight by the emergence of screened ethical unit trust and investment funds with avoidance criteria for "oppressive regimes" chiefly targeting South Africa. By 1985, South Africa was forced to default on its foreign loans, and in 1986 the US passed the Comprehensive Anti-Apartheid Act, with the European Community following suite shortly after to consolidate international financial sanctions.

As the demise of the old government structures became evident, the focus of the ethical investment movement began to shift toward designing a framework for the emerging post-apartheid South Africa. Today, many of the former funds which excluded South

African companies from their portfolio now deliberately include them subject to various ethical criteria. The UK Ethical Investment Research Service, for example, evaluates 28 ethical funds based on their avoidance of investment in UK Company Groups with South African operations that pay wages below a calculated minimum living level, and/or have less than certain percentages of black Africans in their workforce.

Within South Africa, the SA Council of Churches was among the first to look seriously at ethical investment, although they have yet to translate this into practice. Nevertheless, ethical investment has begun to manifest with its own unique characteristics. For example:

- Syfrets' Community Growth Fund - focuses on worker participation, with criteria including black partnership stakes, training, affirmative action, and occupational health and safety;
- Old Mutual's Community Income Fund - has more of a community development focus with screens on: effective community participation, job creation potential, skills participation, job creation potential, skills provision and contribution to higher living standards;
- Southern Life's Futuregrowth - has a national development emphasis, linking its investments to the Reconstruction and Development Programme (RDP), especially major infrastructure projects and black empowerment deals; and
- Metropolitan Life's Futurebuilder - looks for companies which excel at upgrading skills, providing jobs and investing in infrastructure.

Hence, after the key role of the ethical investment in South Africa's political miracle, could it now be the financial vehicle through which a desperately needed socio-economic miracle is brought to life?

Recommended references:

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The Ethical Investor (1995), Russell Sparkes, Harper Collins, London.

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