We showed the world, but must do it for ourselves now

By Humphrey Borkum, Chairman of JSE Limited

There has been much pontification in the media on the legacy of the World Cup soccer tournament. One lesson that I believe we have learnt from bringing in the stadia and the Gautrain on time was that government, in tandum with the private sector, is capable of successfully undertaking huge construction and infrastructure projects. These projects are highly beneficial to those living on the breadline as they employ vast numbers of people.

The World Cup also gave SA a sense of patriotism we have not felt before. If we are to sustain this feeling we should already have identified the next projects. For example, many of our national roads are in appalling condition and fixing these would also offer employment to many semi-skilled labourers. Then we can put on our project management hats for housing, schools and hospitals which are fundamental to the future viability of our country.

I would like to see no more of the excessive budget overrides we experienced with the World Cup and the labour movement must be brought in at the start so there can be no possibility of the unions holding the country to ransom once again with threatened strikes.

As far as the JSE was concerned most of the benefits accrued before the first ball was kicked. The shares of the listed construction companies involved went through the ceiling before and during the construction phase but declined noticeably when the projects were completed. These companies are now looking for business in the Middle East and in all likelihood Brazil, the next tournament hosts.

There can be no doubt that the World Cup improved the image of our country and as a result tourism will increase and hopefully this will also lead to the JSE featuring more prominently on the computer screens of international fund managers.

Socially Responsible Investment

Socially Responsible Investment (SRI) and sustainability seem to be the new buzz words in investment circles particularly as we are propelled into a new green world of climate change and trading in carbon emissions. The jargon in this field appears to be even worse than that at the height of the dotcom bubble.

At the JSE we define SRI as companies fulfilling a wide range of environmental, social and corporate governance criteria. Under the broad banner of SRI we have ethical investment which usually means avoiding the so-called sin shares such as liquor, gambling and cigarettes or in some cases sidelining companies that damage the environment. In SA this can extend to companies that don’t have sound BEE strategies.

The jury is out on whether SRI companies deliver better returns than non-SRI companies. However the confluence of a number of factors including BP's oil spillage woes, the growth and influence of environmental lobby groups, human rights and political pressures on job creation makes this a hot topic at the moment.

The mainstreaming of sustainability practices has been underscored by the over 700 signatories to the United Nation's Principals For Responsible Investment (UNPRI) representing funds in excess of R137 trillion. There are currently 28 local institutional signatories to UNPRI including the JSE and South Africa's largest pension fund, the Government Employees Pension Fund, with assets of approximately R800 billion.

In 2002 the second King Report on corporate governance urged companies to embrace the triple bottom line (economic, social and environment) as a sustainable method of doing business. The JSE under the aegis of the SRI Advisory Committee then set about developing criteria to measure triple bottom line performance as a guideline for the companies on our FTSE/JSE All Share Index. The SRI Index was launched in May 2004

The JSE was the first bourse in the world to launch its own responsibility index. The two major ethical indices, the London Stock Exchange's FTSE4 Good and the US's Dow Jones sustainable group index, were both put together by parties outside the exchanges.

Annually we automatically assess the Top 100 companies listed on the JSE together with the previous year's SRI constituents. The remaining constituents of the All Share Index (the Small Caps that are not SRI constituents) can elect to be assessed.

The JSE does not release company specific results publicly since the SRI Index is intended to showcase all companies that have been included and in this way reward them for their effort. We do however make disclosure of Best Performers by environmental impact classification.

Reviews take place annually during the second half of each year with results usually announced at the end of November. In the 2009 review 67 of the 109 companies reviewed succeeded in becoming constituents of the index. Of these companies 34 were Top 40, 30 Mid Caps and three Small Cap companies together representing more than 85% of the JSE's market capitalisation. Eleven companies made it onto the index for the first time.

Last year 30 companies were identified as Best Performers environmentally and 10 made the Best Performer List for three years running (2007 – 2009). They were: Absa Group, Anglo American, Anglogold Ashanti, Aveng, Gold Fields, Group Five, Illovo Sugar, Merafe Resources, Standard Bank Group and Tongaat Hulett.

What impressed me about the progress our listed companies are making towards increased sustainability is that in our last review (2009) all fourteen mining companies that were assessed, qualified for the index. I'm told that the innovative technologies they are using to manage environmental impact are at the cutting edge of world standards.

The compilers of the index are continually engaging the mines on safety standards and as mines have a limited lifespan, consideration must also be given to possible environmental damage after mine closures.

Initially when the index was launched banks and financial institutions did not feel that they could have much impact on environmental standards. However a number are now in the forefront of inhabiting green buildings and include sustainability criteria as part of their lending terms and conditions.

Our SRI Index is always evolving. This year climate change criteria will be introduced into the review for the first time. Moreover as a member of the National Business Initiative's Climate Change Working Group and other related forums, the JSE is investigating the role market instruments can play in reducing carbon emissions and supporting national objectives in this regard.

We are therefore looking at the option of a South African Carbon Market as we already have the platform (based on our existing commodities trading platform) and know-how to support this trading in an efficient manner. Trading in carbon emissions is internationally big business and according to the World Bank reached approximately R1 trillion in 2009. A carbon credit, which is the instrument used to trade on a carbon market, is given when a company saves the equivalent of one ton of carbon dioxide.

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