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**ФАКТОРЫ, ВЛИЯЮЩИЕ НА ESG-ИНВЕСТИЦИИ  
В СТРАНАХ ЮЖНОЙ АФРИКИ  
FACTORS INFLUENCING ESG-INVESTMENT  
IN SOUTHERN AFRICAN COUNTRIES**

**Аннотация:** В статье представлен анализ ключевых факторов, влияющих на инвестиции ESG в странах Южной Африки. Основное внимание в данном исследовании уделяется трем аспектам ESG-инвестиций: экологическому, социальному и управленческому, при этом основой исследования являются такие факторы, как бедность, трудовое законодательство и минимальная заработная плата, а также вопросы, связанные с изменением климата

**Abstract:** The issue of Environmental, Social and Governance (ESG) investment is one of the trending topics in the world of Economics and Finance. The study carried out In this article highlighted the main challenges facing countries in the Southern African region ranging from Environmental, Social and Governance challenges to clearly demonstrate why ESG-investment strategies should be adopted by any company wanting to invest in the Southern African region. This article examines all the three pillars of ESG-investment to fully understand the role they can play in helping to resolve the various challenges and lead to the development within the region.

The authors emphasize the need for companies in the region to not only focus on profit maximization but to also include the development of the region through ESG-investment to their mandate. The many challenges both natural and man-made induced currently facing the region require everyone to play a very crucial role for the well-being of society.

**Ключевые слова:** Инвестиции в экологию, социальную сферу и государственное управление (ESG), регион Южной Африки, изменение климата, бедность и минимальная заработная плата.

**Keywords:** Environmental, Social and Governance (ESG) investment, Southern Africa region, Climate change, Poverty and Minimum Wages.

## INTRODUCTION

For many decades Africa has been the hub of Foreign direct investment due to its vast majority of resources. A lot of African countries are resource rich countries and because of this many European and American governments and Cooperations have taken a key mandate to invest in Africa. In as much as the key aim of every Business is to make as much profit as the business can, the question still arises as to what extent and at what expense?

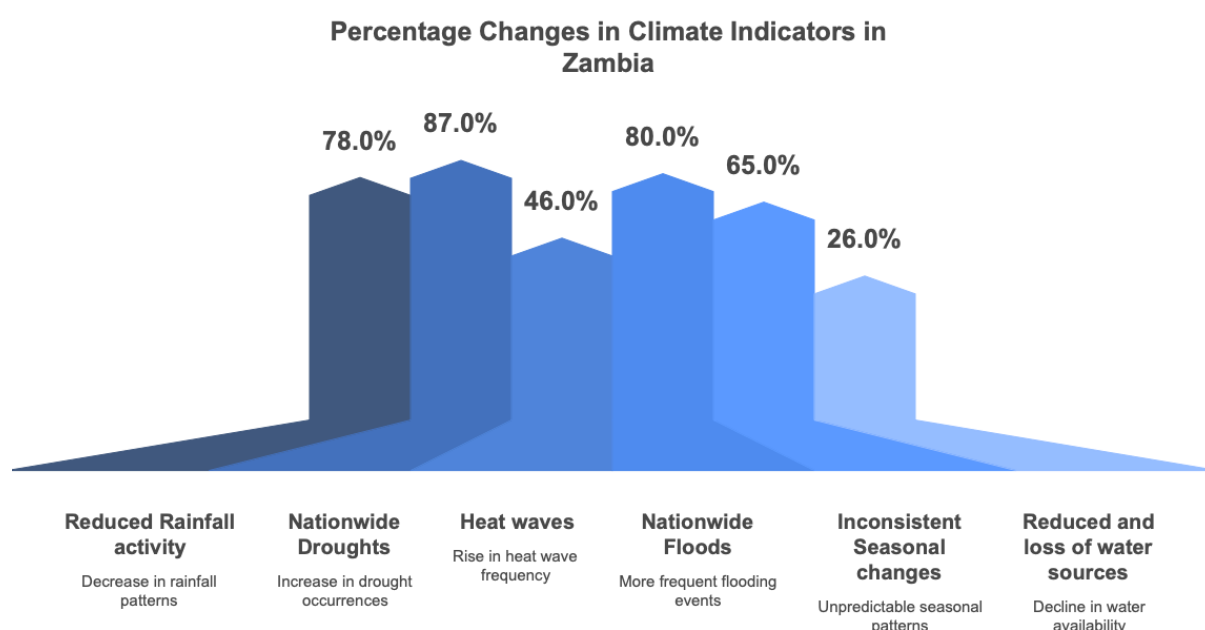
Most of the African countries except but a few till this day face a lot of economic, social and political challenges. Such Problems include:



Climate Change: This is not only a major problem in Africa but all around the world, However, it would be safe to say that African countries are the most affected. Climate change has resulted in famines and droughts which has affected the Agricultural sectors. The agriculture sector is one of most important sectors in Africa. Most of the African Governments hugely depend on this sector not only to feed the population but also for exports which directly affects the Gross Domestic Product (GDP) of these Countries.

A good example of one of the countries affected by climate change is Zambia. According to a January 2024 report by WWF Climate Crowd on Zambia., the country experienced a lot of challenges because of climate change. The drought experienced because of climate change contributed to majority of challenges the country faced such as very Low crop yield than expected, availability of fresh water and lack of pasture for livestock [1]

Figure 1.



Source: WWF Climate Crowd Zambia report<sup>1</sup> (Access date: 10.02.2025)

According to figure 1, these are major changes which will affect any country and its population and its government. Reduced Rainfall of 78.0%, which is arguably the most important indicator from the ones shown in figure 1 for a country like Zambia which depends on Hydroelectricity meant the country couldn't produce enough electricity for the smooth operations of household and Business to operate smoothly. This in turn led to a reduction in production of Goods and services to support the local economy. In addition, lack of rainfall also meant the country couldn't grow enough agricultural product for local consumption and export there by contributing to the increase in poverty.

Another Southern African country deeply affected by climate change is Zimbabwe. The country has been struggling with a lot of economic challenges in recent years and at some point, experienced an economic recession. And now it seems Climate change is becoming one of the key contributors to Zimbabwe's economic struggles. According to a 2025 world Bank report on Zimbabwe's economic update, the country experienced major disruptions in Gross Domestic Product

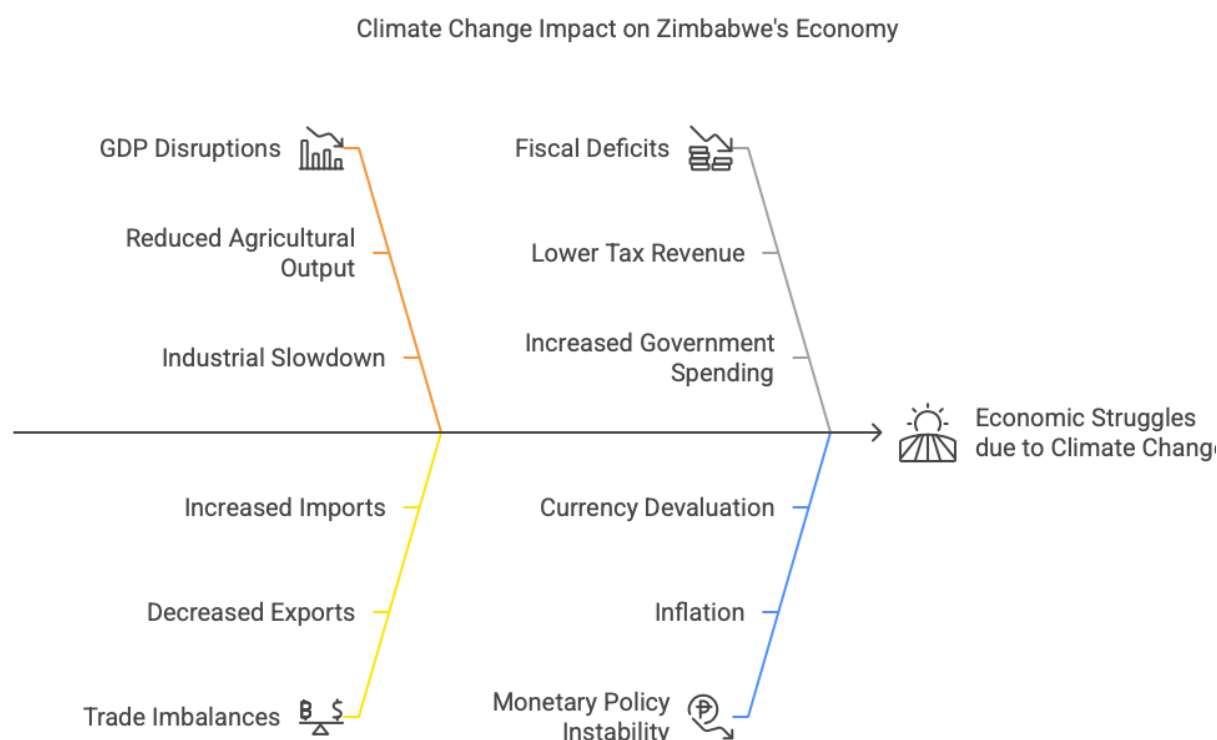
<sup>1</sup> Source: WWF Climate Crowd Zambia summary report: [Text electronic]. Available  
<https://wwfclimatecrowd.org/wp-content/uploads/2024/03/Zambia-2024-WWF-Climate-Crowd.pdf>  
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(GDP), trade balances and fiscal and monetary policy stability as a result of climate change. These disruptions resulted in a staggering 3.20% drop in Gross Domestic Product (GDP), reduced export and fiscal deficit. All this can be attributed to inconsistent rainfall patterns, particularly low rainfall. [2]

Figure 2.



Source: Designed by the author 2

Botswana has also had its fair share of climate change struggle with the government reporting very low crop yield in the summer of 2024 as most crops either wilted or simply failed to grow. Total production as of summer 2024 was only 6.0% of the total demand as there were no signs of rain and some farmers simply gave up on ploughing their fields [3]

All these indicators paint a clear picture on the various problems faced by African countries. These challenges are practically impossible for the government alone to tackle and this where ESG investment comes into play. Cooperate governance has a key role to play to help the African community because if corporations cannot contribute to the development of the country where they are located then the principles of that corporation would need to be revisited.

#### CURRENT STATE OF ESG-INVESTMENT IN AFRICA

There is no clear definition for ESG, but it is usually considered to be a framework that is meant to guide company operations relating to corporate governance [4]. Over the past decades ESG has become a very vital aspect of a business's value for both small scale enterprises (SMEs) and multi-national cooperations. However, the contributions of SMEs to ESG investment remains undermined despite them being the backbone of any functioning economy [5]

There are three main pillars of ESG investment namely, Environmental, Social and Governance. ESG investment over the past decade has been one of the major topics in the world of cooperate governance and Business investment in general. There has been a lot of research directed to each pillar to try and understand fully the extent to which these pillars are important and their pros and cons.

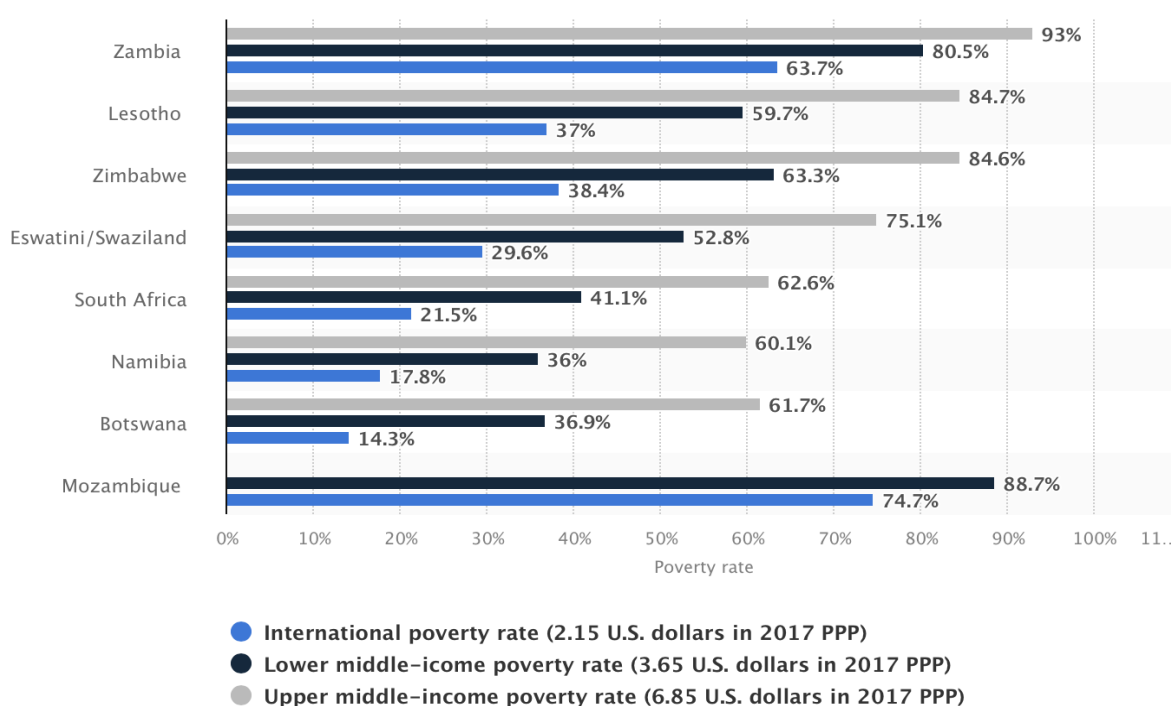
<sup>2</sup> Source: Author's design from theoretical framework



Environmental: the environmental pillar is made up of Energy usage efficiency, climate change strategies, carbon emission reduction, Greenhouse gas emissions and pollution and waste reduction. For African countries, the environmental pillar might just be the most important pillar with regards to ESG investment since majority of challenges covered by this pillar are the ones facing majority of African countries [6]. Poverty is one of the significant challenges affecting the African continent and it should be the mandate of every corporation wishing to invest in Africa to include poverty reduction under its environmental pillar of its ESG investment strategy. The definition of society differs from continent to continent, country to country, city to city and society to society. However, despite the vast differences, a poor household or individual is one that is said to be living under the below the national poverty line [7].

Figure 3.

### The Poverty annual rate in Southern African Countries in 2023



Source: Data collected from Statista3 (Access date: 27.02.20225)

Figure 3. shows just how important the need for ESG investment in Africa is. Countries like Zambia with a worrying 93.0% upper- income poverty and a staggering 80.50% in lower middle-income poverty rate and finally 63.7% in international poverty rate.

Despite the worrying figures Zambia is a natural resource rich just like many other African countries with a lot of foreign Direct Investment coming into the country. However, the people of Zambia continue to suffer in poverty. With the introduction of a ESG investment policy, the government will make sure that businesses do not focus on profit maximization but also on the growth and development of society and places in which the business operate. Mining and Agriculture are Africa's biggest sectors and with climate change in place these two sectors will be hugely available therefore contributing to the rise in poverty levels [8]

<sup>3</sup> Statista 2025 [Text electronic]. Available : <https://www.statista.com/statistics/1551703/southern-africa-poverty-rate-by-country-and-income-level/> [Accessed 27.02.2025].



The Social pillar is as important as the environmental pillar. It is the pillar that represents the upholding and respect for human rights and businesses can be the main pioneers of this pillar [9] Social concerns are where people's experiences are specifically highlighted, even if the environmental and governance components of ESG are linked to our well-being as individuals and as a community. A company's ESG strategy's social components cover topics including modern slavery, workplace health and safety, and diversity and inclusion. The "social" pillar of ESG is really about companies embracing and upholding human rights. The main key areas in the social pillar include:

Labour Practices, in most African countries exist the "minimum wage" which is the minimum amount of money a worker can get for services to the company. However, this amount is usually very low compared to other European countries and America. Nonetheless, it is important to note that the minimum wage is a very key part of labour law development. In addition, there is still debate on the impact that minimum wages have across various sectors of the economy, but taking a country like South Africa where it has not had a large disemployment effect [10]. In fact, according to the International Labour Organisation (ILO) between 2006 and 2018, there had been an increase of 20.0% in wages across various African countries resulted in labour productive gains [11]

Figure 4.

Minimum wages in Southern African Countries per hour



Source; Horizon4 (Access date: 27.02.20225)

According to data collected across various sources South Africa's minimum wage per hour stands at 1.31 dollars, Lesotho being second with 0.98 dollars per hour, Namibia's minimum wage per hour is 0.62 dollars, while Zimbabwe's minimum wage is 0.53 dollars per hour, Botswana is next with 0.47 dollars per hour, Mozambique's minimum wage is 0.38 per hour and last on the list is Angola with 0.42 dollars per hour. These figures compared to a lot of European countries are very low and disappointing hence another reason for ESG incorporation in most of the Southern African Countries.

Community Participation and engagement is another crucial feature under the social pillar of ESG investment. A company that engages can lead to the solidification of a company's Good which might also be beneficial to the company in times of economic troubles. A good example are the mining companies in Zambia. The mining Sector being the largest sector and contributor to the

<sup>4</sup> Horizons: [Text electronic]. Available : <https://joinhorizons.com/countries/south-africa/hiring-employees/minimum-wage/> [Accessed 01.03.2025].



Zambian economy has attracted a lot of foreign investors and this has had its own share of negative impact in areas where these mines are located by leaving them contaminate with poisonous substances through the mines operations [12]

The final pillar of ESG investment is Governance. The governance aspect refers to the conduct and ethics and principles of a company / business in its day-to-day operations. According Guilhermore Fowler et al. they argue that ESG governance is not the same as cooperate governance and that ESG-based Governance ought to tackle two problems namely, the availability of all costs affecting shareholders and the availability of all the costs limiting effective governance mechanisms [13]

#### RECOMMENDATIONS FOR EFFECTIVE ESG-INVESTMENT IN SOUTHERN AFRICAN COUNTRIES.

For ESG-investment to be successful in Southern African countries, certain steps will need to be followed, and specific policies will need to be implemented:

First and foremost a mandatory ESG-investment disclosure policy will need to be implemented by southern African countries with specific reference to the global benchmarks system.

Secondly, to create an incentive for the success and effective set up of ESG-investment, the government in these countries should consider giving some form of tax breaks to businesses and cooperations.

Another important factor to consider for ESG-investment to succeed is transparency and accountability from the parties involved. The transparency index in most sub-Saharan countries is usually below 50 out of 100. There is greater need to form an ESG-data collecting organization or center within the sub-Saharan region to help monitor the success or the failures of ESG.

The mining and agriculture sectors are the biggest sectors in most Sub-Saharan countries and as such ESG investment should be mandatory due to the nature of the two industries and their roles in climate change.

Furthermore, there exists a lot of regional organizations such as the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). These organizations can play a key role in ensuring ESG-investment succeed by promoting it through the various summits that are held every year.

As already outlined in this article SMEs despite being the driving force behind every economy are widely overlooked in the ESG conversation. The best way is to set up ESG workshops to train them about the importance of ESG-investment and why they need to come on board.

#### CONCLUSION

Environmental, Social, and governance (ESG) has over the decades changed from voluntary to fundamental part of corporate strategy across the African continent. Africa is a resource-rich continent and thus the increasing demands from international stakeholders for ethical operations have elevated ESG adherence to a critical business imperative. It is for this reason that the adoption of ESG-investment guidelines and ensuring that companies contribute to the development of the Southern African region is needed now more than ever.

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