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# Rebuilding social cohesion is an essential contributor to economic development in South Africa

Private companies can help resolve societal challenges by incorporating ESG into their corporate strategy

November 2022

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# Important messages

**South Africa has made tremendous strides as a nation over the past three decades.** The Human Development Index (HDI) has classified the country in the 'high human development' category since 2012, reflecting progress made since 1994 in improving the country's health, education and quality of living outcomes. However, the country's challenges remain numerous.

**Violent civil unrest in KwaZulu-Natal and parts of Gauteng during July 2021 was the worst such incident since the dawn of democracy.** The violence occurred within a context of multiple socio-economic challenges facing the country, including high unemployment, poverty and inequality. A panel of experts found that these and other social challenges would be a recipe for constant instability.

**Our concern right now is that many of the driving forces behind the 2021 unrest have not improved.** Some factors (e.g. spatial planning) are structural and impossible to change over a short period while other challenges (unemployment) have deteriorated further.

**There is ample evidence that social cohesion has significantly deteriorated in South Africa over the past five to ten years.** Social cohesion is defined in the local context as comprising 1) inclusion in economic and social life, 2) acceptance and belonging in society, 3) social relationships and trust, 4) participation in political life, as well as 5) trust in the legitimacy of institutions.

**The risk faced by South Africa at present is that the breakdown in social cohesion experienced in recent years continues on a negative trend over the short-to medium-term. For private companies, this increases operational and security risk for business activities.** This is expensive to mitigate. A survey by the City of eThekwini found that the value of lost sales and stock caused by the 2021 unrest totaled R40bn.

**Survey data shows that local business leaders are very concerned about the impact of social inequality on their businesses.** South Africa is the most unequal society in the world when measured against the distribution of income. The risk of more unrest is real.

**At the same time, the public sector is overwhelmed; stretched in every direction to cope with these and other challenges. However, with this statement, we also deliver a message of hope.** South African companies can make a meaningful and sustainable impact on their communities by adopting the right strategy for their business and stakeholders.

**The private sector will need to play an increasingly important role in helping the state address socio-economic challenges – specifically at the community level.** This report advocates for a new approach and highlights the tools available to the private sector's social investment spending to help rebuild social cohesion.

**While Corporate Social Investment (CSI) increased from approximately R7bn in 2012 to R10bn in 2021, reporting in annual reports on the quantum of CSI spend is not enough – it is too transactional in nature.** Organisations can only have a meaningful impact on social cohesion by deliberately taking a purpose–driven approach to their general business operations with a focus on the five pillars of social cohesion.

**Addressing the breakdown in social cohesion at a community level can best be achieved by implementing a comprehensive Environmental, Social, and Governance (ESG) approach that is embedded within an organisation's core business strategy.** ESG is more than ticking boxes: it is about making a difference by creating sustained outcomes that drive value and fuel growth while strengthening our environment, societies and governance structures.

**This report provides practical examples of how PwC is working with private sector organisations to improve this impact and help rebuild social cohesion in South Africa.** This includes information on our work with a water user association in the north of the country as well as the services that we deliver to help our clients implement living wages.

# The unrest of July 2021 could repeat unless we resolve our socio-economic challenges

South Africa has made tremendous strides as a nation over the past three decades. The Human Development Index (HDI), a summary of progress on basic dimensions of human development, has classified the country in the 'high human development' category since 2012. This is an improvement on the 'medium human development' classification in the preceding two decades and reflects on progress made since 1994 in improving the country's health, education and quality of living outcomes.[1]

However, the country's challenges remain numerous. In July 2021, KwaZulu-Natal and parts of Gauteng were hit by violent civil unrest. These events, characterised by looting, destruction of property, and the disruption of economic activity, resulted in the deaths of 354 people and over R50bn lost to the economy.[2] It was generally viewed as the worst unrest in the country since the dawn of democracy.

Warnings about social unrest have been around for a long time. Many local and international entities have highlighted this in qualitative and quantitative assessments of local risk factors. For example, the Allianz Research Social Risk Index (SRI) 2020 (published just weeks ahead of the July unrest) identified South Africa as being highly vulnerable to social unrest in the next 18 months.[3]

In a report released by the presidency in February 2022, a panel of experts placed the July 2021 violence within a context of multiple socio-economic crises and challenges facing the country, including:

- Weakness in state institutions
- The impact of state capture
- Rampant corruption at various levels of government
- High levels of poverty and deep inequality
- High levels of unemployment, particularly among the youth
- Poor spatial planning leading to overcrowded and unsuitable living conditions for many
- Frustrations caused by the COVID-19 lockdowns, amongst others[4]

The panel warned that a combination of these challenges would "be a recipe for constant instability under ordinary circumstances".[5]

However, this list also highlights ways to improve the situation. PwC's ADAPT (a framework summarising urgent issues confronting society, business and individuals) highlights many of these issues as relevant to societal challenges in many countries around the world. While the list could leave one feeling overwhelmed, there are also opportunities in these challenges. Not least, the opportunity to reframe the way we perceive the world and take action to drive towards a positive outcome for ourselves, our organisations and our society.[6]

This document sends a message of hope. Change is certainly possible, alongside a call to action for the private sector. While there is a clear risk to business activity from a non-functional society, there are immense opportunities in a wel l-functioning society.

# Defining social cohesion

Many of the challenges highlighted by the presidential panel speak to the deterioration in the country's socio-economic conditions in recent years which has also resulted in a deterioration in social cohesion among South Africans.

While there is no universal definition for social cohesion, research by the University of Cape Town's Poverty and Inequality Initiative (PII) has identified five measurable dimensions of social cohesion in the South African context. These are:

- **Inclusion:** access and participation in economic and social life, including quality of life indicators
- **Belonging:** identity, shared norms and values, as well as feelings of acceptance and belonging in society
- **Social relationships:** social networks, trust, as well as the acceptance and value placed on diversity in a society
- **Participation:** active involvement in political life
- **Legitimacy:** trust in institutions and feelings of representation[7]

PwC has warned before that when the general population is not prospering, societies are in deep trouble. Real and felt prosperity are absolute requisites for countries or regions to function effectively. When people do not feel prosperous, they do not buy, do not dream, do not launch new businesses, pay sufficient taxes, or otherwise contribute to economic growth and development.[8]

They are also more anxious, this, in turn, results in greater amounts of drug and alcohol abuse, domestic violence, self-harm, and less inclination to participate in routine community activities. When people do not feel prosperous, they become more insular, seeking out others like themselves. In turn, society fractures, and social cohesion breaks down.[9]

Conversely, there are many benefits to a cohesive society. Contemporary research highlights the positive attributes associated with social cohesion in African countries, including:

- Faster economic growth
- More effective recovery from economic shocks
- Reduced polarisation like riots and political divisions
- State stability with less violence and conflict
- Increased quality of life and livability
- More stable democracy and participatory citizenship
- Tolerance of diversity and multiculturalism, including migrants
- Better health outcomes[10]

As explored in this report, there is ample evidence that social cohesion has significantly deteriorated in South Africa over the past five to ten years. This has placed the country in a precarious situation of instability. People who do not have any hope for a better future draw the conclusion that those who are running the world (or those who just seem to be more fortunate) are responsible for their intolerable levels of hardship — and the fissures among different economic and social strata widen. In desperation, people are more inclined to lash out by trampling on traditional norms and rejecting institutions that society needs to flourish.[11]

Our concern right now is that many of the driving forces behind the July 2021 unrest have not improved. Some factors (e.g. spatial planning) are structural and impossible to change over a short period while other challenges have deteriorated further. For example, the number of unemployed youth (aged 15-24) has increased by another 12% to 2.8 million.

The risk faced by South Africa at present is that the breakdown in social cohesion experienced in recent years continues on a negative trend over the short-to medium-term. This, in turn, heightens the risk of people increasingly expressing their dissatisfaction through non -peaceful means.

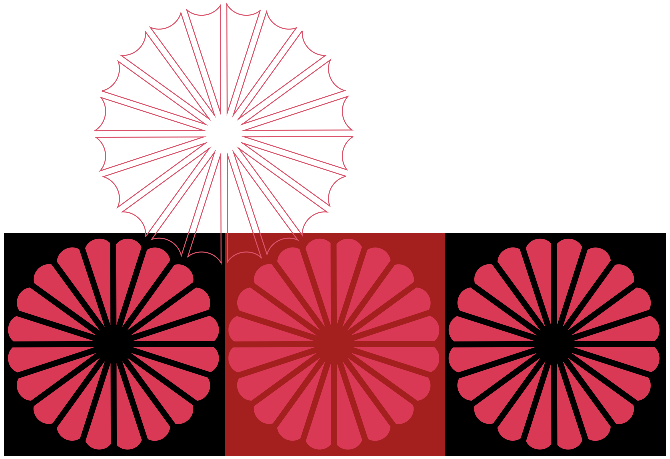
For private companies, this increases operational and security risk for business activities. Physical infrastructure (buildings), supply chains and staff safety are at risk. For example, a survey by the City of eThekwini found that the value of lost sales and stock caused by the July 2021 unrest totalled R40bn. A further R20bn in lost equipment and machinery was recorded as well as damage to property valued at R15bn.[12]

The state-managed South African Special Risk Insurance Association (SASRIA), which required a R3.9bn cash injection from the National Treasury in 2021 to ensure payment of claims related to these losses, warned in April 2022 that it would not be able to afford payouts of the same magnitude in the future. The association paid out R37bn in damage claims and noted that there is not enough reinsurance capacity globally to cover another R37bn loss event.[13]

At the same time, the public sector is overwhelmed; stretched in every direction to cope with these and other challenges. As such, the private sector will need to continue to play an increasingly important role in helping the state address socio-economic challenges – specifically at the community level. This is about more than just spending and reporting on Corporate Social Investment (CSI) spending; it is about a much bigger impact that can be made.

With this statement, we also deliver a message of hope. South African companies can make a meaningful and sustainable impact on their communities by adopting the right strategy for their business and stakeholders. For example, research by the University of Oxford Sustainable Finance Programme shows that an increase in company-level ESG performance can result in a positive effect on a country's living standards, both in developed and emerging markets.[14]

This is a call to action for South African companies to integrate ESG factors into their corporate strategy. It is essential in order for enterprises to build trust in communities and deliver sustained outcomes for both their own business operations, members of their supply chains, as well as the people living in the geographies where these interests are located.



# Key metrics for social cohesion have deteriorated in recent years

There is ample evidence that some of the key factors associated with social cohesion in South Africa have deteriorated in recent years.

- **Workforce inclusion:** South Africa's inequality challenge is closely linked to a lack of sufficient job creation. In the second quarter of 2022, unemployment was recorded at 44.1%, according to the expanded definition. This was almost twenty percentage points higher compared to 2008 when Statistics South Africa (StatsSA) first started publishing quarterly jobs data. During this period, the number of unemployed and discouraged citizens increased from 5.2 million to 12.3 million.[15] This has resulted in the country having the highest total and youth unemployment rates in the world. Structural inhibitors to creating more jobs – including education and skills challenges - are increasingly restricting the inclusion of citizens to participate in the country's economy.

- **Political belonging:** Since the dawn of democracy, South Africa has seen many new political parties. The increased number of political parties indicates an increased feeling of a lack of belonging among South Africans. In 1994, only seven political parties occupied the national assembly; this has increased to 14 different parties having a seat in parliament post the 2021 national government elections. Dissatisfaction and the search for political belonging among South Africans is also made evident by the large number of political parties available to choose from. According to the Independent Electoral Commission (IEC), there are currently over 1,490 registered political parties; 304 of which participate at both national and municipal level, while 1,186 participate only at municipal level.[16]

- **Trusting social relationships:** The IPSOS Global Trustworthiness Index 2022 report shows that only three out of ten South Africans believe that ordinary men and women in the country are trustworthy.[17] The score has been at this low level since 2019, signifying no improvement in trust among citizens. The low levels of trust among ordinary citizens stems from issues such as wealth inequality and xenophobia. According to the United Nations Human Rights Watch, foreign nationals (particularly from Asia and elsewhere in Africa) are scapegoated and blamed for economic insecurity, crime, government failures to deliver services, as well as the high unemployment rate amongst South Africans.[18]

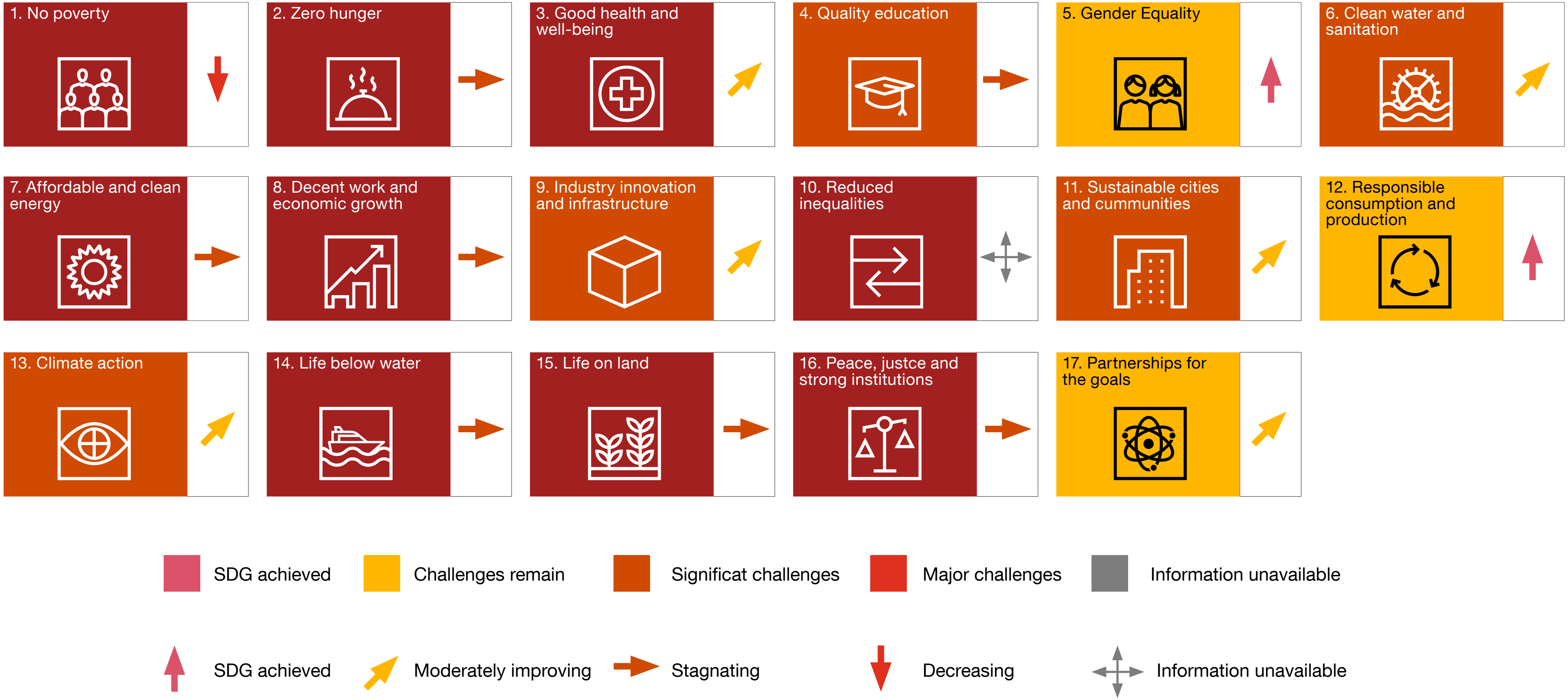
- **Democratic participation:** Some 18.1 million people had registered to vote in South Africa's 1998 national elections, with a voter turnout of 89.3% - indicating that 16.1 million people voted. The number of registered voters has subsequently increased to just over 26.7 million in 2019.[19] However, voter turnout declined to 66.1% in 2019. The lack of desire to participate in elections by citizens worsened in the 2021 local government elections which saw the lowest levels of voter turnout at less than 50% (just below 12.1 million votes) of all registered voters. According to AfroBarometer, the decline in voter participation stems from various factors, including a lack of trust in key institutions, political parties, elected officials and representatives of these institutions.[20]

- **Legitimacy of institutions:** Trust in South Africa's institutions is relatively weak. According to Transparency International's Global Corruption Barometer (GCB) Africa 2019 report, the police are deemed the most corrupt institution in the country, with 49% of those surveyed indicating that most if not all police are corrupt.[21] Local government councillors (45%), members of parliament (44%) and government officials (44%) were deemed the next most corrupt institutions by those surveyed. The percentage of corrupt government officials has improved slightly since 2015. However, a 2021 Afrobarometer survey found that two-thirds (67%) of South Africans would be willing to forego elections if a non-elected government could provide security, jobs, and housing.[22]

# South Africa: The most unequal society in the world

South Africa ranks 108th out of 163 countries (i.e in the bottom 35%) in the United Nations (UN) Sustainable Development Report 2022. The country has not yet achieved any of the overall SDGs, with major challenges remaining in reducing the triple challenges of poverty (SDG1), unemployment (SDG8) and inequality (SDG10).[23]

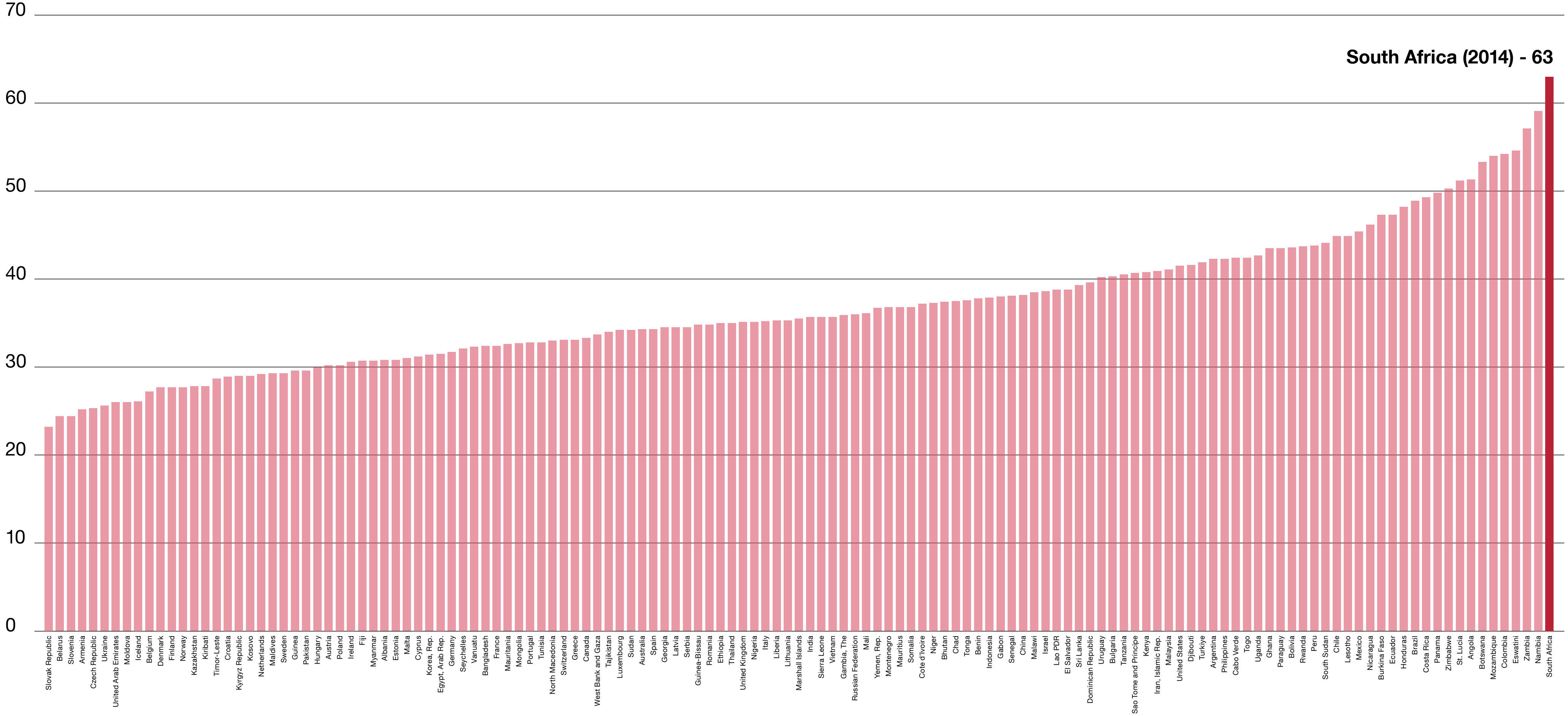
Figure 1: South Africa is still a long way off from achieving SDG targets




Source: United Nations

## Figure 2: International comparison of Gini coefficients, ordered from lowest (most equal) to highest (most unequal)

While global income inequalities (SDG10) between countries have declined over the past two decades, inequalities have increased significantly within countries. At a global scale, the gap between the average incomes of the top 10% and the bottom 50% of individuals within countries has almost doubled, from 8.5 times to 15 times.[24] Closer to home, the World Bank reaffirmed in 2022 that South Africa is the most unequal country in the world.[25]

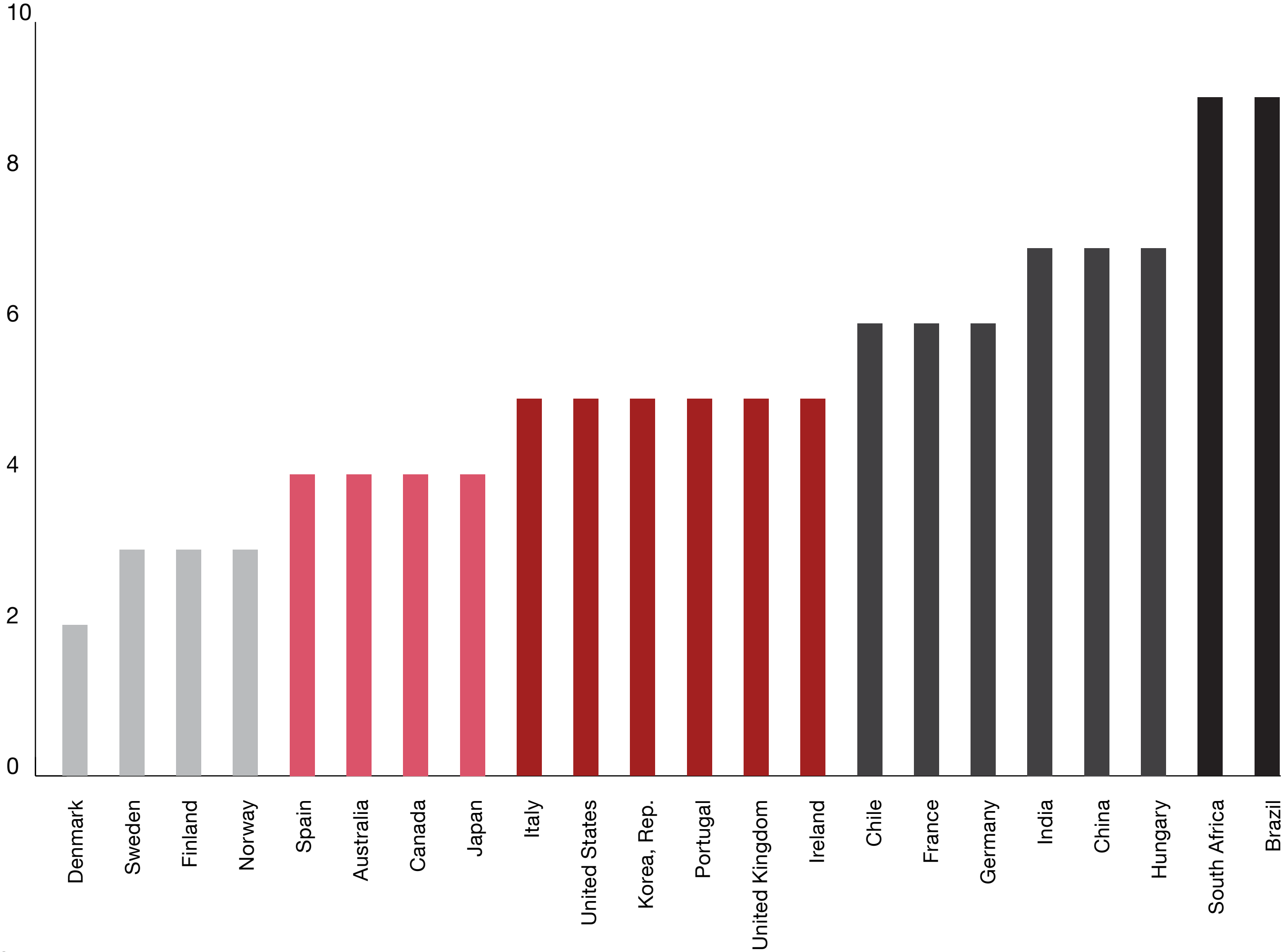



Source: World Bank

The disparity in income and wealth has many implications. For example, disparities in opportunity will grow, with a likely decline in social mobility. The World Economic Forum (WEF) Global Social Mobility Report 2020 found that it would take nine generations (almost two centuries) for a South African born into a low-income family to approach a financial situation representing the country's mean income – i.e. middle class. This is longer than estimated for other emerging market economies like Chile (six generations) as well as India and China (seven generations).[26]

## Figure 3: It will take almost two centuries for a poor South African to reach mean income status

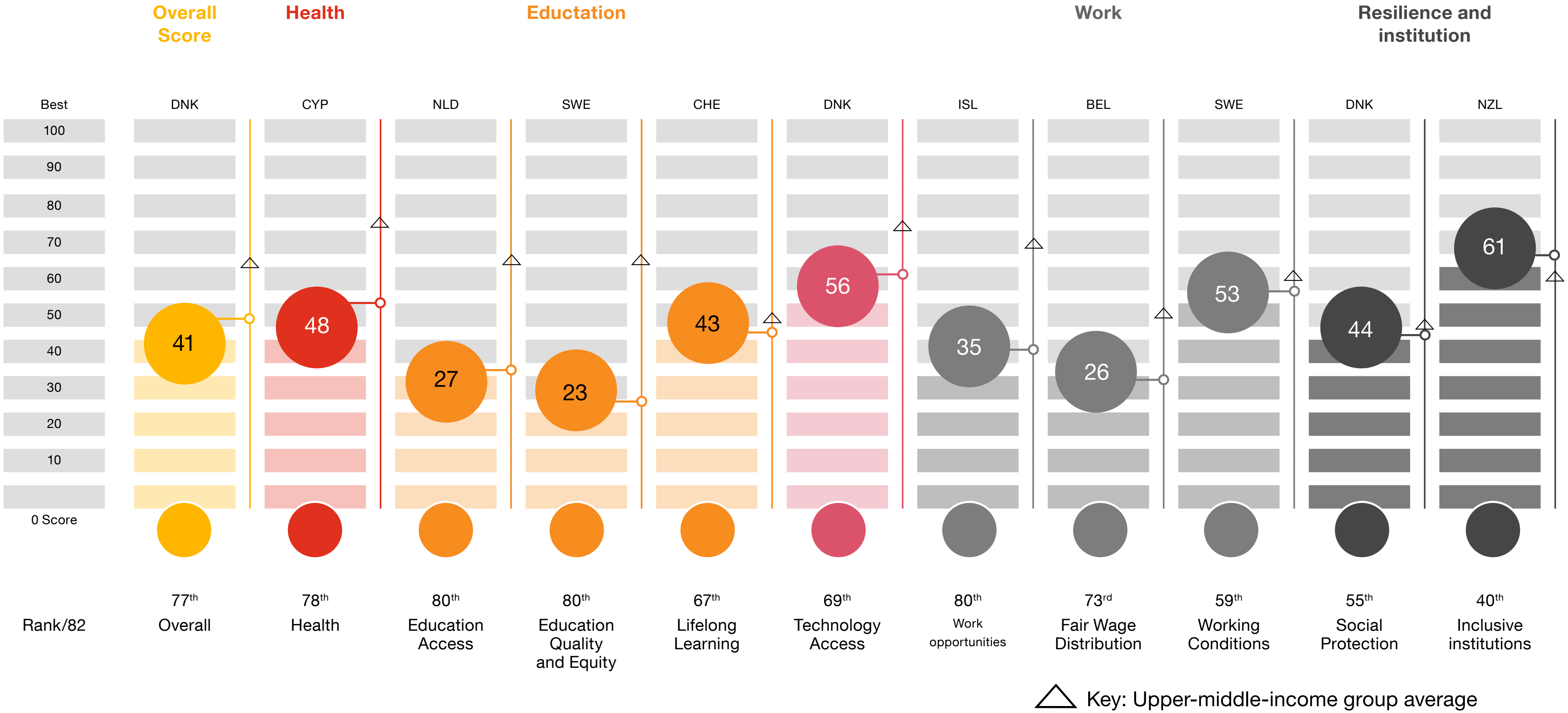
**Number of generations needed to reach mean income**




Source: WEF

tThe growing gap between the 'haves' and the 'have-nots' is a key driver for the decline in social cohesion across many societies and economies. Escaping poverty is hard for the have-nots. According to the WEF, most of South Africa's social mobility drivers are weaker compared to other upper middle income economies. These include access to employment opportunities and the presence of inclusive institutions – both of which are at the core of social cohesion.[27]

## Figure 4: Social mobility is limited by a combination of societal factors

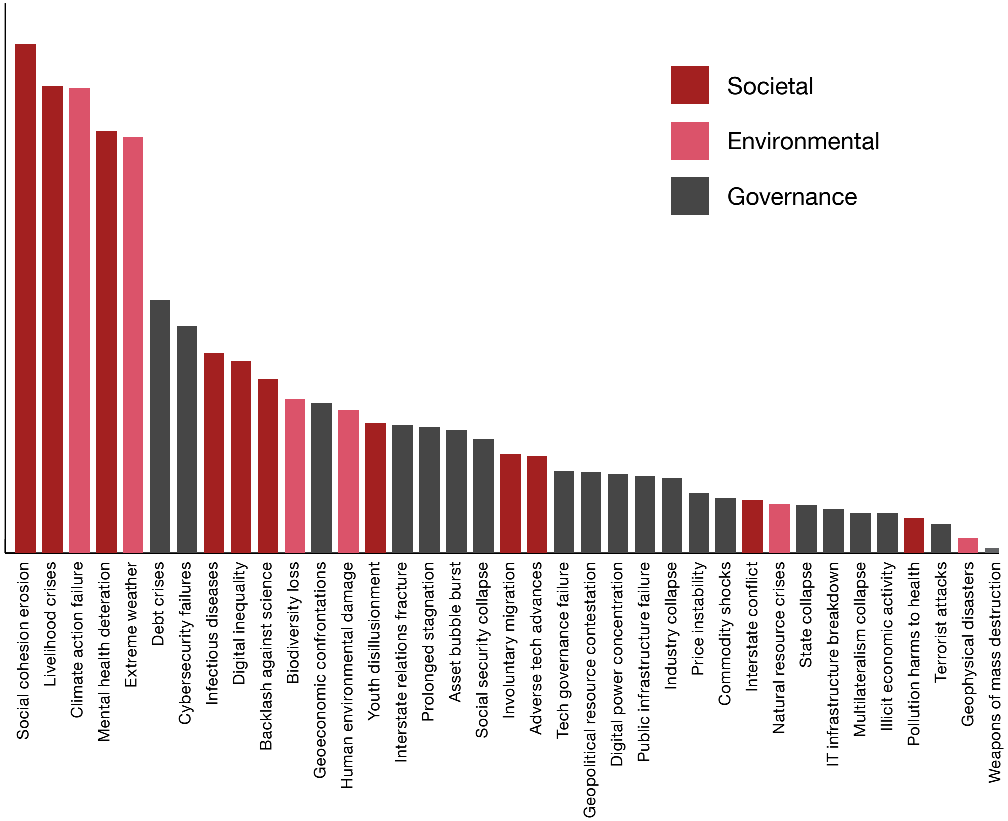



Source: WEF

# Why we are worried about social risk

The WEF Global Risk Report 2022 identified erosion of social cohesion and livelihood crises as the risk factors that have increased the most globally since the start of the COVID-19 crisis. The organisation noted that social cohesion erosion is a top short-term threat in 31 out of the 124 countries (25%) surveyed in the report, with this list including South Africa.[28]

### Figure 5: Global social factors have deteriorated most since the arrival of COVID-19

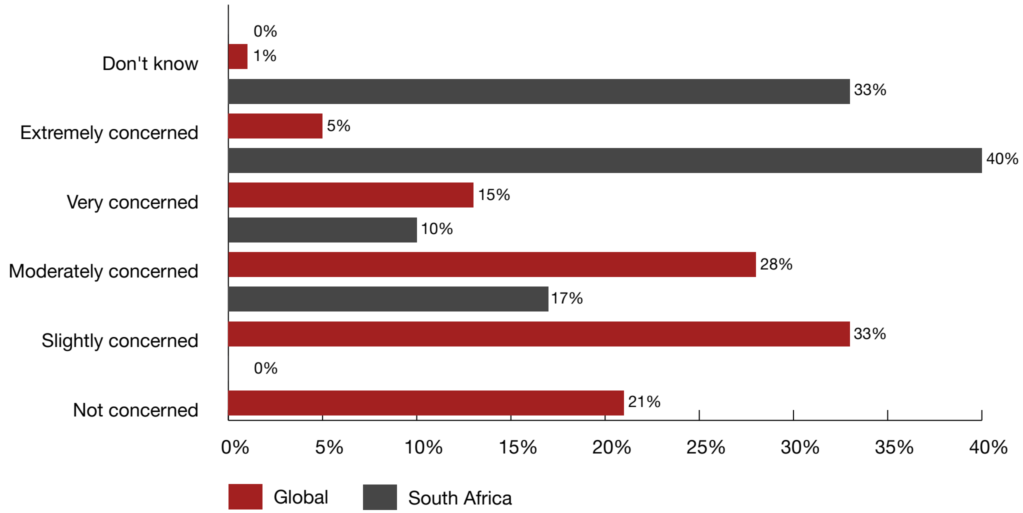



Source: WEF, PwC's own ESG

Risk associated with social cohesion and inequality is the big standout concern for South African business leaders. Some 73% of South African CEOs responding to PwC's 25th Annual Global CEO Survey were very, or extremely, concerned about social inequality stemming from, for example, income and wealth negatively impacting their company over the next 12 months. This is nearly four times higher than the global reading of only 18%. Most global CEOs are only slightly concerned about social risk in their countries.[29]

### Figure 6: Local CEOs are very concerned about social inequality

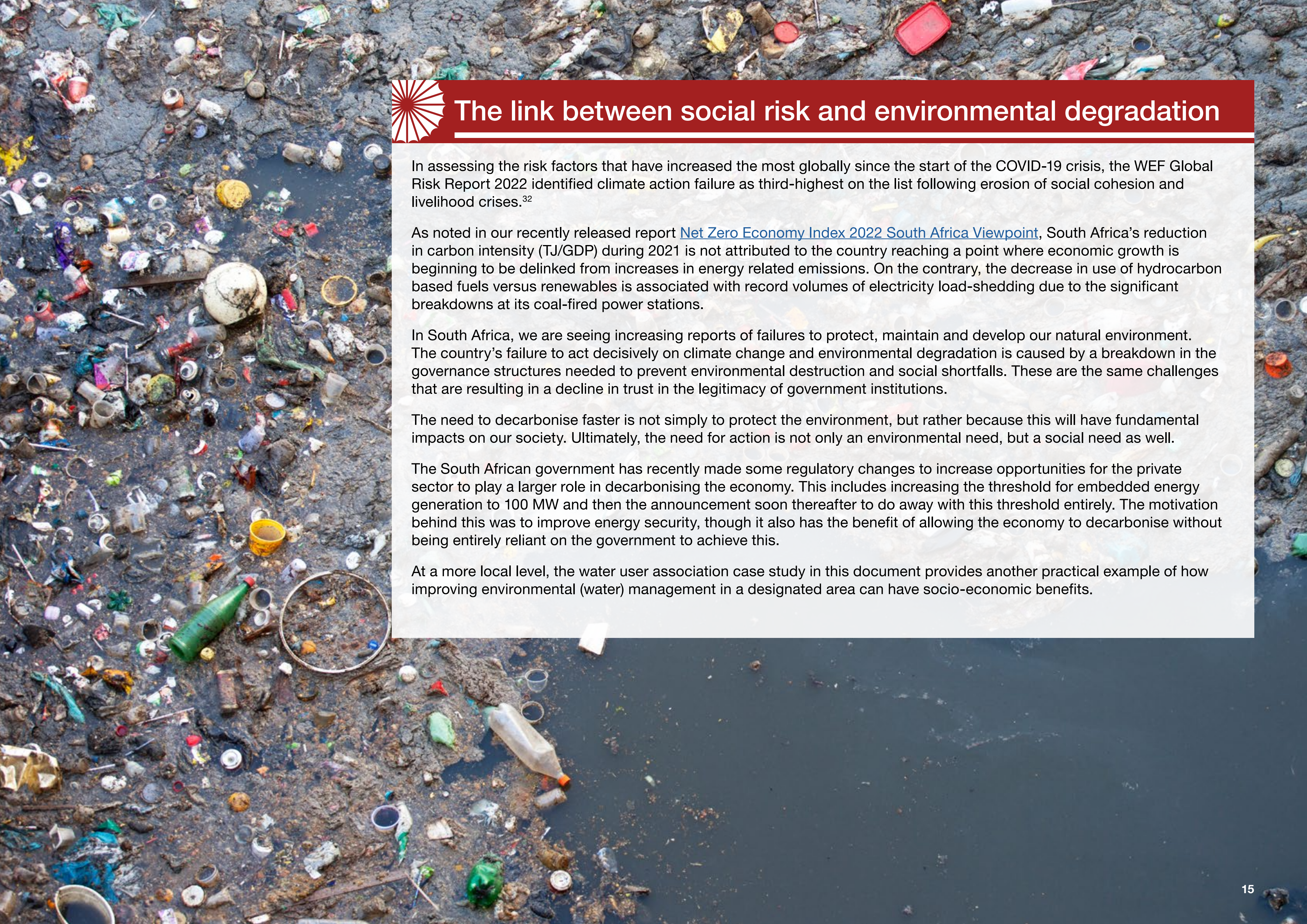
**How concerned are you about social inequality (including those stemming from gender, race and ethnicity, wealth) negatively impacting your company over the next 12 months?**




Source: PwC's 25th Annual Global CEO Survey 2022

In younger economies like ours, where the demographic makeup is skewed towards the youth, governments are faced with chronically high youth unemployment – no matter what level of education has been achieved by these individuals. If countries are unsuccessful in addressing the wealth disparity, youth unemployment, and decline in social cohesion, they face increasing social unrest.[30] This was clearly evident in South Africa in July 2021.

Given its current socio-economic challenges, South Africa has the fourth-highest risk globally of protests and riots over the next 12 months, behind Sudan, Myanmar and Haiti. It is classified by IHS Markit as having a "severe risk" of unrest events happening in the short-to medium-term.



## The link between social risk and environmental degradation

In assessing the risk factors that have increased the most globally since the start of the COVID-19 crisis, the WEF Global Risk Report 2022 identified climate action failure as third-highest on the list following erosion of social cohesion and livelihood crises.[32]

As noted in our recently released report Net Zero Economy Index 2022 South Africa Viewpoint, South Africa's reduction in carbon intensity (TJ/GDP) during 2021 is not attributed to the country reaching a point where economic growth is beginning to be delinked from increases in energy related emissions. On the contrary, the decrease in use of hydrocarbon based fuels versus renewables is associated with record volumes of electricity load-shedding due to the significant breakdowns at its coal-fired power stations.

In South Africa, we are seeing increasing reports of failures to protect, maintain and develop our natural environment. The country's failure to act decisively on climate change and environmental degradation is caused by a breakdown in the governance structures needed to prevent environmental destruction and social shortfalls. These are the same challenges that are resulting in a decline in trust in the legitimacy of government institutions.

The need to decarbonise faster is not simply to protect the environment, but rather because this will have fundamental impacts on our society. Ultimately, the need for action is not only an environmental need, but a social need as well.

The South African government has recently made some regulatory changes to increase opportunities for the private sector to play a larger role in decarbonising the economy. This includes increasing the threshold for embedded energy generation to 100 MW and then the announcement soon thereafter to do away with this threshold entirely. The motivation behind this was to improve energy security, though it also has the benefit of allowing the economy to decarbonise without being entirely reliant on the government to achieve this.

At a more local level, the water user association case study in this document provides another practical example of how improving environmental (water) management in a designated area can have socio-economic benefits.

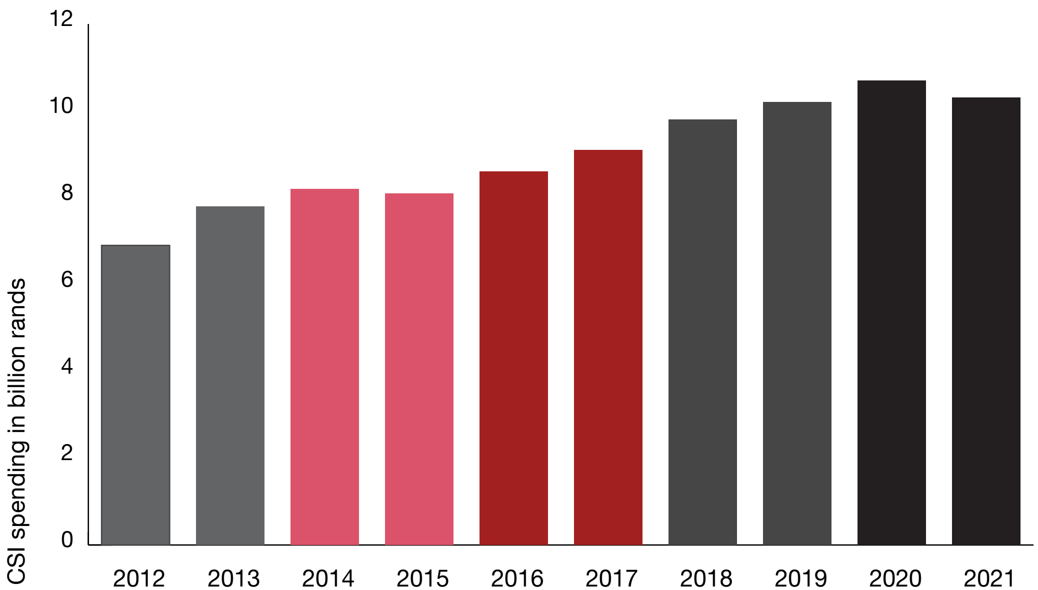
# A new approach to social investment spending can help rebuild social cohesion

The drive in South Africa to address the triple challenges of poverty, inequality and unemployment has been at the forefront of debates in the public and private sectors for decades. However, we need to question whether financing socio-economic development interventions in the same manner as we have in the past will effect and result in real, visible change in our social fabric.

Corporate Social Investment (CSI) is broadly the investment in social development through, for example, the provision of cash, services, products, staff time and more towards specific social projects. Nominal CSI expenditure in South Africa has increased from approximately R7bn in 2012 to R10bn in 2021. The largest recipients of CSI spend over the period was education, with a COVID-19-related shift to disaster relief and food security during 2020-2021.[33] In real terms, i.e. when accounting for the impact of inflation, annual CSI spend during 2018-2021 was similar to 2013.

But reporting in annual reports on the quantum of CSI spend is not enough – it is too transactional in nature. We need to report on the outcomes and impacts of the initiatives on the beneficiaries. Organisations need to actively ensure that funds are channelled to the intended recipients and progress is monitored and evaluated regularly. According to research by Trialogue, 78% of companies surveyed (both listed and unlisted) reported that they manage some of their CSI internally. However, only two out of three of the companies surveyed had a stated policy on monitoring and evaluation of CSI expenditure.[34]

Figure 7: Annual CSI spending increased by nearly 50% between 2012 and 2020

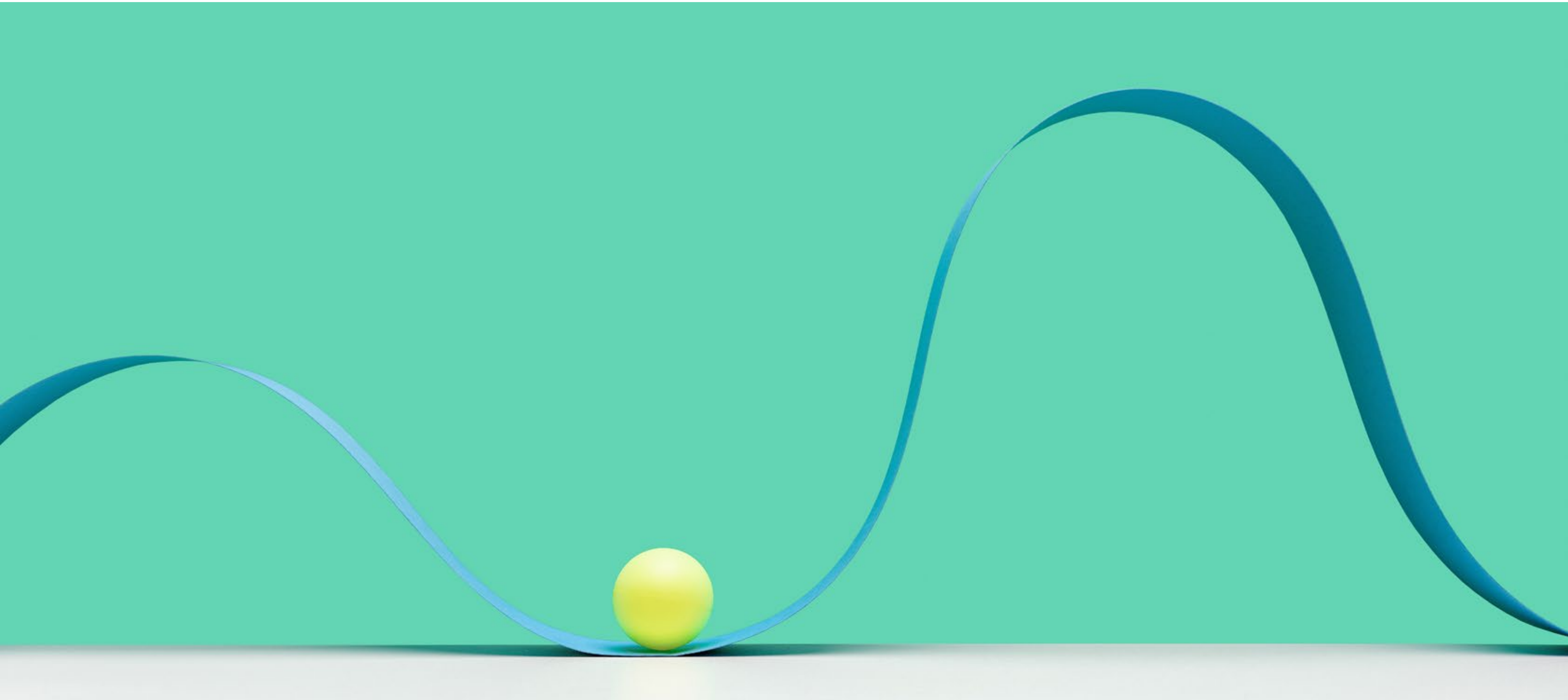



Source: Trialogue

The root causes for our ailing society clearly require more appropriate attention than just CSI spending. In our view, many of the issues that South Africa is facing can be directly linked to addressing the five pillars of social cohesion.

The breakdown in social cohesion has resulted in a lack of trust and confidence that people and organisations will behave in a predictable and reliable manner and deliver on their commitments. Without trust there is little hope generated that the tides will turn, and the societal fabric we have started to weave from various angles is continuously destroyed by major setbacks. Global leaders who are purpose-driven continue to highlight the importance of transparency in building trust and how this will ultimately lead to prosperity for all.

CSI spending is not enough. Organisations can only have a meaningful impact on social cohesion by deliberately taking a purpose-driven approach to their general business operations with a focus on the five pillars. This requires that an encompassing ESG strategy is embedded within the core business strategy. It may also warrant redesigning business models, products and services to better meet the needs of material stakeholders. This is the only comprehensive approach for ultimately earning the trust of communities and employees, reducing social risk, and providing a safe operating environment. Acknowledging the continuum that is required in achieving lasting change is essential.



# Practical steps for organisations to make an impact on social cohesion

1 **Reevaluate how social investment in your organisation is currently positioned, review and – if necessary – re-define the organisation's purpose, strategic direction and objectives.** Make sure you understand the type and magnitude of risk a non-functional society can have for your business as well as the opportunities a well functioning society offers.

2 **Assess the current societal impact of your organisation. This will establish a baseline which will allow for the regular measuring effectiveness of social and other initiatives in achieving the desired outcomes.** This allows for identifying areas of good practice and opportunities for improvement during implementation.

3 **Involve communities and employees in developing social initiatives, understand their needs, include them in the process, and give them a voice and a vote in what you do.** This will create open channels of communication and allow you to obtain buy-in.

4 **Create positive impact through employment** by thoroughly investigating fair and responsible pay from all angles and instituting living wages. As a secondary step, advocate fair and responsible pay throughout your supply chain.

5 **Talk to your industry peers and, for example, investigate whether (e.g. regional) pooling of investment efforts can result in augmented impact.** This can include sharing structures to manage and steer the selection, implementation, and monitoring of social investment decisions, the control and disbursement of funds through a trusted and independent entity as well as stakeholder engagement in an appropriate manner.

6 **Extend your reach to the appropriate level of government and understand where public private collaboration can help to remove silos** and allow for the achievement of a common outcome, making better use of existing programmes, proven service providers, time and funds and achieving better results.

7 **Do not overpromise: test your plans before you go big.** Establish a proof-of-concept before rolling out social programmes to allow you the opportunity to adjust with learnings.

8 **Conduct regular social surveys with affected communities and other stakeholders** to understand sentiment and acceptance and the need to possibly reevaluate and adjust your current planning.

# Case study 1: Water user association in Limpopo Province

Our client is a water user association in the Limpopo Province and is composed of the commercial mining sector, local communities, and relevant government departments. The association was created more than two decades ago to supply bulk raw water to both the mining sector and communities in the region.

One of the organisation's social transformation endeavours is addressing the water needs of the middle Olifants River catchment area in Limpopo Province. However, the project has only partially been implemented over the past two decades, placing increasing pressure on the government to meet social and industry expanding water needs. Additionally, potable water infrastructure development has been very slow despite bulk raw water having been available since 2002 through the water user association.

PwC South Africa was contracted to provide services to the water association through the development of a management model to implement the project. The social challenges facing the region, coupled with government's funding constraints, were considered when formulating a solution to facilitate the completion of the project - seen as critical in unlocking the economic potential of the region.

The management model is a public-private collaboration for the accelerated delivery of bulk raw and potable water services to address pressing social and commercial needs to defined geographic areas in Limpopo. The long-term objective is for the project to be a catalyst for the creation of game-changing initiatives to drive an exponential socio-economic impact in the region through water provision.

Through the programme, the water user association will become the implementing agent and accelerate bulk raw water provisioning. This, in turn, will support economic expansion in the mining sector to take advantage of the commodity cycle and development of other industries in the region. Furthermore, the programme will accelerate potable water delivery to water-stressed communities, providing a holistic source-to-tap solution.

The public-private collaboration model that PwC developed is premised on a shared funding contribution where both the public and private parties have agreed to share the capital expenditure cost (bulk and potable) of the defined areas of the programme. This leverages government funding with private sector participation. Strong governance structures and equal participation by both the public and private sector parties in the joint venture model are additional principles that enable the collaboration model.

Collaboration and strong relationships between the public and private sector, combined with a focus on community needs, have been, and will continue to be, key for the successful roll-out of the infrastructure, associated socio-economic development programmes, as well as the future prosperity of the region. Socio-economic development has been placed at the heart of the initiative  to ensure communities sustainably benefit from the spend programme through direct and indirect opportunities.

## The programme has three strategic objectives:

1. Safe provision of potable water to communities in the defined areas
2. Creation of jobs through capital and operational spend, and
3. Enterprise development in the area.

Five strategic priority themes, informed by the regional context in the target communities, have been identified that will steer the socio-economic development opportunities. These are:

1. Potable water
2. Sanitation and reuse
3. Enterprise development
4. Education, and
5. Connectivity.

Focussing on these objectives and themes has helped the programme win the hearts and minds of communities to allow for its uninterrupted implementation and to ensure long-term socio-economic upliftment of the area.

> "The profound changes in the world mean that our clients can only succeed by creating a virtuous circle between earning trust and delivering sustained outcomes. By bringing our unique combination of capabilities together, we can help them do that — unlocking value for their shareholders, stakeholders and wider society.
>
> **Bob Moritz**
> **Global Chairman, PwC**

## What PwC can do to help private companies on their ESG journey

Actions to improve society and build social cohesion are at the core of our ESG framework. ESG is more than ticking boxes: it is about making a difference for your business and our world. It is also about creating sustained outcomes that drive value and fuel growth whilst strengthening our environment and societies. These are essentially the building blocks of social cohesion.

Your actions can also speak louder than words. These actions should take place in three interdependent dimensions detailed in Table 1.

**Table 1: PwC's framework to embedding ESG into corporate strategy**

| **Strategy-led top-down approach** | **Transformation-led middle out approach** | **Reporting – led bottom – up approach** |
|---|---|---|
| The strategy-led, top-down approach is where companies translate ESG ambitions into a blueprint for change to position themselves in a sustainable tomorrow. ESG risks and opportunities, such as those in the supply chain and impacts on the business, should be considered. Sustainability needs to be part of the core business strategy, risk management, and day-to-day activities. | Transformative, middle-out approaches examine how ESG aspects are incorporated into day-to-day operations. This drives ESG factors into the heart of the business and ensures reporting is based on strong fundamentals. Governance structures should support the ESG agenda providing guidance, challenge, and oversight. Management must identify what key performance areas and indicators are needed by the business to measure performance against strategy, objectives, and risk mitigation. Performance on these key indicators should be measured and monitored regularly. ESG considerations should also be built into remuneration structures – see practical example below. | The reporting-led, bottom up approach considers what ESG information is required to address stakeholder interests. Regulations and frameworks for measuring and reporting ESG factors – such as carbon emissions, workforce diversity, and supply chain stability - are changing landscapes, although the consensus appears to be on the horizon. Non-financial information should also be subject to the same level of rigour and oversight as financial data. This includes the incorporation of metrics into internal audit and external audit coverage, along with strong management and board oversight. |

Source: PwC

# Practical example 1: From a minimum wage to a living wage

The World Bank estimated a Gini coefficient[40] for South Africa of 0.70 in 2018, based on pre-tax income data.[41] This income inequality calculation includes both employed workers as well as unemployed and discouraged adults. For the same year, PwC calculated a Gini coefficient for employed South Africans of 0.43 based on income data.[42] In other words, there is great inequality in remuneration even for those who have a job. Indeed, South Africa ranked 73rd out of 82 countries in the World Economic Forum (WEF) Global Social Mobility Report 2020 for the fairness of wage distribution.

Remunerating in a dignified manner is one way, perhaps the most important way, to reduce inequality, alleviate poverty, and raise standards of health and well-being among a portion of the workforce that is vital to the economy and to support those who are not fortunate enough to be employed. However, it is clear that the legislated national minimum wage (NMW) is not a sufficient wage to reduce inequality and lift people out of poverty, and that employment at the minimum wage perpetuates poverty and maintains the numbers of 'working poor'.

South African employees earning the minimum wage are therefore — by a substantial margin — not able to afford basic goods and services for themselves or their families. The NMW is currently R23.19 for every hour worked, resulting in an average monthly salary of R4,081.44, based on a 22-day work month in September 2022 of eight hours a day. Research by the Pietermaritzburg Economic Justice & Dignity Group (PMBEJD) found that a full-time worker earning the NMW would have an income shortfall of R1,537 for a family of four to cover three basic household expenses: transport, electricity and food.[43]

The NMW can be contrasted to what is termed a 'living wage': remuneration that is sufficient to allow workers to maintain a frugal but dignified standard of living. This represents a wage that is enough to cover the expenses of food, water, housing, education, health care, transport, clothing and other essential needs. In South Africa, there is no official or even widely accepted definition of what a 'living wage' is. We considered several approaches to fairness, and found the living wage could range from R5,500 to R12,750 depending on how the calculations are made.[44] This is substantially (up to three times) higher than the minimum monthly wage of R4,081.44 during September 2022.

### Community impact of fair pay

There are many positive reasons to pay a living wage. For example, there is a direct positive correlation between increased wages and quality of life, as better-paid employees have access to better quality food, housing and healthcare. We also know that workers who move from earning a NMW to a living wage will spend most of this money in their local or nearby communities. This supports diverse small businesses and job creation in these local economies.

Regarding employment, there is often concern that advocating for higher wages would come at a cost to jobs, i.e. to pay higher wages, companies would need to reduce headcount. In our experience, this is not necessarily the case with implementing a living wage. Companies embarking on a fair pay journey do so as part of a holistic approach to improving the lives of their workers. While not all companies would be able to avoid the trade-off, if properly implemented, this journey does not necessarily require making tough decisions about headcount.

### Company impact of fair pay

Modern societal expectations are that companies should be purpose-led organisations, committed to contributing towards important ESG goals through their influence in society. Company boards are certainly conscious of the requirement for fair and equitable pay at all levels of employment throughout the organisation and have, for the most part, accepted their responsibilities in this regard. We have, particularly in the last few years, noted real action in South African boards towards taking active steps on their fair pay journeys.

There are also strong business (i.e. financial) reasons for companies to move beyond paying the minimum wage and ensuring their employees have sufficient income to support their needs and those of their dependents. We know that employees who are fairly remunerated are happier, more motivated and more productive — and companies do reap the benefits of this. There are patent benefits of higher remuneration: increased motivation, retention of talent, improved company reputation, improved company culture and less absenteeism. This contributes to a better employee experience which, in turn, is essential for improving the customer experience.

As noted before, a public commitment to fair pay sends a strong message about values and purpose, improves reputation, and serves as a differentiator for a company within its industry. We have seen an increase in companies reporting on their fair pay efforts in remuneration reports and have noted that while companies are doing the work internally, many are exploring ways to demonstrate the commitments they have made externally.[45]

In 2022, for example, PwC assisted a South African producer of construction materials to reformulate, implement and report on a company-wide remuneration policy that includes the principles of a Fair Pay Charter. This type of framework sets out an organisation's philosophy towards fair and responsible remuneration, monitoring of its fair pay statistics, and identifying how the organisation can sustainably address its internal income differentials.

Our client recognised that their industry faces many challenges and that it needs to focus on talent retention. The FNB/BER Building Confidence Index was measured at 34 in both the second and third quarters of this year. Calculated on a scale between 0 (indicating an extreme lack of confidence) and 100 (indicating extreme confidence), this index reflects net negative sentiment within the building industry with a reading below 50.[46]

Recent PwC research shows that, in the wake of the COVID-19 pandemic, employees feel empowered by their circumstances and are ready to 'test' the market where their salary expectations and working arrangements are no longer met by their current employers. Many companies fall short in what they offer employees in two key areas: benefits and compensation. These are the reasons ranked highest by employees for wanting to change employers.[47]

In response, employers are responding by implementing fair and responsible remuneration frameworks. This approach focuses on responsible remuneration practices that strive for a fair living wage that is competitive within an industry and geographic context. Our construction materials client already had a fair and responsible remuneration framework in place. However, the remuneration committee sought to improve its impact across the organisation, and worked on refining the drivers of compensation through a fair and responsible remuneration framework.

One of the challenges that our clients face is defining fairness. As noted before, fairness is often determined by a perspective on equality in distribution of remuneration. Joint research by PwC and the London School of Economics has identified six principles of distributive justice:

- **Sufficiency –** Guarantee a minimum standard of living for all
- **Equal opportunity –** Outcomes are fair provided the starting point is
- **Just desert –** People who achieve more deserve more
- **Entitlement –** All voluntary transactions are just
- **Efficiency –** The income distribution should lead to an efficient allocation of labour
- **Maximin –** Distribute income to make the worst off in society as well-off as possible[48]

Our construction materials client selected the first three of these principles as they were considered to most closely resonate with the company's values. This helped the remuneration committee refine its definition of fairness. This includes both horizontal fairness (remuneration for employees who perform work of equal value) and vertical fairness (remuneration between the highest and lowest paid workers categories).

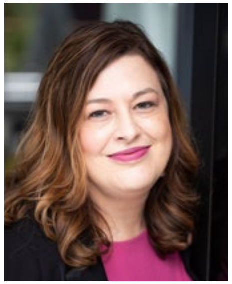
Looking ahead, the construction materials company's remuneration committee pledged to continue exploring avenues to reduce the wage gap between employees during the current financial year. This includes the regular review of the company's Gini coefficient in order to monitor the progress achieved in reducing compensation inequality.

Embarking on a fair pay journey can be a long and intensive process, but it does not have to be intimidating. PwC South Africa's Executive Directors Report 2021 outlined a roadmap for success, demonstrating the steps that we believe are the starting points to getting fair pay right within an organisation. Table 3 highlights the journey that we take with our clients.

**Table 2: Fair pay roadmap**

| 1 Defining fair and responsible remuneration | 2 Take stock of where you currently are | 3 Goals setting and strategising | 4 Developing framework | 5 Compliance |
|---|---|---|---|---|
| Define what fair and responsible pay means to your company. The philosophy and principles that you commit to should inform any pay–related decisions. Where appropriate, goals should be set.<br><br>Fairness could be defined as employees receiving the same pay and benefits, and not being discriminated against based on any arbitrary grounds such as race, gender or sexual orientation.<br><br>However, we know that it is not that simple, particularly in a society as unequal as ours. Everyone may not want, need, deserve, or even be able to derive benefit from the same thing. | Determine where you currently stand with regards to fair and responsible pay, from a policy perspective as well as a pay disparity perspective.<br><br>Evaluate your current policies to identify policies and procedures that increase your risk of pay disparities and perform an analysis to identify any pay disparities.<br><br>We recommend a dual approach: including a macro analysis for a holistic overview, and micro analysis to understand the detail behind any discovered disparities. | With guiding principles in place, and detailed knowledge of your 'status quo', the next step is to adopt an action plan.<br><br>Strategies and approaches for addressing identified disparities should be formed, and any identified action points arising from the analysis should be broken down into achievable, measurable targets with a defined timeframe for resolution. | The philosophy and principles, as well as agreed goals should be recorded in a comprehensive fair and responsible pay policy framework.<br><br>Details of annual processes and reporting protocol should be recorded. Details of the tools which will be adopted to measure and monitor adherence to the stated policy should also be included.<br><br>Related policies and processes (such as those relating to recruitment) should be checked and updated, to ensure the identified principles are reflected. | What gets measured gets done.<br><br>Continue to monitor and report on an annual basis, to ensure accountability to yourself, and your stakeholders.<br><br>Revisit your framework on a regular basis to ensure it stays on top of trends, expectations, and legislative/regulatory changes. |

# Contacts



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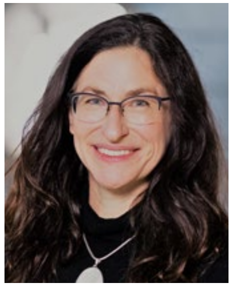

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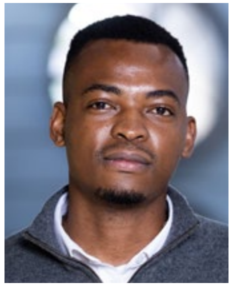

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