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Does ESG Compliance Drive Commercial Banks Stock Returns? Evidence from the South African Market

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Abstract

Purpose: The study examined the effect of environmental, social and governance (ESG) on the commercial bank returns in South Africa.
Design/Methodology/Approach: The study made use of a cross sectional panel model for the sample period 2015-2024. The dependent variable included five South African commercial banks (ABSA, Standard bank, Nedbank, Capitec Bank and Investec Bank) and the independent variable comprised of ESG ratings for each bank. The study also introduced control variables in the form of macroeconomic variables, namely, inflation, money supply, short-term interest rate, long-term interest rate, gross domestic product and real effective exchange rate.
Findings: The findings demonstrate that commercial bank returns in South African is negatively affected by ESG compliance. Moreover, gross domestic product, short-term interest rate, long-term interest rate and real effective exchange rate has a positive effect on commercial bank returns.
Practical Implications: Firstly, the prudent authority which governs the financial market must re-examine policies requiring South African commercial banks to be ESG compliant as it reduces the return perspective of each bank. Secondly, the Asset-Liability Committees (ALCO) of commercial banks should develop strategies that alters the mix of assets and liabilities to better manage the costs associated with ESG compliance. This way they can better manage the negative effect of ESG compliance on banks returns.
Originality/Value: This study is the first to consider ESG compliance as a determinant of commercial bank returns in South Africa. Hence, the study provides insight into the effect between ESG compliance and commercial bank returns. It, therefore, contributes to emerging market literature which is centred on bank performance as appose to bank returns.
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INTRODUCTION

The banking sector of South Africa comprises of a central bank known as the South African Reserve Bank (SARB) which oversee the operations of commercial banks within the borders of South Africa (Xulu 2022). The SARB is considered a systemically important bank as the failure or insolvency will lead to termination in operations of commercial banks. In South African there exist various commercial banks that participate in the banking sector, however, the five important commercial banks that accounts for more than 80 percent of banking assets in South Africa is Standard Bank, ABSA bank, Capitec Bank, Nedbank and Investec Bank (Ngwenya 2022). The duties of these commercial banks are to accept money in the form of deposits and then use these deposits to generate loans for individuals, businesses and governments (Mofokeng and Moodley 2025). The profitability of commercial banks is largely dependent on the exposure to credit risk, operational risk and market risk, where such exposure if not correctly identified and mitigated, will consume the capital base of banks and lead to a decrease in retained earnings, effecting share prices and shareholder returns (Lawrence and Doorasamy 2021). This was clearly evident during the 2007/2008 Global Financial Crises (GFC) as there was excess on and off the balance sheet leverage of banks caused by excess lending coupled with enhanced client default (Acharya and Richardson 2009). The limited capital regulation of banks reduced the commercial banks' ability to cope with the enhanced client defaults. This caused the South African banking sector to become highly volatile, such that banking returns fell in value, and the bearish market condition prevailed (Luchtenberg and Vu 2015).

The inability of commercial banks to mitigate the GFC resulted in the Basel Committee on Banking Supervision (BCBS) developing the Basel III accord to strengthen commercial banks resilience to financial market uncertainty (Fratianni and Pattison 2015). Until recently, investors are no longer looking at commercial banks' ability to mitigate financial market uncertainty, rather, they are now interested in the environmental, social and governance (ESG) compliance of commercial banks. The environmental pillar focuses on the commercial banks impact on the natural world, such as climate change, pollution, resource management and waste reduction (Clément et al. 2025). The social factor highlights the relationship the commercial banks have with its employees, customers, communities and other stakeholders (Martiny et al. 2024). The primary focus is considering factors like labor practices, diversity and inclusion, human rights, and community engagement (Chopra et al. 2024). The last factor, governance, focuses on the systems and structures that guide a company's operations and decision-making, including board composition, executive compensation, shareholder rights, transparency, and ethical business practices (He et al. 2024). For instance, Moodley et al. (2024) found that investors in South Africa have become more conscious to sustainable finance, whereby they are looking for banks that are ESG compliant. This implies that investors are reluctant to hold deposits with non-compliant commercial banks, which effects banks operations and ultimately commercial bank returns (Moodley et al. 2024). Consequently, the responsible investor behavior has over the years forced commercial banks to foster in ESG principles in the daily operations to ensure they maintain their investor base and share price stability (Folqué et al. 2021). This requires commercial banks to comply with all government regulations pertaining to each pillar of the ESG framework, failure to do so will result in the commercial bank being non-compliant (Minkkinen et al. 2024).

In attempt to understand this phenomenon of ESG compliance, many academics attempt to examine the relationship between ESG and commercial banks returns. However, majority of literature is centred around international commercial banks, with no study considering South African commercial banks, despite the importance of sustainable investing (Carnevale and Mazzuca 2014; Miralles-Quirós, Miralles-Quirós and Redondo-Hernández 2019; Ersoy et al. 2022). Moreover, literature demonstrates conflicting findings, such that certain academics find that ESG compliance enhance banks returns whereas other academics demonstrate that ESG compliance negatively effects commercial bank returns. Consequently, there is no consensus on whether ESG compliance influences commercial bank returns and if such compliance drives commercial bank returns. Accordingly, to contribute to the debate and rectify the inconclusive findings, this study examines the effect of ESG on South African commercial bank returns. The achievement of the research objective contributes to literature in various ways. Firstly, this study introduces a new concept to the South African banking sector returns, known as ESG, which is yet to be done, therefore broadening the empirical base given the evolution to stainable investing. Secondly, this study provides evidence of the relationship between ESG compliance and commercial bank returns, therefore, the banking supervisory department can use the findings to make more informed decisions on ESG initiatives. Thirdly, the findings may assist investors, if it is found that ESG drives commercial bank returns, then investors need to consider ESG principles in their investment strategies as it will result in enhanced returns, the opposite holds true as well. Lastly, the findings will assist policy makers in making more informed decisions on policies governing ESG compliance of commercial banks, such that policies should be either relaxed or enhanced to ensure financial stability of banks.

The remaining paper is outlined as follows: section 2 presents the literature review, which is segregated according to the theoretical propositions and empirical review. Section 3 presents the methodology, which comprises of the data and empirical model used in the study. Section 4 provides the results as generated from the empirical model, whereas Section 5 discusses the results in relation to past literature, highlighting the practical and economic implications. Section 6 then concludes the research paper, by providing a synthesis of the findings and future scope for similar studies.

LITERATURE REVIEW

The concept of ESG compliance is imbedded in the "doing good while doing well" theory which postulates that investors can attain success while simultaneously having a positive social impact by including ethical and social responsive initiatives into their investment strategies (Statman and Glushkov 2009). Coherent with this theory, academics have examined the influence of responsible investing like ESG on commercial banks. However, majority of literature is centred around bank performance. For instance, El Khoury (2021) examined the effect of ESG on bank performance and return in the Middle East, North Africa and Turkey. The study incorporated monthly data for the period 2007-2019, which was used in a panel regression analysis. The authors controlled for macroeconomic factors such as gross domestic product (GDP) and inflation to isolate the effects of ESG. The findings demonstrated that ESG has a nonlinear relationship with return on assets (ROA) and return on equity (ROE) (proxy for bank performance) and bank returns where the effect is dependent on the level of ESG compliance and variables used to measure bank performance.

Yuen et al (2022) examined the effect of ESG on banking sector performance and profitability of 51 countries. Using monthly data for the period 2006 to 2021, the generalized method of moments (GMM) model demonstrated that ESG has a negative effect on commercial bank performance, such that it increases operating costs for banks. Moreover, in the long-run ESG increases bank profitability. Similarly, Menicucci and Paolucci (2023) also examined the effect of ESG on bank performance. However, they used an Ordinary Least Squared (OLS) regression analysis. The findings of the OLS model demonstrated that bank performance is negatively impacted by ESG compliance. Thus, Italian banks have not embraced strong sustainability procedures. In line with this, Indrasuci and Rokhim (2023) used a panel regression model to examine the determinants of bank performance in East Asia countries for the period 2017-2021. The authors employed ROA and ROE as a proxy for bank performance whereas ESG was considered as a determinant. The findings relevaled that ESG has a negative impact on bank performance and return, such that banks who are more compliant are more adversely affected.

Contrary to the above findings, Lamanda and Tamásné Vőneki (2024) examined the effect of ESG compliance on bank performance in Central European countries for the period 2017-2021. The authors used monthly data from banks financial reports to gather ESG score whereas bank performance was measure by ROA and ROE. The panel regression model demonstrated that ESG has no significant effect on bank performance, suggesting that bank performance is independent to ESG compliance. Moreover, the findings suggest that there is adequate cost saving strategies in place for Central European banks to mitigate expenses from rising ESG compliance. Jaiwani and Gopalkrishnan (2025) also examined the effect of ESG compliance on bank performance, but they focused on Indian commercial banks. The findings of the panel regression model demonstrated that ESG compliance has a negative effect on ROA and ROE. This suggests that India's commercial banks performance is not resilient to ESG enhancements by the Indian governments.

In the South African context there exists two studies that have considered ESG compliance in the banking sector. Xulu (2022) conducted a systematic review of literature (SRL) to determine if South African commercial banks are incorporating ESG principles. The findings reveal that there are no mandatory requirements for commercial banks in South Africa to implement ESG in their daily operations and as such commercial banks do so on a voluntary basis. Moreover, Nedbank is found to be the most compliant followed by Investec bank, Standard Bank, ABSA bank and Capitec bank. In line with these findings Ngwenya (2022) investigated the effect of ESG compliance on six commercial banks. The study made use of monthly data for the period 2017-2021 and used a panel regression model. The findings revealed that ESG compliance has a positive effect on Standard Bank, Capitec bank, Nedbank, Investec bank, First National Bank and ABSA bank performance. That being enhance ESG compliance increases the operating efficiency of banks.

While majority of literature is centred on ESG compliance and bank performance, some academics have embraced the notion that bank returns is directly influenced by ESG compliance. However, such studies are very limited internationally with no study evident in South Africa. For instance, Carnevale and Mazzuca (2014) used a panel regression model to examine the effect of ESG compliance on European commercial bank returns. The authors implemented a sample period comprising of quarterly data for the period 2011 to 2002. The findings revealed that ESG compliance has a negative effect on commercial bank returns. The authors attribute these findings to the increase costs associated with meeting the initiatives of sustainable

banking practices. Miralles-Quirós, Miralles-Quirós and Redondo-Hernández (2019) also used a panel model to examine the effect of ESG compliance on commercial bank returns, but the authors conducted a comparative analysis between developed and developing countries. The findings revealed that commercial bank returns in developed countries are positively influenced by ESG compliance whereas developing countries commercial bank returns is negatively affected by ESG compliance. That authors suggest that developed nations have created policies that makes commercial banks more resilient to ESG compliance whereas developing countries are yet to develop such policies.

In a more recent study, Ersoy et al. (2022) examined the effect of ESG compliance on the market value of commercial banks in the United States (US) banking sector. The authors consider the returns of commercial banks as a proxy for market value whereas ESG compliance was attained from the financial statements of commercial banks. The unbalance nonlinear panel model demonstrates that there is a time-varying effect between ESG compliance and commercial bank returns. That being, the state of the bank sector dictates the effect, where ESG compliance has a negative effect on commercial bank returns during COVID-19 but pre-COVID-19, bank returns was positively influenced by ESG compliance.

The review of empirical literature reveals that ESG compliance and the banking sector is dominated in the international setting with little to no emphasis placed on South African commercial banks. Moreover, where studies have considered ESG compliance in the banking sector, literature is centred on the effect of ESG on banking performance as appose to banking return. Furthermore, there is mixed findings on the influence of ESG on commercial bank performance as some academics find a positive effect whereas other authors find a negative effect and some finding no effect. On this basis the study examines the effect of ESG on commercial bank returns in South Africa. The study is important as it contributes to solidifying the mixed findings and introducing the concept within the South African banking sector which is non-existent. Therefore, the findings of the study will have important implications for investors, fund managers and policy makers which will better assist these individuals with carrying out their duties.

METHODS

The study employs a panel data regression analysis which entails the use of the random model (RM) and the fixed effects (FE) as an empirical model to analyse the relationship between the South African bank returns and the ESG compliance of the same banking sector in South Africa. As used by Lawrence, Doorasamy and Sarpong (2020), Anande-Kur et al (2020) and Al-Homaidi et al (2018), the study uses the panel model as expressed in the model specification.

Data source

The authors constructed a cross-sectional dataset from the annual balance sheet of sampled banks for the estimation of the returns. The quarterly returns of the banks are estimated from equation 1, from their price values which are extracted from McGregor data base, alongside the macroeconomic related variables and the ESG values. The top 5 banks (ABSA, Standard bank, Nedbank, Capitec Bank and Investec Bank) from the South African banking system were selected for this study based on the percentage contribution of their collective assets to the South African banking sector. Hence the sample size for these 5 banks was arrived based on availability of data and set criteria covering the period 2015 to 2024.

$$PR_{it} = \frac{p_{ti} - p_{to}}{P_{to}} \tag{1}$$

where: p_{ti}, p_{to} and PR_{it} represent the price at the current time, price at the initial time, and price return respectively.

Model specification

$$Bank - Returns_{it} = a_0 + \lambda_1 ESG_{it} + \lambda_2\, CPI_{it} + \lambda_3 M2_{it} + \lambda_4 ST - INT_{it} + \lambda_5 LT - INT_{it} + \lambda_6 GDP_{it} + \lambda_7 REER_{it} + et_{it} \tag{2}$$

where: $Bank - Returns$ is the returns on bank *i for the year t,* $\boldsymbol{\lambda}_1$, is a constant term, $\boldsymbol{\lambda}_2$ *to,* $\boldsymbol{\lambda}_7$ are the coefficients of the independent variables. ESG is the environmental, social and governance (ESG) compliance of commercial banks. CPI represents the consumer price index, which is the proxy for inflation, M2 represents the money supply of the country, ST-INT and LT-INT represent the short- and long-term interest rate, as GDP and REER represent the gross domestic product and the real exchange rate of the SA economy under the observed period.

Variable used in the analysis

ESG Compliance Score: Environmental, social, and governance (ESG) is another name for an investing principle that prioritizes environmental issues, social issues, and corporate governance. Investing with ESG considerations is sometimes referred to as responsible investing or, in more proactive cases, impact investing (Gelle 2023).

Bank Returns: Like those of any company, are the profit or loss an investor makes on their investment, calculated as the percentage change in price over a period, and can be influenced by various factors like company performance and broader market conditions.

Gross Domestic Product: GDP is a macroeconomic indicator that indicates the value of economic output of a country adjusted for price fluctuations (i.e., inflation or deflation). With this modification, nominal GDP – a money-value metric—becomes an indicator of the amount of overall output (Barasa 2014).

Money supply (M2): In macroeconomics, money supply (or money stock) refers to the total volume of money held by the public at a particular point in time. There are several ways to define "money", but standard measures usually include currency in circulation (i.e. physical cash) and demand deposits (depositors' easily accessed assets on the books of financial institutions) (Brunner 2018).

Real Exchange Rate: The currency volatility has effects on the stock returns. When currency appreciates, in a situation where the country is export-oriented, it is expected that there will be a reduction in the competitiveness of exports and would therefore have a negative impact on the domestic stock market. This is because the export-oriented companies quoted on the stock exchange market would be less profitable and this may in turn become less attractive to investors (Muthike and Sakwa 2012).

Inflation (CPI): Inflation as measured by consumer price index is a macroeconomic index that measures the rate of raise in the cost of living and results in a shift of resources from investments to consumption. The demand for market instruments falls leading to reduction in the volume of stock traded. This will force the monetary policy authorities to respond to the increased rate of inflation with economic tightening policies, which in turn increases the nominal risk-free rate, which raises the discount rate in the valuation model (Adam and Twenoboa 2008).

RESULTS AND DISCUSSION

Table. 1 Descriptive statistic

	Bank returns	ESG	CPI	M2	ST INT	LT INT	GDP	REER
Mean	46993.00	2.9366	4.2698	7.1763	6.4625	3.4867	-1.3744	0.3809
Median	18915.50	2.8300	4.4000	6.6000	7.0700	3.8100	-0.95	0.4654
Maximum	313434.0	4.7700	6.9000	15.7100	8.6300	5.0300	5.5000	10.7357
Minimum	7500.000	2.0000	1.3000	2.3700	3.4700	1.5800	-10.9	-11.5234
Std. Dev.	62425.77	0.7271	1.2676	2.8826	1.5370	1.1322	2.9851	4.2478
Skewness	2.2288	0.6980	-0.2363	1.2144	-0.6622	-0.2189	-0.6924	-0.1689
Kurtosis	7.4806	3.0639	2.9847	4.5186	2.2555	1.6300	4.5535	3.6510
Jarque-Bera	259.6477	12.6939	1.4529	53.3328	15.0034	13.4451	28.1495	3.4977
Probability	0.0000	0.0018	0.4836	0.0000	0.0006	0.0012	0.0001	0.1739
Sum	7330908.	458.1100	666.1000	1119.500	1008.150	543.7800	-214.4	59.4216
Sum Sq. Dev.	6.04E+11	81.95350	249.0684	1287.949	366.1729	198.6990	1381.19	2796.887
Observations	156	156	156	156	156	156	156	156
Levin, Lin & Chu t* (Level)	0.9195	0.5535	0.0000	0.2508	0.5115	0.065	0.0000	0.0000
First difference	0.0000	0.0000	0.0000	0.0000	0.0039	0.0650	0.0000	0.0000

Source: Authors' own estimation (2024).

Table 1 reveals the descriptive statistics of all the variables used in this study. Bank return has the

highest mean with 46993, while GDP has the lowest value of -1.3744. It is important to note that bank returns also has the highest standard deviation with ESG having the least standard deviation. The result also reveals that bank returns and real exchange rate has the maximum and minimum values with 313434 and 7500 respectively. It is interesting that ESG score has a mean of 2.9366 and a standard deviation of 0.727. This illustrates that the volatility of the sector is not clustered around its mean. More so, the skewness of bank returns, ESG, CPI and M2 values are positive, illustrating that the headline returns are skewed to the right with a long tail. However, the rest of the macroeconomic variables are positioned on the left. The Jarque-Bera test with the exception of CPI, and REER, the rest of the variables are at 1 percent significance. This demonstrates that the variables are not normally distributed. It is important to note that the Levin, Lin and Chu stationarity tests for all variables are significant at the 1 percent level in first difference. This suggests that the null hypothesis of all variables having a unit root is rejected in favour of the alternative hypothesis, this implies that only CPI, GDP and REER are stationary at level.

Table 2. Correlation Matrix

Probability	Bank returns	ESG	CPI	M2	ST INT	LT INT	GDP	REER
Bank returns	1							

ESG	-0.4968	1						
	0	-----						
CPI	-0.0942	-0.1417	1					
	0.2418	0.0777	-----					
M2	-0.0896	-0.0117	-0.1571	1				
	0.2657	0.8848	0.0502	-----				
ST INT	0.0319	-0.0291	0.1268	-0.3033	1			
	0.6926	0.7185	0.1146	0.0001	-----			
LT INT	0.2307	0.5152	-0.3674	0.1816	-0.1060	1		
	0.0038	0	0	0.0232	0.1877	-----		
GDP	0.0392	0.0582	0.2525	-0.3423	0.2033	-0.1737	1	
	0.6272	0.4707	0.0015	0	0.0109	0.0301	-----	
REER	0.0454	0.0207	-0.0425	-0.1112	0.0263	-0.0195	0.1807	1
	0.5739	0.7973	0.598	0.1669	0.7447	0.8091	0.024	-----

Source: Authors' own estimation (2024).

Table 2 shows the correlation matrix of all variables. It is interesting to note that except for long-term interest rate, all macroeconomic variables are not significantly correlated to the ESG compliance score. Hence no evidence of multicollinearity. Also, it reveals that there is a negative correlation between bank returns and ESG score.

Table 3. Regression Analysis

Variables	Random result with returns	Fixed effect result with returns	Pool result with returns
C	164644.8*** (5.961855)	103937.5*** (4.773245)	164644.8*** (6.174718)
ESG	-76994.04*** (-14.81685)	-42024.74*** (-5.919463)	-76944.04*** (-15.3459)
		Control variable result	
CPI	-646.1636 (-0.233139)	-810.5547 (-0.429011)	-646.1636 (-0.241463)
M2	-3925.263*** (-3.198924)	-2813.372*** (-3.296331)	-3925.26*** (-3.313139)
ST-INT	-37.51087 (-0.017146)	36.592447 (0.024538)	-37.51087 (-0.017758)
LT-INT	41263.00*** (11.56118)	26659.48*** (7.704538)	41263.00*** (11.9739)
GDP	3292.698*** (2.756874)	2297.139*** (2.755018)	3292.698*** (2.8553)
REER	431.9307 (0.564540)	283.0228 (0.542422)	431.9307 (0.58469)
	R-squared= 0.6429	R-squared=0.8257	R-squared=0.6429
	Adjusted R-squared=0.625997	Adjusted R-squared=0.81367	Adjusted R-squared=0.6259
Husman test		Chi-Sq. statistic = 17.7368 Probability= 0.0000	

Source: Authors' own estimation (2024).

Table 3 presents the results of the pool, random and fixed effects of the regression between bank returns, ESG compliance and the control variables. It is crucial to first note that the probability value of the F-statistic of all regressions is significant at a 1% level. However, the fixed effect model shows the highest R (82.57) and R squared value (81.36%) respectively compared to the random and the pooled regressions. Evaluating the results of both the fixed and random effect, one could see that there are considerable interesting outcomes. However, panel results are justified through the choice of weather the fixed or random effect is most appropriate in modelling the desired objective. Hence, the Hausman test aids in determining the best fit model between fixed effect and the random effects within a panel data model (Amin et al. 2012). Therefore, the Hausman test result shows a Chi-sq, p value of 0.0000, suggesting the fixed effect model is the best fitted model for this study.

Discussion

The ESG compliance score is estimated to have a negative statistically significant relationship with bank returns at a 1% level. This is suggestive of the fact that South African banks returns have a negative relationship with ESG compliance. It further connotes that ESG score of South African banks do not have a positive impact on their returns. This result is unique but similar to Yuen et al (2022), Menicucci and Paolucci (2023), and Indrasuci and Rokhim (2023) which showed that ESG has a negative effect on commercial bank performance. Empirical evidence outside South Africa such as Carnevale and Mazzuca (2014) suggests similar negative association between ESG compliance and bank returns. The authors emphasized increase in cost associated with meeting the initiatives of sustainable banking practise as reasons for the inverse relations. This reason could also be related to the findings of ESG having a negative impact on South African bank returns. Zulu (2022) further posit in its systematic review of literature that there are no mandatory requirements for commercial banks strict compliance to ESG principles in their daily banking operations. Hence, this could be a deliberate attempt by South African banks to avoid the cost associated with compliance with the operations of ESG.

Furthermore, the control variables relationships show some interesting outcome with bank returns. While CPI, and REER show no statistically significant relationship with South African bank returns, M2,

long-term interest rate and GDP show a statistically significant relationship at a 1% level. For M2, there exist a significant negative relationship with South African bank returns. This implies that the increase in M2 does have a negative impact on bank returns. GDP has a positive significant relationship with South African bank returns at 1% level. This result is contrary to Okech and Mugambi (2016) who reveals a negative and insignificant relationship between bank stock returns and GDP. However, consistent with Laichena and Obwogi (2015) who found a positive relationship between banks stock returns of three East African economies. The result suggests that economic growth plays a vital role in determining the returns of South African banks. Further suggestive that a buoyant economy strengthens banks return per unit of investment into business in the economy. Furthermore, the result shows that both short term and long-term interest rates has a positive significant relationship with South African bank return. The result is contrary to Nurazi and Usman (2016) who found a negative effect of interest rate on bank returns in Kenya. The positive significant outcome between long-term interest rate and South African bank return suggests that most South African banks widen the spread between the interest earned on loans and the interest paid on deposits hence boosting their net income and potentially attracting more deposit. REER shows a positive significant relationship with bank returns. This result is contrary to Nurazi and Usman (2016) who found a negative significant relationship between exchange rate and bank returns.

CONCLUSION

This study seeks to establish if ESG compliance of banks could drive their stock return in South Africa. Hence, using the panel data, fixed effect model, the study regressed bank returns (response variable) against ESG bank compliance (explanatory variable) alongside CPI, GDP, REER, M2 and short- and long-term interest rate as control variables. The study finds that ESG compliance do not positively affect bank returns, but rather negatively affect bank returns in South Africa. Interestingly certain macroeconomic variables such as GDP, both short and long-term interest rate, and REER all impact bank returns positively. As an emerging market economy, with a banking industry that is striving and excelling as one of the strongest and most stabilized banking industry within the emerging market economy and even in Africa. The compliance of its banking sector to the ESG requirements in operating its businesses is very crucial, because investors in the country are becoming more conscious to sustainable finance. Hence, investors are likely to pull away their funds and investments from commercial banks that are not ESG compliant in the country. Even though ESG compliance may come at an initial cost but assures benefits and huge returns at the end. This initial cost could be a huge hinderance to positive returns for these banks, however consistency in observing it would attract better and huge investments from within and outside the country in the long run.

The study therefore recommends that policymakers in the banking sector and the regulators (eg the SARB) should ensure strict compliance with ESG standards for all banks with the view of sustaining it in the long term. This could be possible by closely monitoring disclosures of ESG frameworks in their governance structure, risk management and business processes before implementation.

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