strategy&
Part of the PwC network

African businesses cannot succeed if their societies fail

Taking action on your ESG strategy.

May 2022

Table of contents

Business leaders cannot afford to ignore the societal importance of ESG matters.

Research by the University of Oxford Sustainable Finance Programme shows that an increase in company-level Environmental, Social and Governance (ESG) performance can result in a positive effect on a country's living standards – both in developed and emerging markets.[1]

African organisations can also help to build trust in our society and deliver sustained business outcomes by implementing effective ESG strategies. Our view is that African companies should integrate ESG considerations into their corporate and investment initiatives and activities, and internalise ESG issues holistically to build trust and ensure long-term sustainability, agility, and competitiveness.

The key drivers influencing the relevance and importance of ESG strategies differ by industry, but typically include disruption and vulnerability in socio-economic circumstances, regulatory requirements, changing market supply and demand priorities, environmental anomalies, the transformation of investor perspectives and technological and academic progress.[2]

It is clear – now more than ever before – that African organisations simply cannot afford to downplay the importance of ESG factors. Stakeholders increasingly expect organisations to communicate and deliver convincing, measurable and sustainable strategies that have embedded ESG matters.[3]

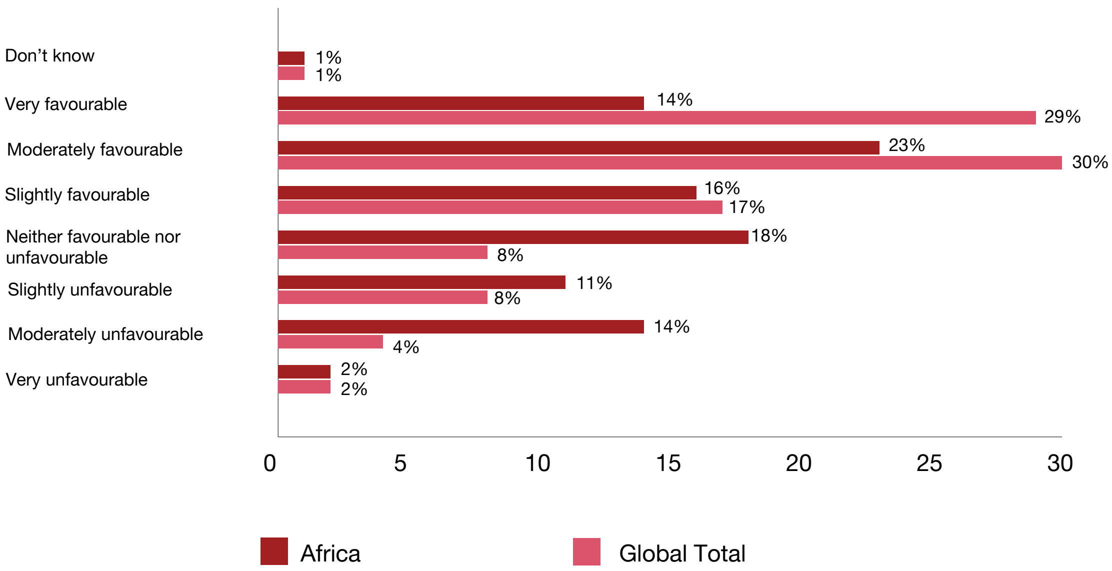
[1]https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-03.pdf
[2]https://www.pwc.co.za/en/press-room/esg-strategies-unlock-value-and-build-trust-in-africa.html
[3]https://www.pwc.co.za/en/press-room/esg-strategies-unlock-value-and-build-trust-in-africa.html

African organisations are very concerned about macro-environmental forces.

PwC's ADAPT framework summarises critical issues affecting society, companies, and individuals that are challenging to resolve.. The framework looks at asymmetry, disruption, age, polarisation and trust, and how these factors have accelerated since the onset of COVID-19. For example, under the 'disruption' element, ADAPT considers the pervasive nature of technology and its impact on individuals, society, and the climate.[4] These elements speak directly to many factors addressed by ESG strategies.

The ADAPT framework sketches a picture of macro-environmental forces (including demographic, cultural, environmental and technological) that every organisation faces. And African business leaders are certainly concerned about these factors. When asked how favourable macro-environmental forces are for their company's ability to create financial value, only 37% of African respondents to PwC's 25th Annual Global CEO Survey noted a moderate or very favourable situation. This is considerably - and concerningly - lower than the global average of 59%.

How favourable are the follwing factors with regard to your company's ability to create financial value?
Macro environmental forces (including demographic, culture, environmental, technology)



Source: PwC's 25th Annual Global CEO Survey

[4] https://www.ipcc.ch/report/ar6/wg1/#SPM

In our recent Non-Executive Directors (NEDs) report 2022, we surveyed NEDs serving on the Remuneration Committee (RemCo) of listed and unlisted South African companies, and found that their biggest concerns are social inequality, health risks, disruption of digital technology, as well as legislative and/or regulatory changes.[5]

These are the big elements that ADAPT identifies as the risks of today and tomorrow. Put differently: these risks are not going away. 'We must act on them now or we will face a future that we will not like,' warns Blair Sheppard, PwC Global Leader for Strategy and Leadership.[6]

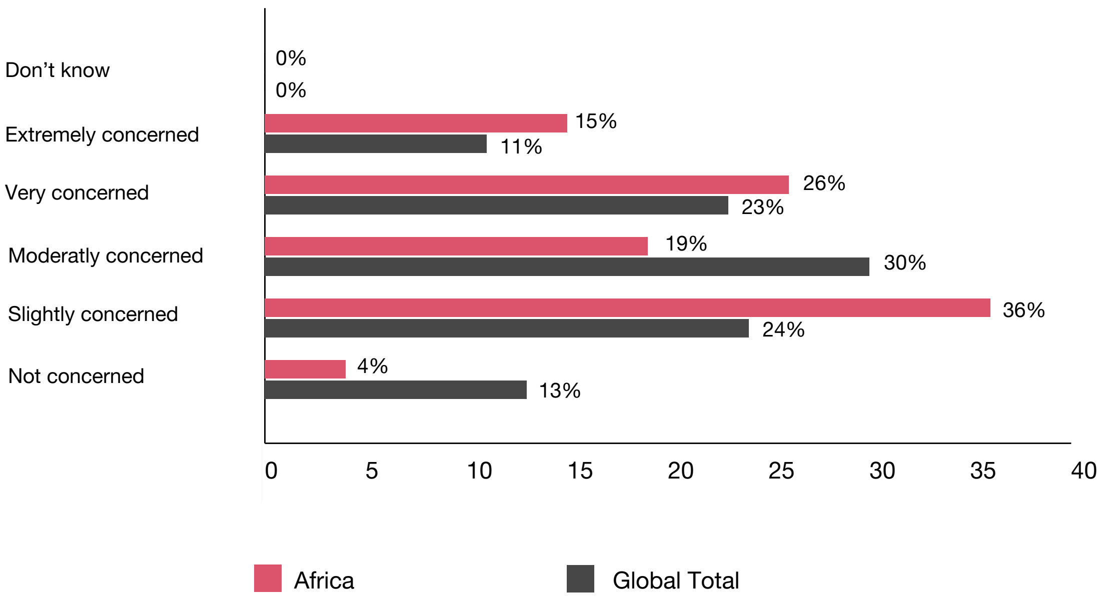
So, what are African CEOs doing?

[5]https://www.ipcc.ch/report/ar6/wg1/#SPM
[6]https://library.wmo.int/index.php?lvl=notice_display&id=21778#.Yim8LHpBw2x

Climate-conscious African CEOs lag global trends in adopting carbon-neutral and net-zero targets.

CEOs on the continent are definitely concerned about the impact of climate change on their businesses over the next 12 months. Our survey found that six out of every ten African CEOs polled are moderately, very, or extremely concerned about physical and transition risks associated with climate change which is roughly on par with the global average.

How concerned are you about the following global threats negatively impacting your company over the next 12 months. Climate change (includng phyisical risks and transition risks such as policy & legal, markets, technology and reputation risk).



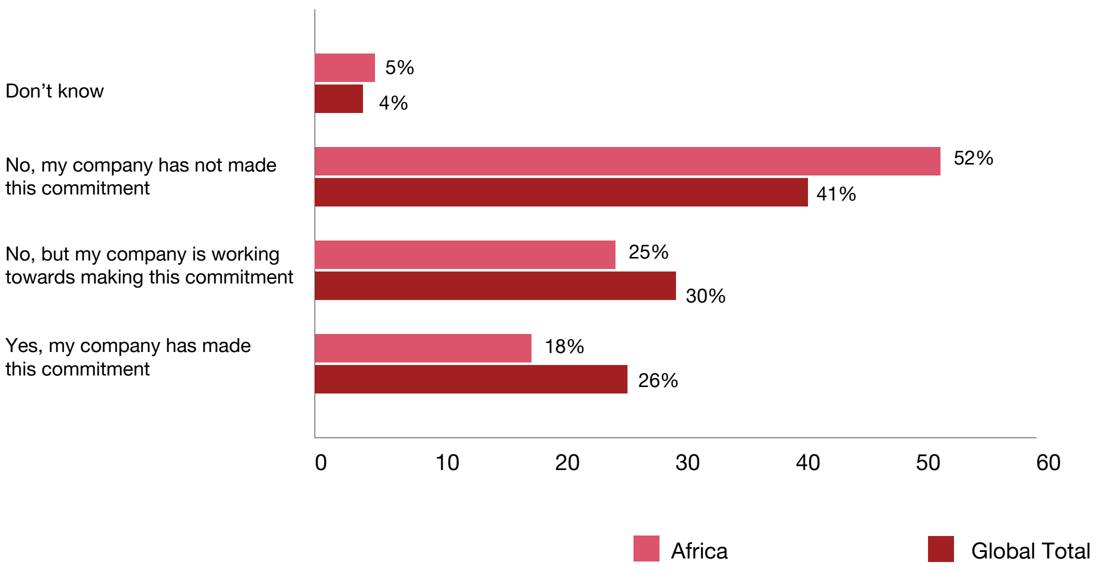
Source: PwC's 25th Annual Global CEO Survey

The latest report by the Intergovernmental Panel on Climate Change (IPCC) warned that at 1.5°C global warming, heavy precipitation and associated flooding are projected to intensify and be more frequent in most regions on the African continent. On a regional basis, the report warns about increased monsoon precipitation in West Africa, higher incidence of agricultural and ecological drought in Southern Africa, as well as reduced rainfall in some parts of East Africa.[7] These factors should motivate CEOs to take action to mitigate and adapt to the physical and transition risks of climate change.

The risks associated with climate change, especially in African countries, have many socio-economic implications. These include unemployment, food insecurity, increasing health risks, and migration. Last, but not least, all of the risks mentioned increase the risk for social unrest and upheaval. This emphasises the need to always evaluate the social impacts of climate risk rather than dealing with it in isolation.[8]

[7]https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_Full_Report_smaller.pdf
[8]https://library.wmo.int/index.php?lvl=notice_display&id=21778#.Yim8LHpBw2x

Has your company made a carbon-neutral commitment?



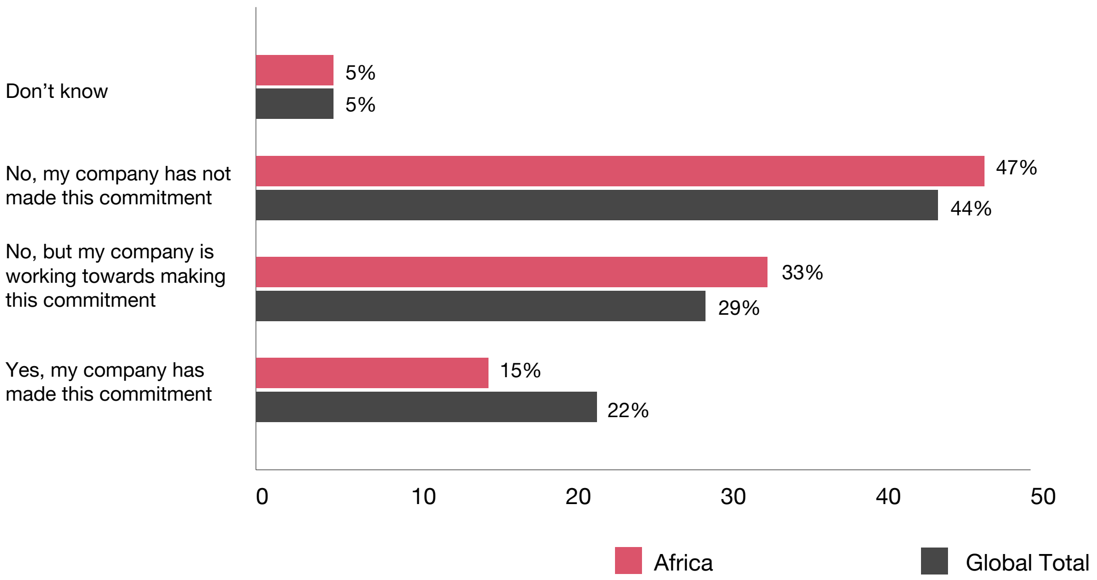
Source: PwC's 25th Annual Global CEO Survey

African organisations appear to be lagging behind global trends in taking action on climate change. For example, 77% of African CEOs say their company has not made a carbon neutral commitment. This is worse when compared to the global average of 71%. Carbon neutrality, or net-zero carbon dioxide (CO_2) emissions, is achieved when your organisation's CO_2 emissions are balanced globally by CO_2 removal, typically over one year.[9]

Furthermore, 80% of African CEOs say their organisations have not yet made a net-zero commitment compared to 73% globally. Net-zero emissions are achieved when your organisation's emissions of all greenhouse gases (CO2-e) are balanced by greenhouse gas removals, typically over one year.[10] On a positive note, many of those who indicated no commitment could report that their organisation was busy working towards this goal.

[9]https://report.ipcc.ch/ar6wg2/pdf/IPCC_AR6_WGII_FinalDraft_FullReport.pdf
[10]https://www.ipcc.ch/sr15/chapter/glossary/

Has your company made a net-zero commitment?



Source: PwC's 25th Annual Global CEO Survey

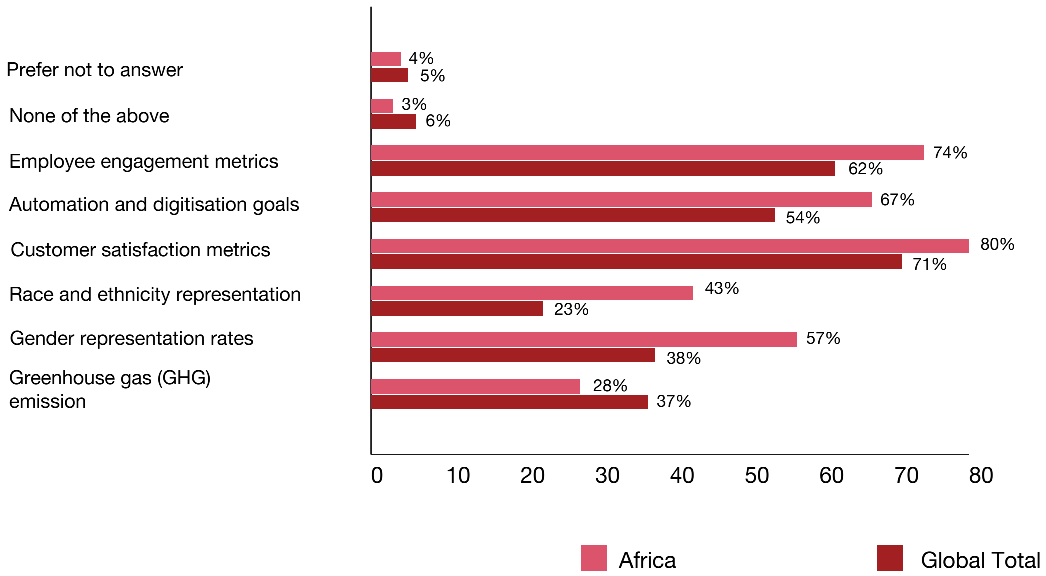
Nigeria, for example, committed at COP26 to achieve net-zero by 2060, with the country's National Assembly passing the Climate Change Act 2021 during October of that year. The Act seeks to provide a framework for achieving low GHG emissions and to mainstream climate change actions into national plans and programmes. Apart from establishing the National Council on Climate Change (NCCC), which shall have the power to make policies and decisions on all matters relating to climate change in Nigeria, the Act also provides that the NCCC will collaborate with the Federal Inland Revenue Service (FIRS) to develop a mechanism for carbon tax in Nigeria.[11]

[11]https://www.pwc.com/ng/en/assets/pdf/nigeria-climate-change-act%20.pdf

ESG targets are part of the long-term corporate strategy – but are less prominent in CEO incentives.

Organisations must take steps now to future-proof their businesses by implementing and accounting for their ESG matters. Corporate leadership plays a crucial role in successfully integrating ESG issues into an organisation's overall strategy and operating model as well as adapting to a changing environment. African companies have made some progress and according to our CEO survey, these companies are more likely to have non-financial ESG-related outcomes included in their long-term corporate strategy than their global counterparts.

Are the following non-financial related outcomes included in your company's long-term corporate strategy?

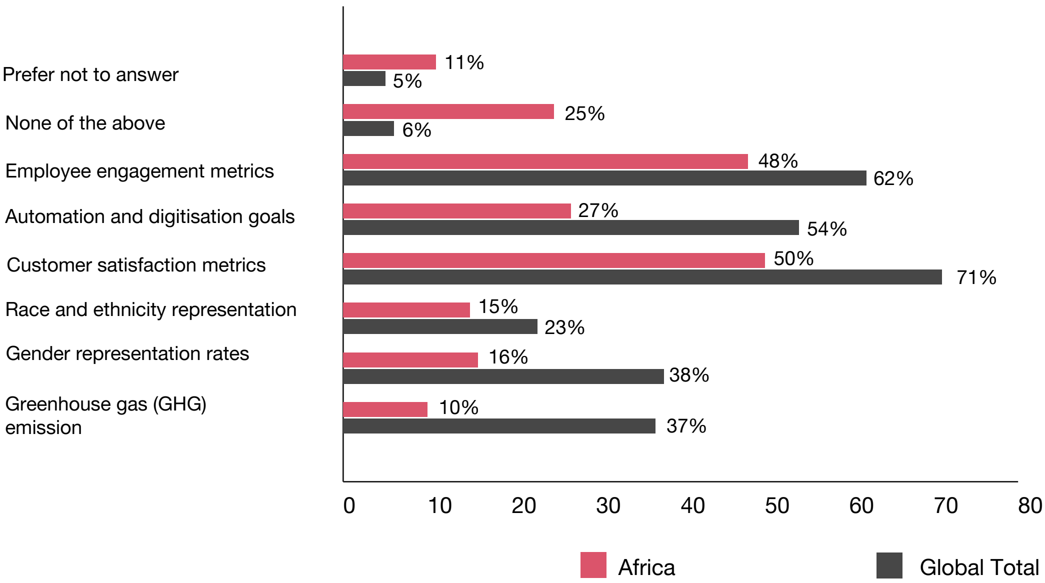


Source: PwC's 25th Annual Global CEO Survey

However, this is not yet as prominent in CEOs' annual bonuses or long-term incentive plans. For example, only 10% of African CEOs have GHG linked to their remuneration versus 37% globally. In turn, some 45% of FTSE 100 companies now have an ESG measure in executive pay. Including ESG metrics in executive pay packages is a tangible way to close the say-do gap.[12]

[12]https://www.pwc.com/gx/en/issues/esg/exec-pay-and-esg.html

Are the following non-financial related outcomes included in your personal annual bonus or long-term incentives plan?

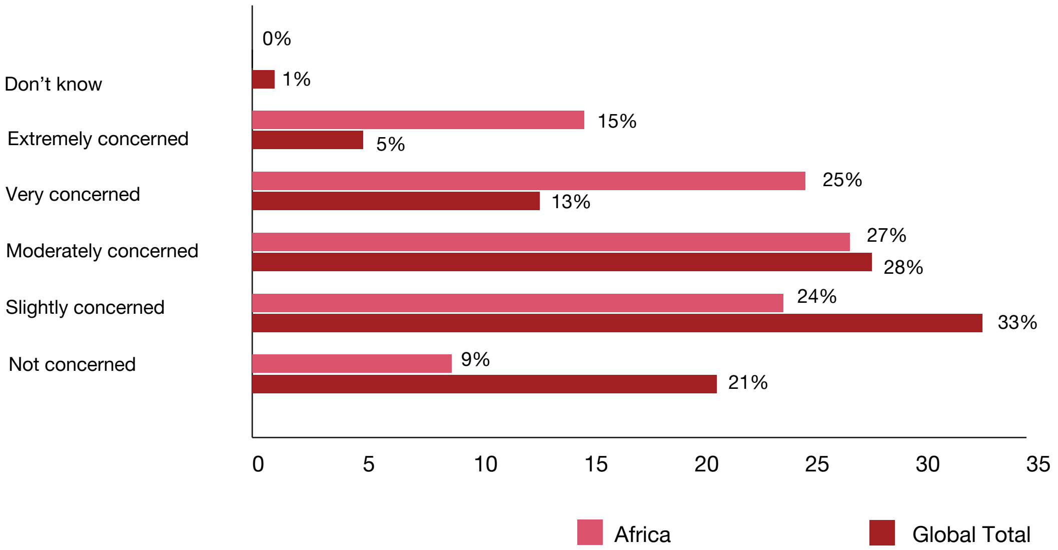


Source: PwC's 25th Annual Global CEO Survey

The risk burden of social inequality: we can't afford not to act.

Our CEO survey shows that social risk is a notable concern for African companies. Some 40% of African CEOs are very or extremely concerned about social inequality stemming from, for example, gender, race, ethnicity and wealth negatively impacting their company over the next 12 months. This is more than twice the global reading of only 18%. Most global CEOs are only slightly concerned about social risk.

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



Source: PwC's 25th Annual Global CEO Survey

In the two decades ending 2019, real (i.e. inflation adjusted) GDP per capita across Sub-Saharan Africa increased by nearly 40%,[13] with extreme poverty declining in many countries. However, public discontent - in the form of protests and unrest - also increased over this period.[14] This is associated with persistent income inequality and the unequal distribution of resources. The African continent has the highest gap between the average incomes of the top 10% and the incomes of the bottom 50%. On average, income earned by the top 10% is 30 times higher than those falling in the bottom 50%. Income gaps are the highest in Southern and Central Africa and the lowest in Northern Africa.[15]

Going forward, African countries will continue to face a range of social and security challenges, including ethnic, religious and political tensions, which can lead to sporadic protests and unrest. Many of these structural challenges have been accelerated by the increased economic and social hardships caused by two years of COVID-19, as well as by issues such as climate change, demographic change, and mass migration.

In short: the structural risks associated with social inequality are not going away. And African organisations need to act.

[13]PwC calculations based on World Bank data.
[14]https://issafrica.org/iss-today/africas-rise-in-protests-is-about-more-than-macroeconomics
[15]https://wid.world/document/income-inequality-in-africa-1990-2017-wid-world-issue-brief-2019-06/#:~:text=Africa%20has%20the%20highest%20gap,inequality%20regions%20such%20as%20the

Why are African organisations slow in responding to ESG matters?

Alongside awareness of ESG-related risks, there is also an increased recognition among business leaders of the value creation opportunities that come with sustainability transitions. With these risks and opportunities in mind, why are African companies lagging behind their global counterparts in adapting strategies that embed ESG factors? Some of the challenges include:

1. A challenge of human resource capacity: Paradigm shifts require a rethink of accepted ways of doing things, to ensure resilience. An internal understanding of ESG issues is a fundamental necessity for a successful transition to sustainability. Firms need to recruit the right talent to deliver on sustainable value creation goals. This involves hiring individuals with sustainable business expertise and, in general, hiring more diverse teams in terms of gender, ethnicity, and age, as well as socio-economic background and qualifications. The good news is that those firms that demonstrate a commitment to ESG will likely be best placed to attract and retain such sought-after talent.
2. You need a sustainability champion at the top of the corporate ladder: Amongst the C-suite acronyms, CSO (Chief Sustainability Officer) is growing in prominence, whether as an official title or a responsibility integrated into another job title. In the absence of an empowered CSO that can lead from the top, an organisation's ESG risks and opportunities are less clear. This slows the pace of transformation that companies need in order to keep pace with investor and consumer expectations, as well as with regulations and the competition.
3. Local regulation might not require reporting of sustainability metrics: Compared to multinational companies operating from the world's largest financial centres, many African companies - whether listed or unlisted - do not face the same level of reporting scrutiny and responsibility as their global counterparts. There is also the added challenge of reporting non-financial aspects like ESG matters in financial statements, and having access to third-party tools and methodologies to do so.
4. Responding to ESG issues is seen as a cost, not an investment: In the short run the implementation, compliance, and reporting of ESG issues might still be treated as a cost line by some businesses instead of being treated as an investment. From this perspective, ESG is not seen as a lever for transformation alongside other levers such as digitisation and internationalisation.

Taking action on ESG strategy: next practical steps.

Actions speak louder than words. The global PwC network has committed to achieving net-zero GHG emissions globally by 2030, decarbonising our supply chain, embedding ESG factors into our client engagements, and supporting efforts to develop ESG reporting frameworks and standards.[16]

> "There is a strong need for stakeholders from across society to work together. Whether it's the pandemic, climate change, social injustice, or the digital divide, there is a growing expectation that businesses have a role to play in addressing broader societal issues. Our new strategy is about helping clients face their toughest challenges and delivering for society and the planet."
>
> – Bob Moritz, Global Chairman of PwC[17]

Recently, the global PwC network received validation for its science-based targets and reaffirmed its commitment to achieving net-zero by 2030. The Science Based Targets initiative (SBTi) validated PwC's targets to reduce greenhouse gas emissions by 50% (in absolute terms from 2019 levels) by 2030 – in line with a 1.5-degree scenario.[18]

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

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 strategy 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 performance indicators should be measured and monitored regularly. ESG considerations should also be built into remuneration structures.	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.

Understanding the business case and societal importance for action on ESG can help organisations to justify investment in incentives and schemes for action. This can be done through, for example, the application of frameworks like the international Task Force for Climate-Related Financial Disclosure (TCFD), where climate scenario analysis provides concrete links to financial impact. Other material ESG matters should be explored and incorporated into a company's enterprise risk management system.

[16]https://www.pwc.co.za/en/press-room/pwc-climate-targets-validated-by-sbti.html
[17]https://www.pwc.co.za/en/press-room/new-equation-2021.html
[18]https://www.pwc.co.za/en/press-room/pwc-climate-targets-validated-by-sbti.html

PwC Africa contacts.

Lullu Krugel

Partner and Chief Economist, Strategy&

ESG Southern Africa Lead

lullu.krugel@pwc.com

Rukaiya el-Rufai

Partner, Sustainability and Climate Change

ESG West Africa Lead

rukaiya.el-rufai@pwc.com

Edward Kerich

Partner, Risk Assurance Services

ESG East Africa Lead

edward.kerich@pwc.com

Chantal van der Watt

Associate Director, Strategy&

Sustainability and Climate Change

chantal.van.der.watt@pwc.com

strategy&
Part of the PwC network

www.strategyand.pwc.com