

A just transition to a Green Economy in South Africa's context

Presentation to the Actuarial Society of South Africa

November 2020



Sustainability
broader than just
climate change


1

Some global trends accelerated by COVID-19 pandemic



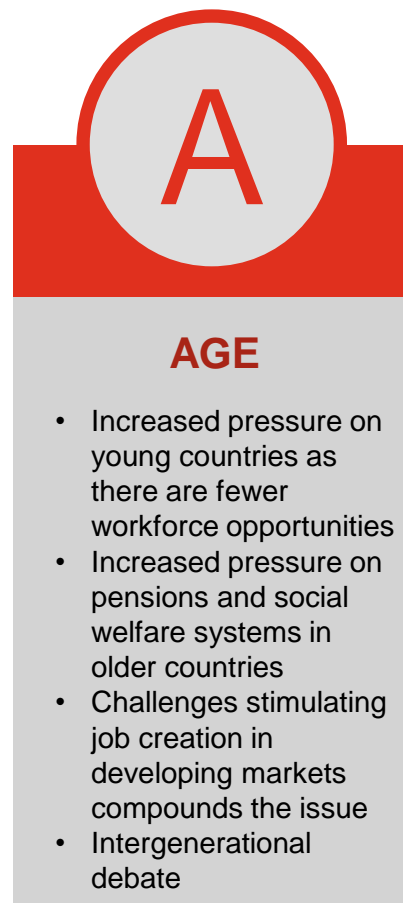
ASSYMETRY

- The poor (people, regions, countries) will get hit the hardest
- Unemployment at the bottom of the wealth pyramid, which will also grow
- Massive failure of small business
- Sovereign debt and GDP growth issues



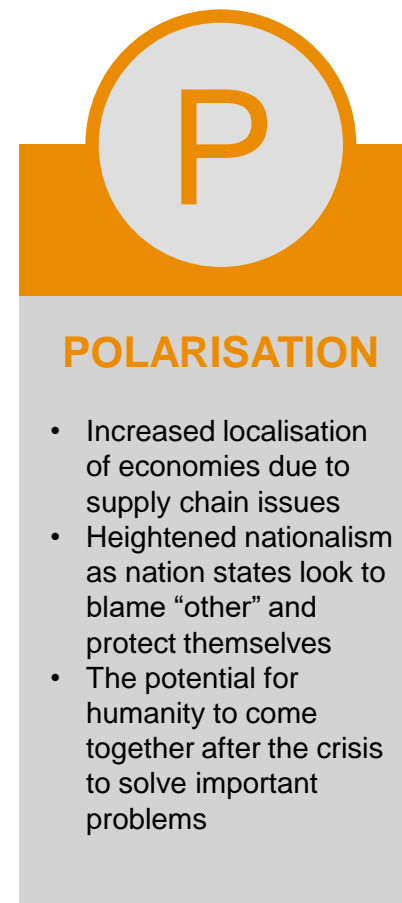
DISRUPTION

- Strength and influence of big technology platform companies will grow faster
- In the short-term, climate worries are forgotten as the world deals with the crisis, but in the medium/long-term people are likely to become more socially conscious



AGE

- Increased pressure on young countries as there are fewer workforce opportunities
- Increased pressure on pensions and social welfare systems in older countries
- Challenges stimulating job creation in developing markets compounds the issue
- Intergenerational debate



POLARISATION

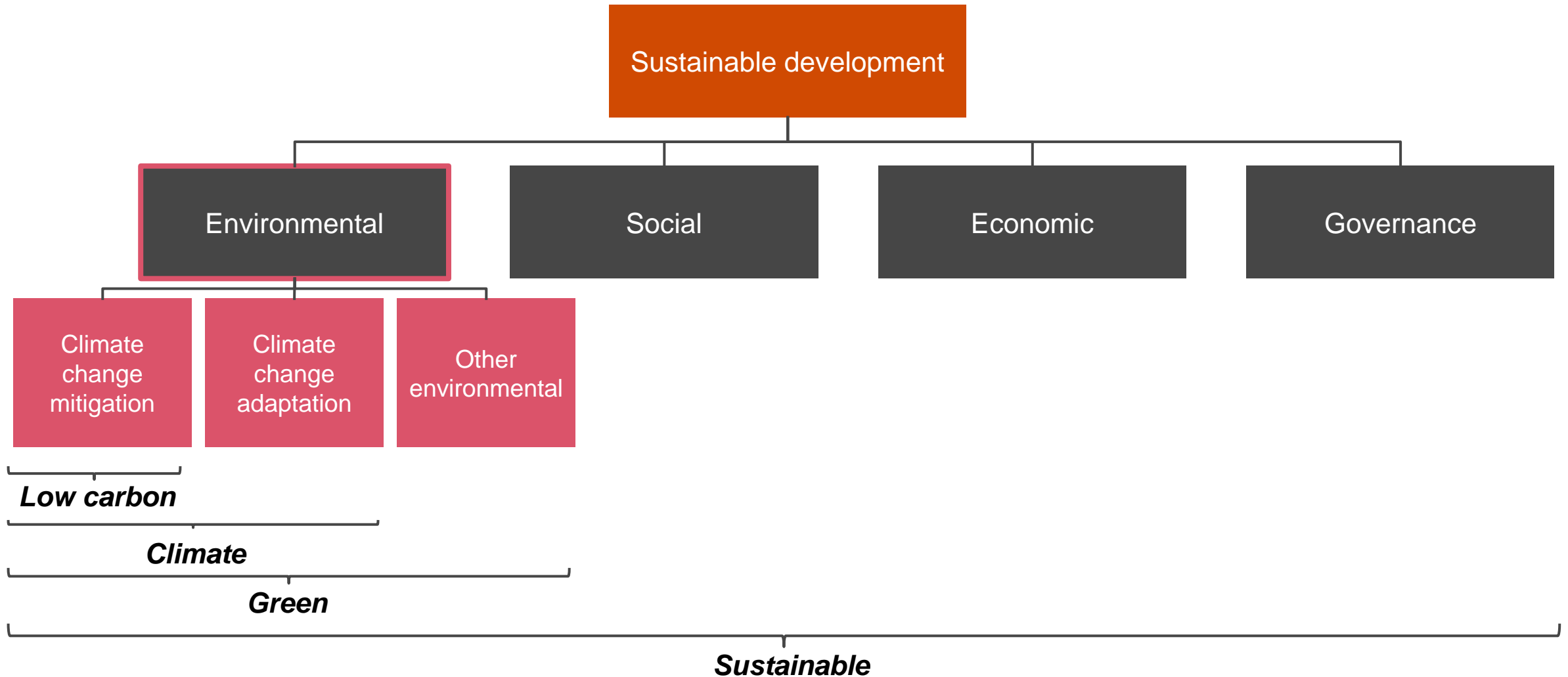
- Increased localisation of economies due to supply chain issues
- Heightened nationalism as nation states look to blame “other” and protect themselves
- The potential for humanity to come together after the crisis to solve important problems



TRUST

- Distrust in institutions and their ability to respond fairly will grow
- Some institutions and leaders will come out of the crisis with stronger reputation

Sustainable development considers environmental, social, economic, and governance aspects



There are obvious business benefits to being sustainable

Quantitative reasons



Companies with high ESG scores and strict CSR criteria increased their stock value¹



Companies with mature diversity programs - **1.7 times more likely to be an innovation leader⁴**



Ethical companies consistently **perform better** than others²



Companies with **life-affirming cultures** are **more profitable⁷**



71% of investors believe sustainable companies will in the long-term **outperform their competitors³**



35% competitive advantage of **ethnically diverse companies⁴**



Diverse companies drive business **growth** through **innovation⁹**



\$655 billion potentially lost in profits by companies with **men-only boards⁴**

Qualitative reasons



Diminished reputational risk compared to traditional competitors⁵



Faster incorporation of technological breakthroughs by agile workforces⁸



Well-being top factor rating workplace attractiveness, especially for talented millennials^{3,6}



Higher potential to predict and react to fast changing consumer patterns⁸



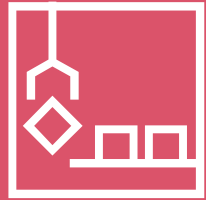
Consumers increasingly more willing to purchase products from sustainable and ethical companies^{6,7}



With increasing focus on environment in society, organisations will have a **clear response and follow-up³**

Sources: 1) Amundi (2019), "ESG Investing & Equity Asset Pricing" 2) Financial Times (2018), "Companies with strong ESG scores outperform, study finds" 3) Morgan Stanley (2017). "Millennials Drive Growth in Sustainable Investing" 4) Allegis Groups (2018). "The Business Case and Challenges of Workforce Diversity" 5) CRSHub & RepRisk (2015). "Does CSR performance affect reputational risk?" 6) Harvard Business Review (2019). "Survey: What Employees want most from their workspace" 7) Harvard Business Review (2019). "Research: Actually, people do buy sustainable products" 8) Strategy & Experience 9) PwC Study (2019) 7 Living Asset Management Performance (Global LAMP Index, 2019)

Integrating sustainability into firms' strategies can create competitive advantage



Better performance

The sustainable MSCI index surpasses the regular MSCI index, with 3.48 percent in 2017



Reputation

Sustainability reflects societal expectations. Performing in line with these expectations will contribute to building strong relationships with stakeholders



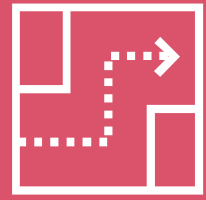
Better access to finance

Environmental, social and governance criteria are playing an important role in capital markets



Business opportunities

Developing products and services that focus on sustainable challenges offer significant growth opportunities for companies



Purpose led

Contributing to sustainable issues fit with becoming a purpose led organisation

Defining sustainability in a South African context

2

South Africa's definition of sustainability stresses economic and social aspects alongside environmental aspects



- The Government of South Africa recognises the need to make a 'just transition' to a lower carbon economy.
- **Economic, environmental** and **social** aspects are a part of its "sustainability" definition.

Driving principles of a just transition



Relative

to a country's socioeconomic and geopolitical characteristics



Responsive

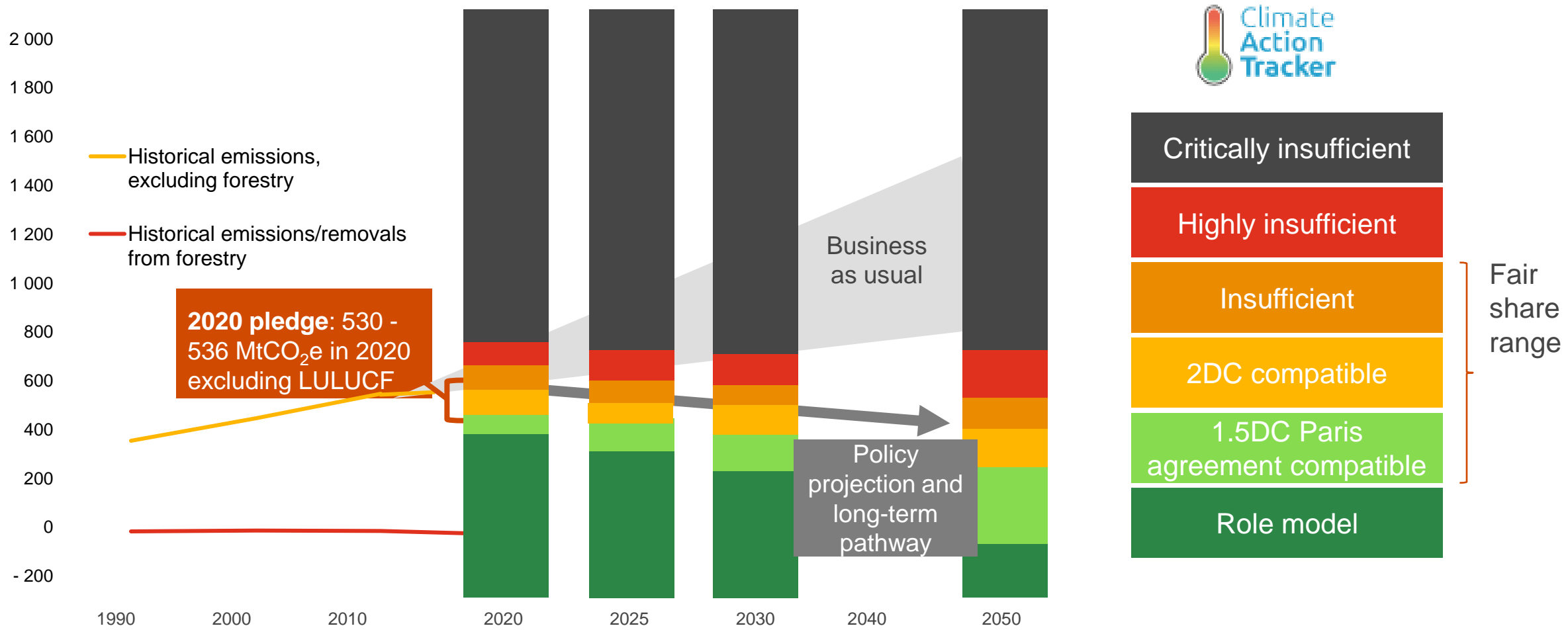
to the needs, priorities and challenges of all stakeholders, including government, business and civil society



Reasonable

in terms of having identified the key issues and challenges at hand, and proposing practical steps that can be taken to address these considerations

Environmental: continuing with business as usual, will put us on the critically insufficient path in 30 years



Source: Climate Action Tracker, Country Assessments September 2019 - <http://climateactiontracker.org>

Environmental: During 2020, South Africa ranked 95th out of 180 countries in terms of our Environment Performance Index

Rank
[/180]

115

131

133

65

41

62

80

158

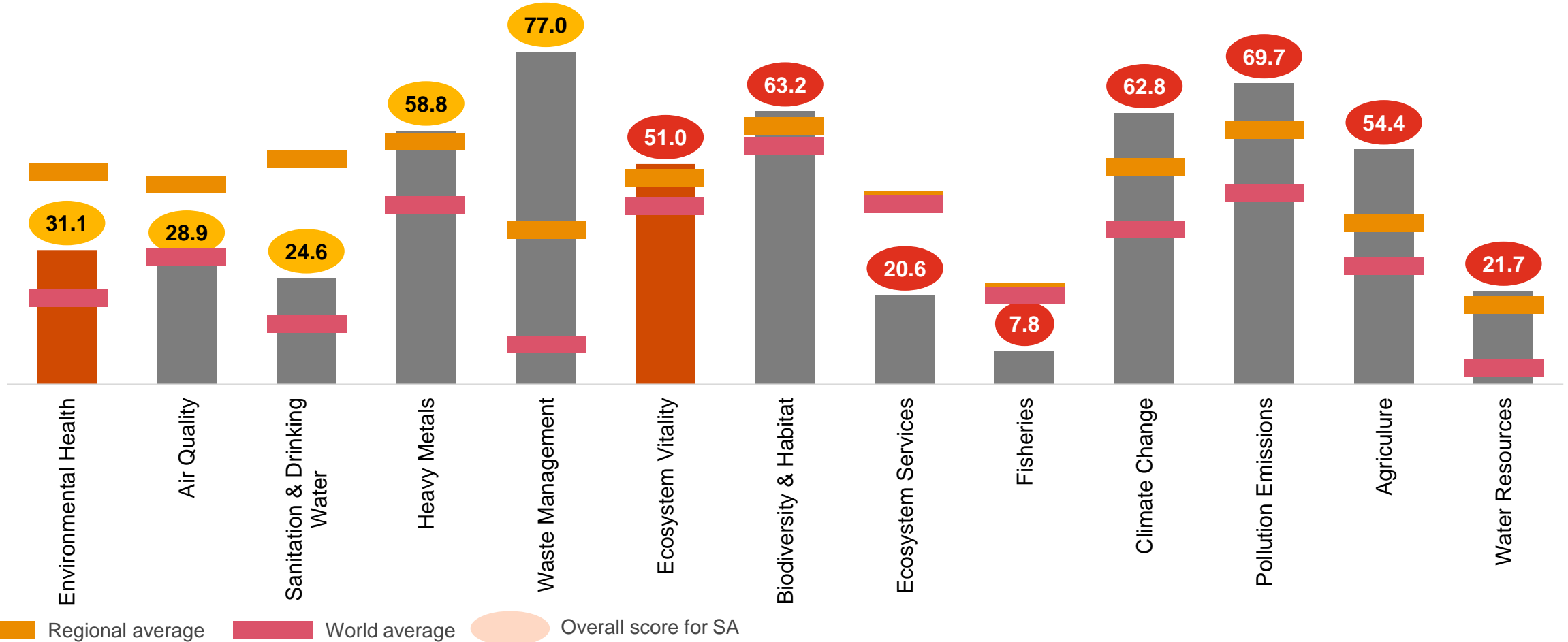
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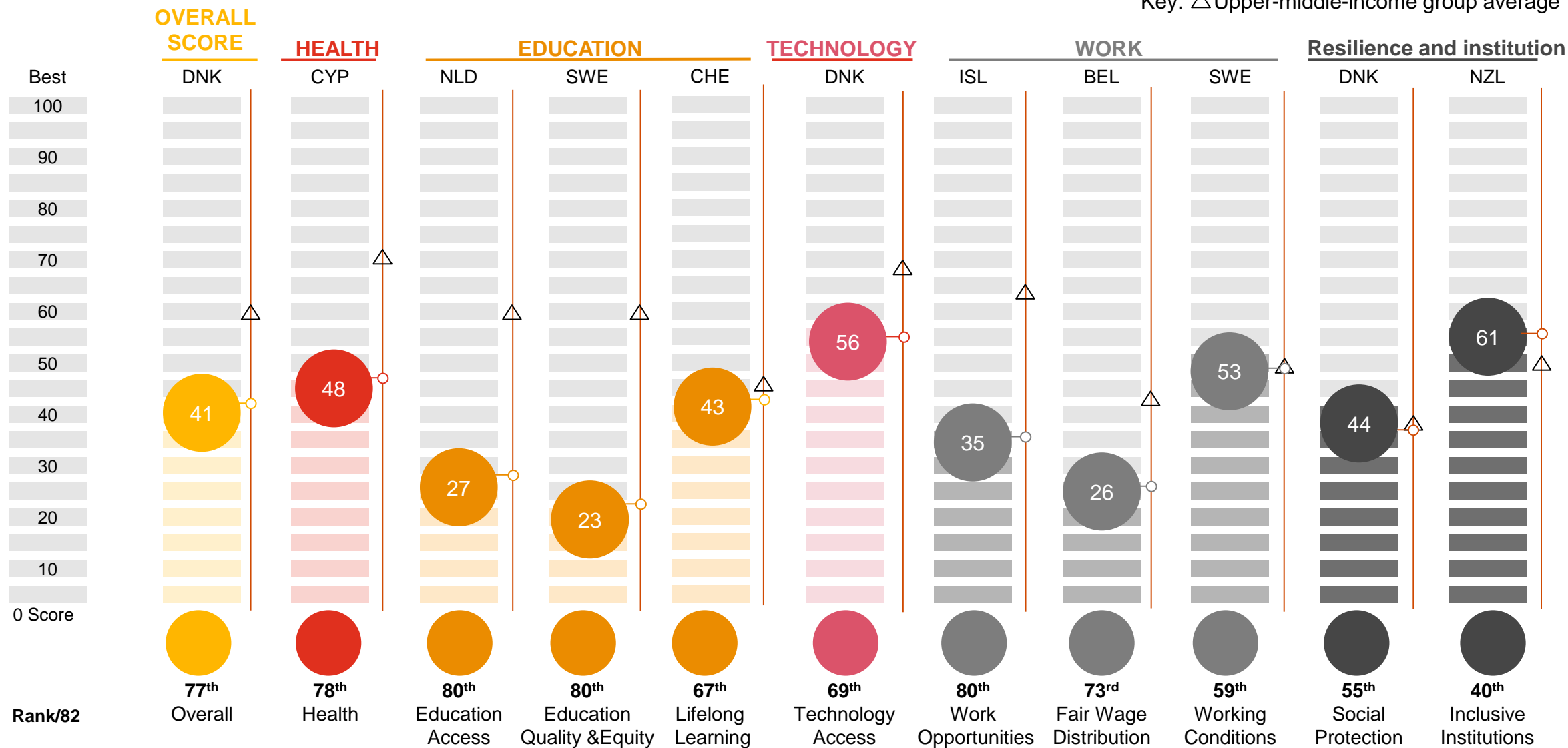
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Source: Environmental performance index 2020
PwC

Social: South Africa particularly far behind peers in areas such as health, education and job opportunities

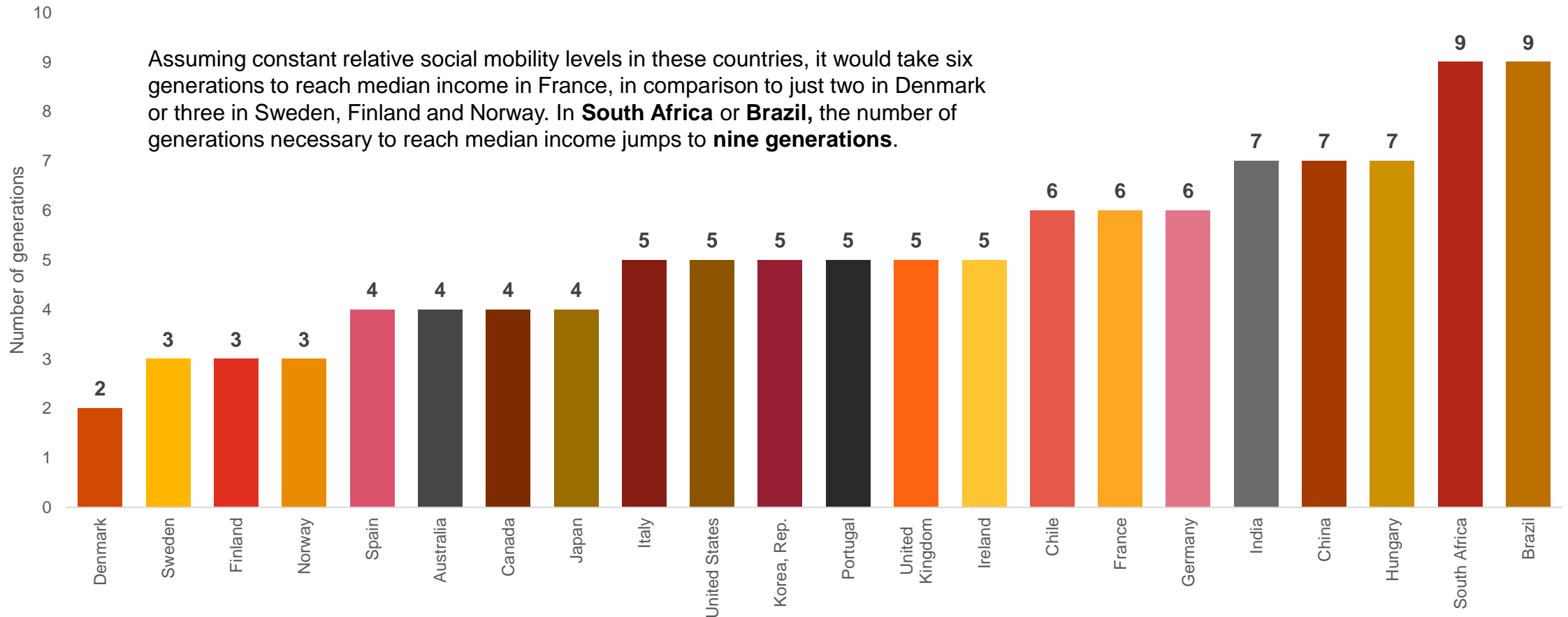
Key: \triangle Upper-middle-income group average



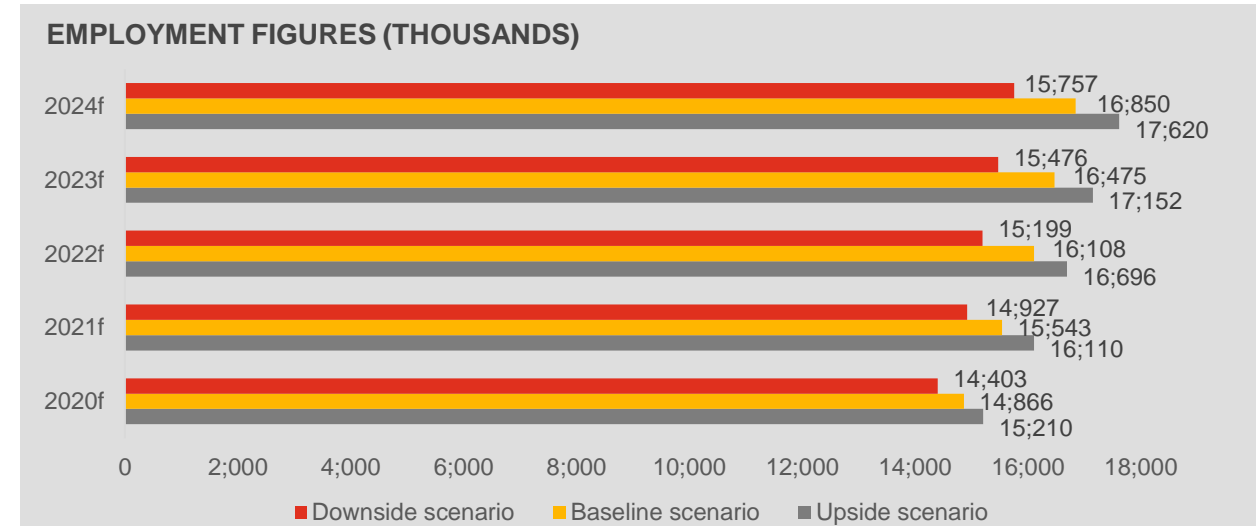
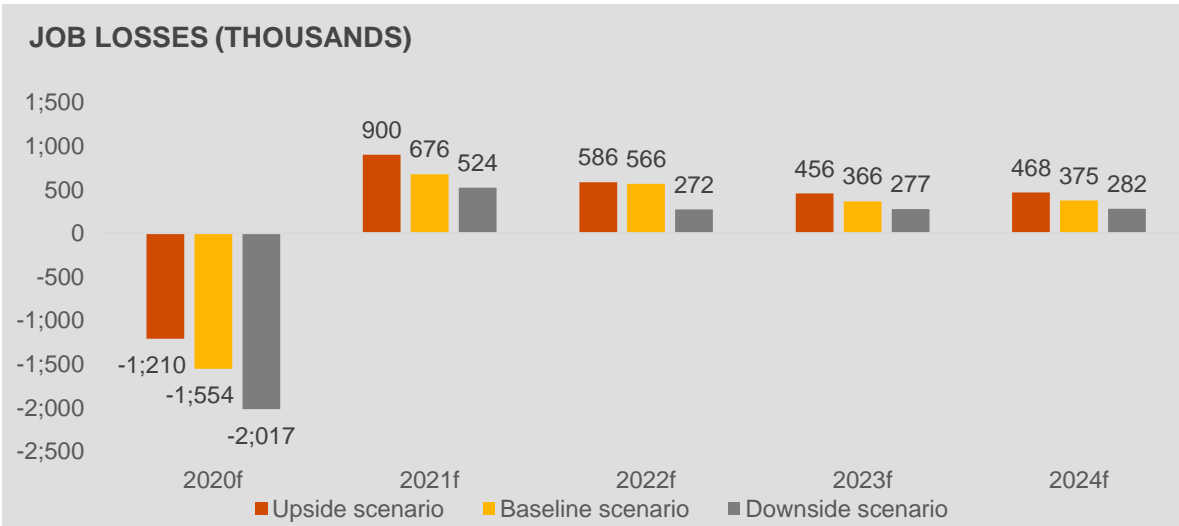
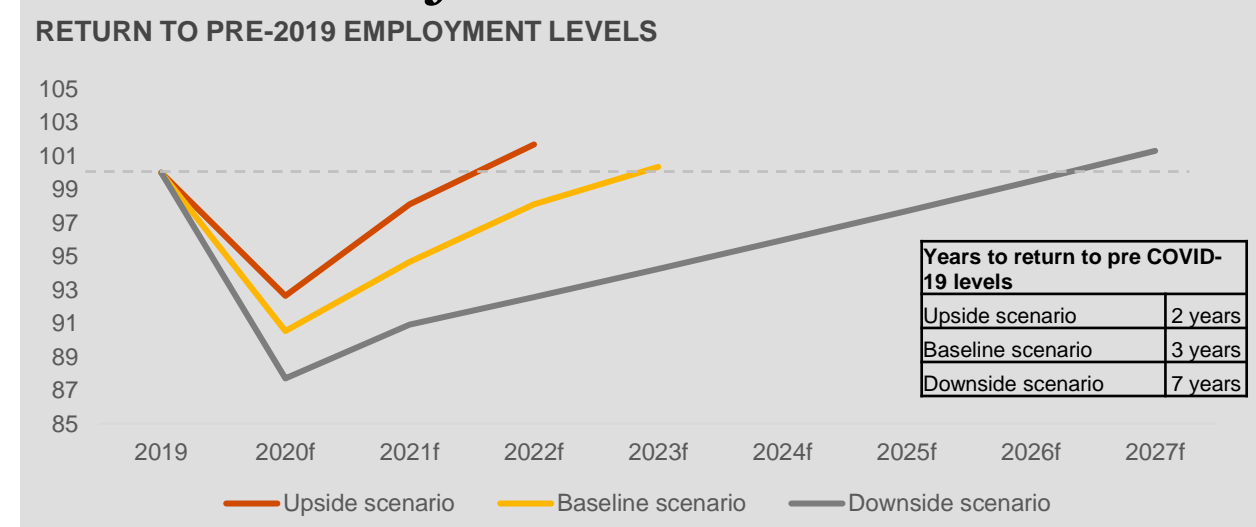
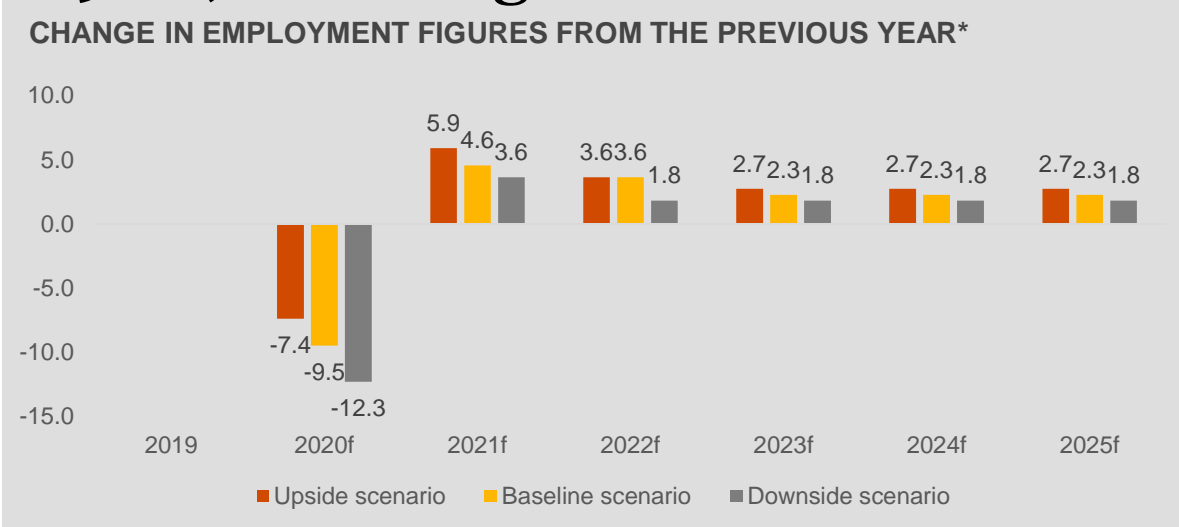
Source: WEF, Global Social Mobility report
PwC

Social: Number of generations it would take for those in a low-income family to approach mean income

INCOME MOBILITY ACROSS GENERATIONS



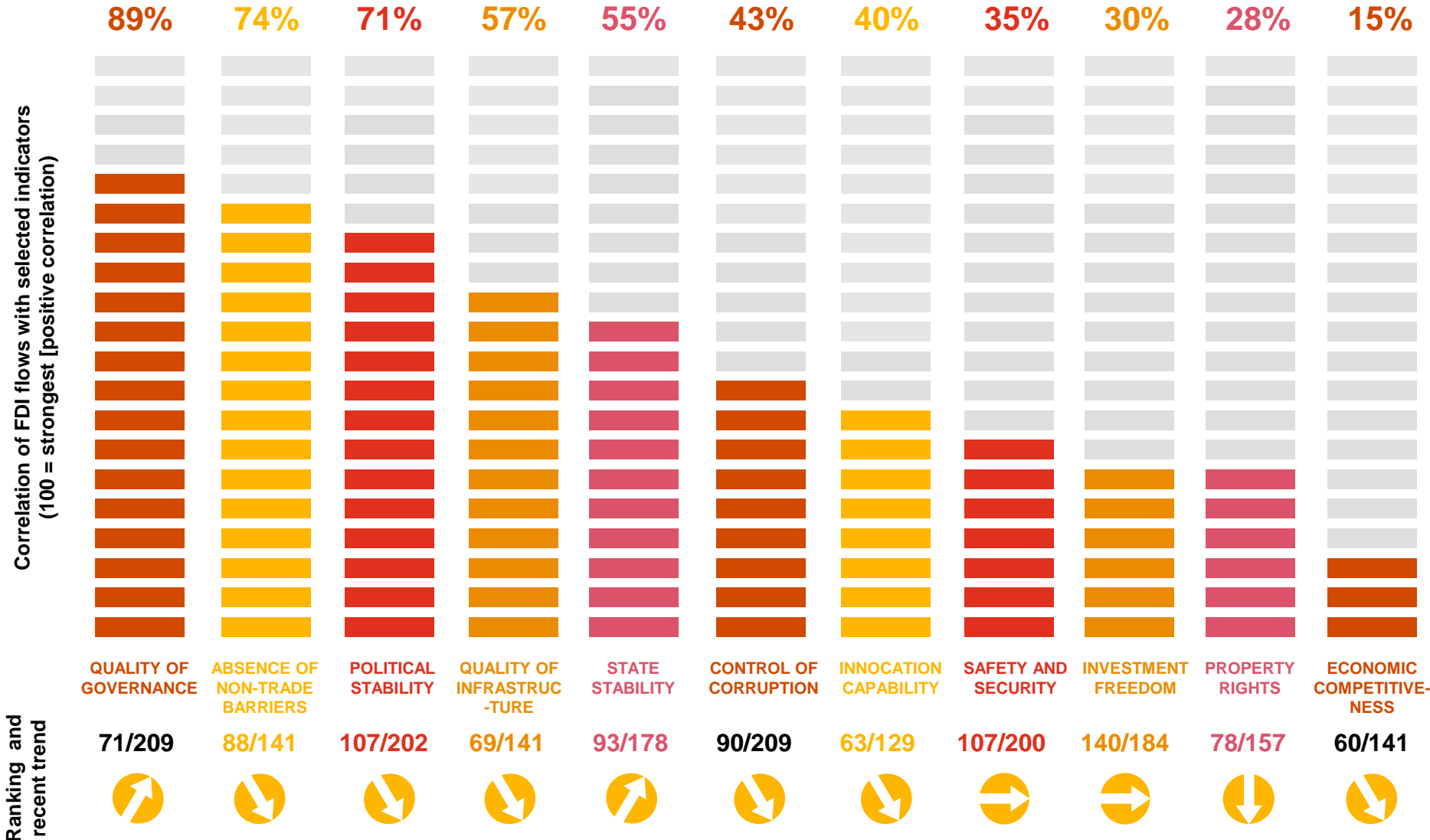
Economic: for every 1% reduction in GDP, the reduction in jobs equal 0.91%, meaning we can lose as much as 2 million jobs in 2020



* Our modelling suggests that a 1 percentage point increase/decrease in real GDP growth leads to a 0.91 percentage point increase / decrease in employment

Governance: the single most important factor for FDI flows to South Africa, is the quality of governance

In years where these factors improved, South Africa received more FDI inflows.



Where to focus reforms:



QUALITY OF GOVERNANCE

- Quality of public service delivery
- Policy formulation
- Policy implementation



ABSENCE OF NON-TARIFF TRADE BARRIERS

- Delays at border posts / ports



POLITICAL STABILITY

- Composition of government expenditure
- Policy continuity and certainty

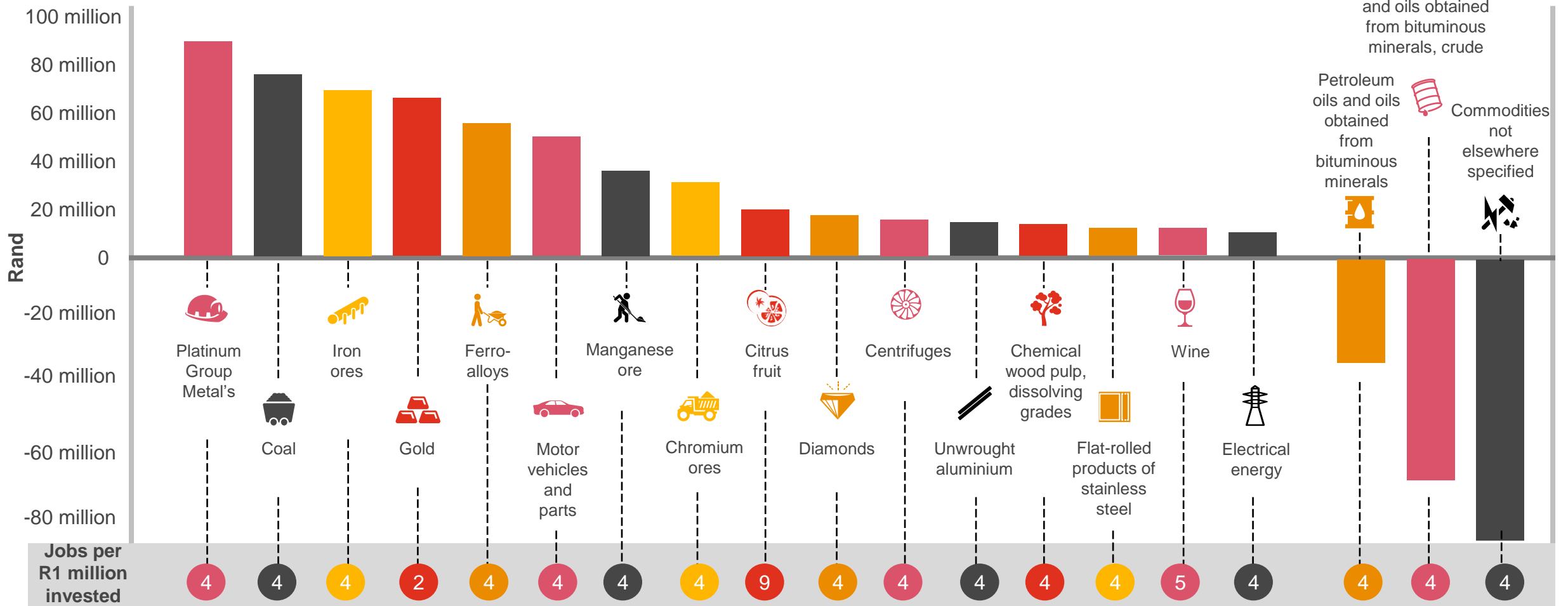
Source: PwC calculations based on multiple data sources

Climate transition in
South Africa must
consider risks, costs and
opportunities

3

South Africa's trade vulnerability is substantial, as reflected by its commodity contribution to the balance of trade

Contribution to trade balance of commodities with transition risk

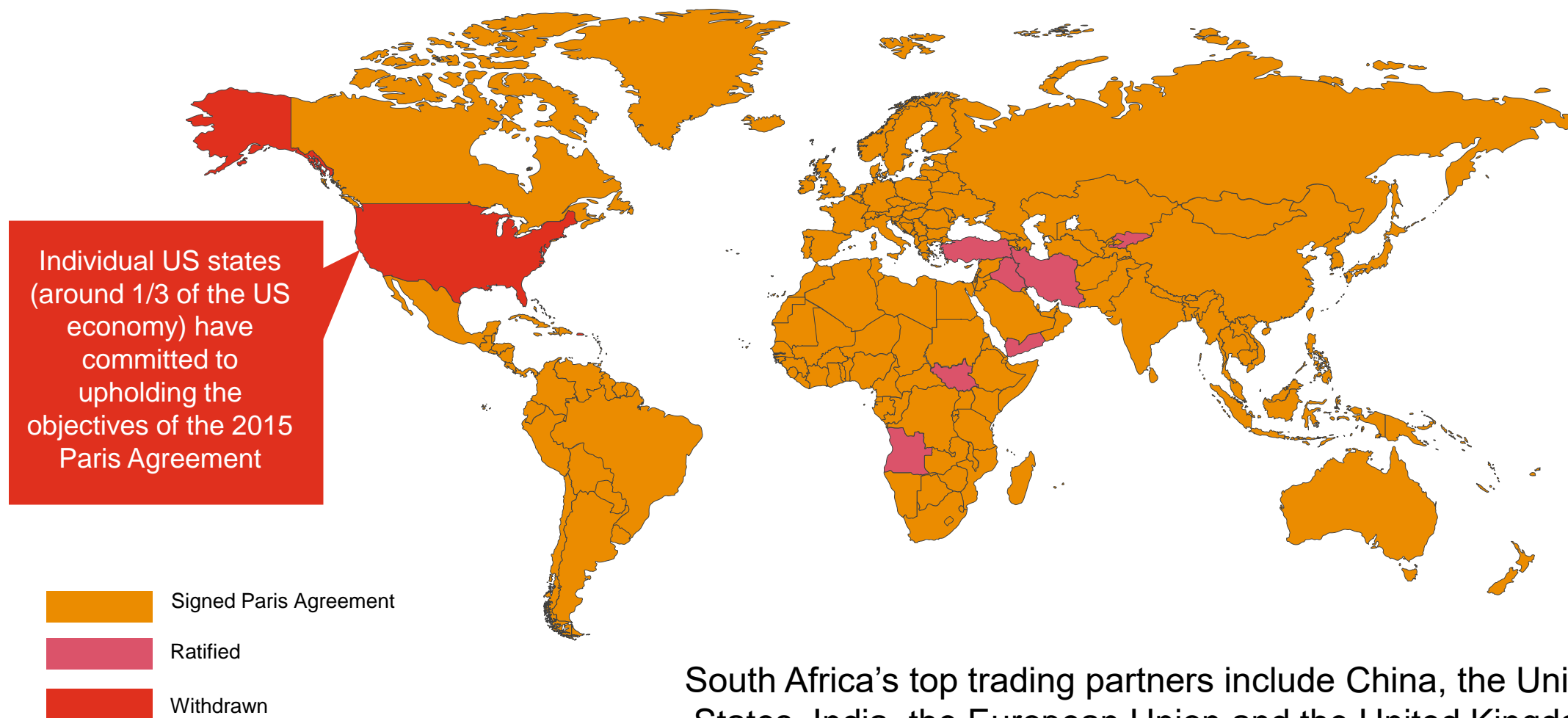


South Africa is severely exposed to climate risk, transition risks drive the need to invest in green

Sources: National Business Initiatives, PwC analysis

Further policy risk stems from South Africa's trading partners who are implementing low carbon transition plans

Paris Agreement status as at November 2019



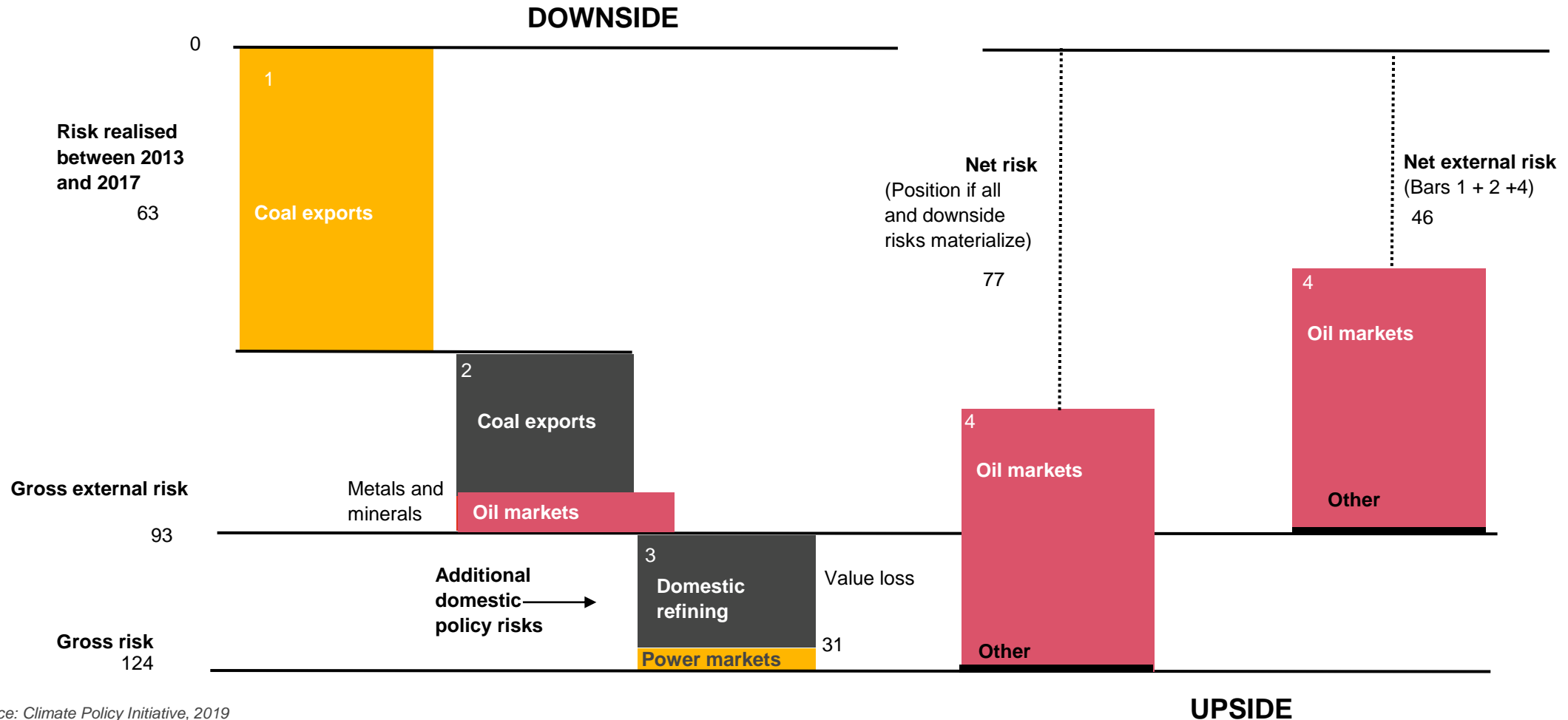
South Africa's top trading partners include China, the United States, India, the European Union and the United Kingdom

The total potential impact of climate transition in South Africa is estimated at US\$77.4bn

Potential transition risk	Impact (USD bn)			Issues
	-	+	Net	
<i>Risks arising from international trends</i>				
South African coal exports	-83.7	-	83.7	Green polices by China, India, Europe, US to reduce coal will reduce volumes and prices of internationally traded coal, impacting miners and export-oriented infrastructure
Global oil markets	8.3	45.5	(37.2)	Lower global oil demand will lead to lower oil prices. Consumers could benefit while some energy industry players, especially synthetic fuels producers lose.
Global metals and minerals markets	0.5	-	0.5	Risk to platinum market as demand for diesel vehicles reduces. Potential long-term downside from decarbonisation of the steel industry (iron ore). Long-term upside potential (not reflected) in fuel cell vehicles (platinum), batteries (manganese).
<i>Risks arising from domestic policy action</i>				
Domestic power industry and its coal suppliers	4	Potentially	4	Closure of plants to reach climate goals before the end of their economic lives could result in net costs if the strategy is implemented in a way that negatively affects Eskom
Domestic oil products and coal to liquids industries	27.4	?	27.4	Government is considering new fuel industry investments, upgrading existing refineries and new capacity. Currently the cost of replacing some of the large CO2 emitters would be higher than continuing to run them.
Other impacts	Losses	Gains	?	Global efforts on carbon mitigation should reduce physical climate risks and adaptation costs. Reducing national carbon emissions will impact emissions intensive sectors, including steel and cement production and other areas of the economy, including agriculture.
Total impact	123.9	46.5	77.4	

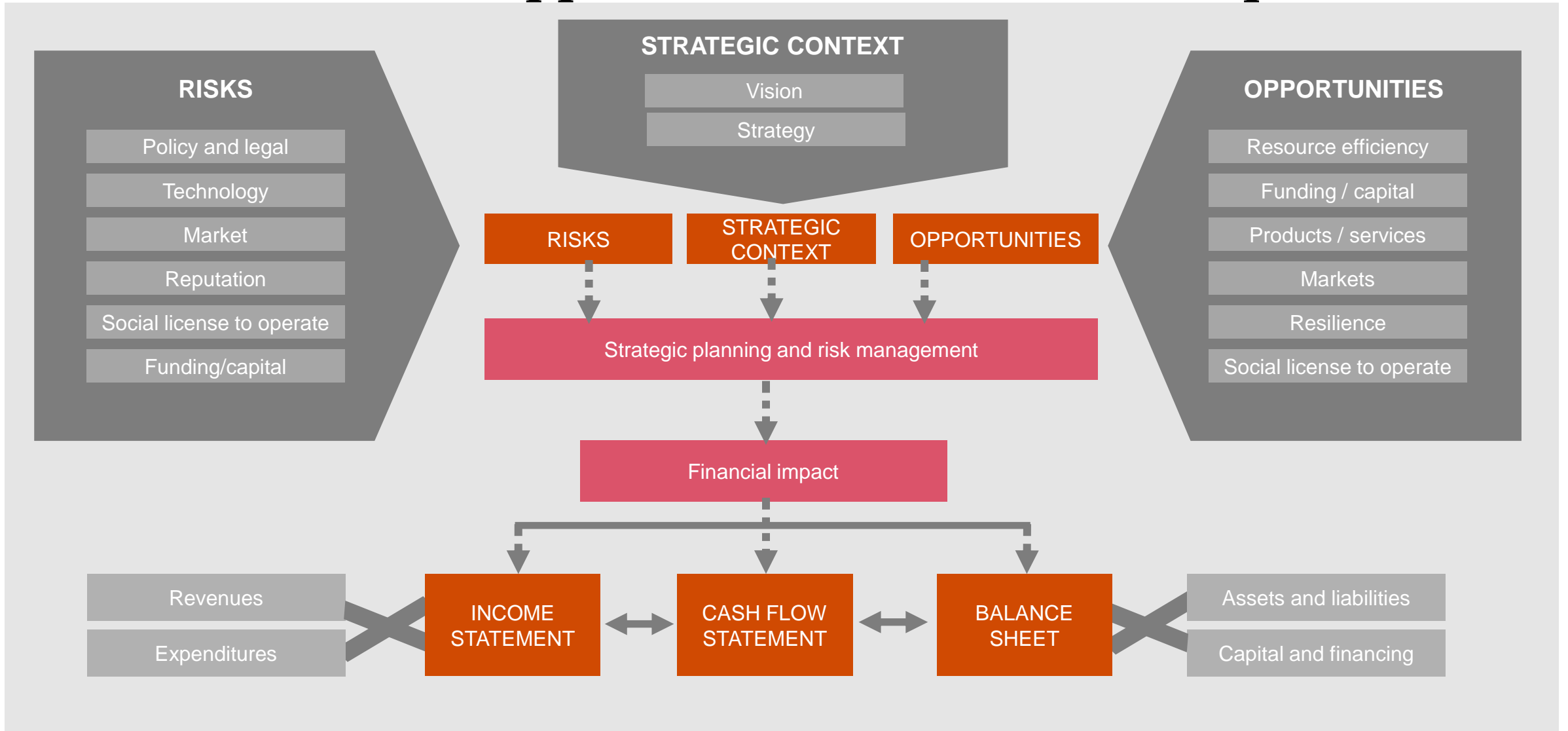
The majority of climate transition risk sits with the private sector

SOURCES OF RISK IN A CLIMATE TRANSITION (2013-2035) BILLION USD (NPV TO 2035)



Source: Climate Policy Initiative, 2019

ESEG related risks, opportunities and financial impact



Source: Task Force for Climate Related Financial Disclosures, 2017, adapted by PwC

Questions

Thank you



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