# CDP CLIMATE CHANGE IN SOUTH AFRICA 2019
# #BUILDBACKBETTER:

CDP DISCLOSURE INSIGHT ACTION | NBI National Business Initiative

## Companies are thinking more systemically, increasing focus on opportunities across value chains

### A GREEN ECONOMIC RECOVERY IS ESSENTIAL

The South African economy has been hit hard by the COVID-19 pandemic, emphasised by further ratings downgrades into junk status released by Fitch and Moody's on 22nd November 2020. A green economic recovery is essential to enhance international competitiveness and ease national debt (the debt to GDP ratio is currently **82%**). In the new climate economy, companies need to: respond to identified risk; diversify investments; work with others to solve systemic challenges; and grasp opportunities offered by a low carbon transition.

**28** of the world's largest economies have made net zero commitments

This covers the majority of our major trading partners.


**24% of the transition risk reported is considered highly probable and highly likely - emphasising the need for business action**

| | Low | Medium | High |
|---|---|---|---|
| Highly probable | 16% | 21% | 24% |
| Probable | 6% | 18% | 10% |
| Unlikely | 1% | 1% | 2% |

**21% of the physical risk reported is considered highly probable and highly likely - emphasising the need for business action to mitigate emissions and implement adaptation measures**

| | Low | Medium | High |
|---|---|---|---|
| Highly probable | 1% | 12% | 21% |
| Probable | 7% | 32% | 23% |
| Unlikely | 0% | 1% | 2% |

### QUANTIFYING THE VALUE OF RISK AND OPPORTUNITY

The value at risk disclosed by South African companies is more conservative than in 2018 but there is a greater focus on quantifying the value of climate-related opportunity.

#### Value at risk:

**Transition**
R215bn | 219 risks reported
2018: **R533bn, 216** risks reported

- **Policy and Legal** — R7bn | 139 risks reported — 2018: **R211bn, 162** risks reported
- **Technology** — R34bn | 14 risks reported — 2018: **R30bn, 14** risks reported
- **Market** — R87bn | 31 risks reported — 2018: **R194bn, 36** risks reported
- **Reputation** — R87bn | 35 risks reported — 2018: **R98bn, 48** risks reported

**Physical**
R70bn | 140 risks reported
2018: **R274bn, 152** risks reported

- **Chronic** — R47bn | 95 risks reported — 2018: **R244bn, 107** risks reported
- **Acute** — R23bn | 45 risks reported — 2018: **R30bn, 45** risks reported

Companies have significantly adjusted down their estimated value at risk since 2018, potentially reflecting a more mature interrogation of the risk. Policy and legal risk, market value at risk and chronic physical risk downward adjustments make up most of this change.

- ↓ R204bn Policy and legal
- ↑ R4bn Technology
- ↓ R107bn Market
- ↓ R11bn Reputation

**Risk**
R285bn | 359 risks reported
2018: **R807bn, 412** risks reported

**85%** of the value of risk & **90%** of the opportunity are reported by just 6 companies

It is significant that most of the physical risk in South Africa is chronic, reflecting the systemic nature of South Africa's vulnerability.

- ↓ R197bn Chronic
- ↓ R7bn Acute

#### Value of opportunity:

Recognising the inevitability of change, companies have increased their focus on opportunity and significantly increased the value of identified opportunity; encouragingly, mostly through identifying new products and services.

- ↑ R11bn Resource Efficiency
- ↓ R16bn Energy Source
- ↑ R431bn Products/Services
- ↓ R11bn Market
- ↑ R41bn Resilience

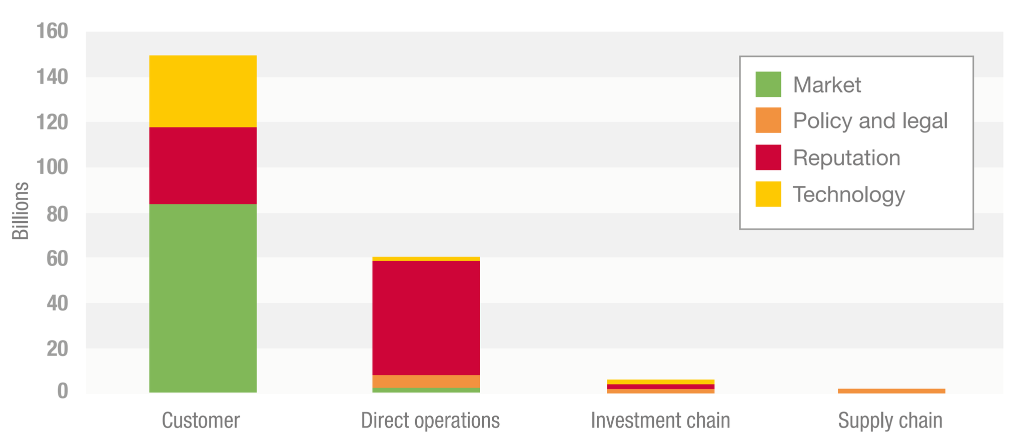
**Opportunity**
R583bn | 273 opportunities reported
2018: **R583bn, 301** opportunities reported

- **Resource Efficiency** — R82bn | 60 opportunities reported — 2018: **R71bn, 63** opportunities reported
- **Energy Source** — R16bn | 58 opportunities reported — 2018: **R20bn, 62** opportunities reported
- **Products/Services** — R431bn | 97 opportunities reported — 2018: **R267bn, 104** opportunities reported
- **Market** — R11bn | 27 opportunities reported — 2018: **R30bn, 35** opportunities reported
- **Resilience** — R41bn | 31 opportunities reported — 2018: **R8bn, 37** opportunities reported

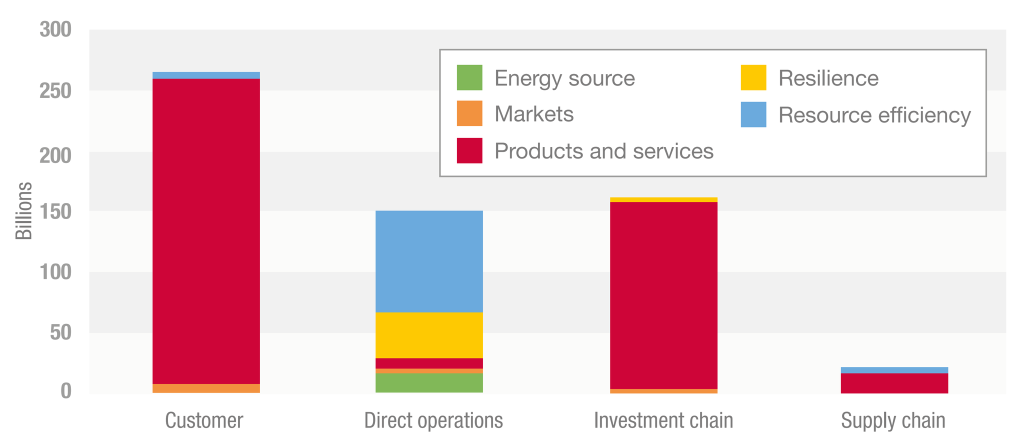
### LOCATING RISK

Where companies identify risk in their value chains suggests a shift to more systemic thinking. In 2019 the bulk of transition risk and opportunity has been identified in broader company value chains, particularly with the customer which is notably different to 2018. Physical risk remains a direct operational concern.

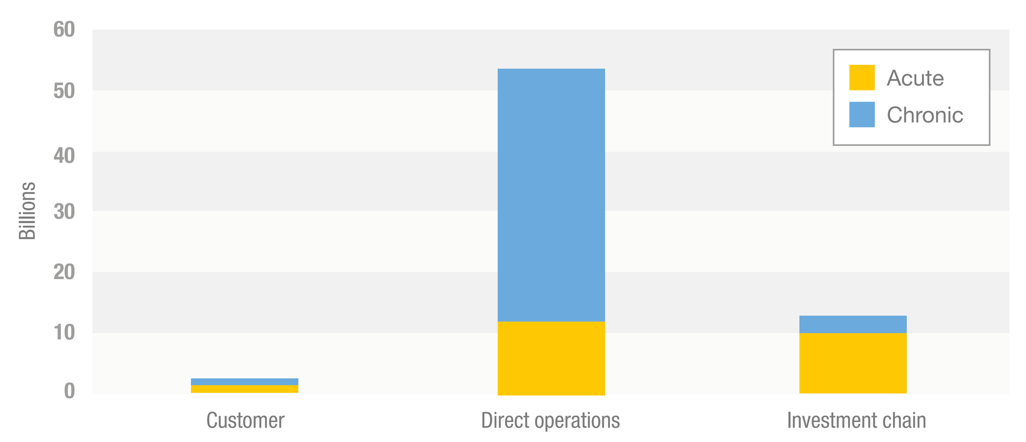
Location and impact of disclosed risk by type (transition risk)




Location and impact of disclosed opportunity by type




Location and impact of disclosed risk by type (physical risk)




The fact that most of the risk and opportunity sits downstream of the disclosing companies and that the physical risk is deemed to have significantly lower impacts on the value chain could reflect South Africa's commodity based export economy.

#### MOST REPORTED

Despite the significant drop in value at risk from policy and legal risks, this category remains the most reported risk grouping.

| | | |
|---|---|---|
| Policy and legal: | Increased pricing of GHG emissions | 74 |
| Chronic: | Changes in precipitation patterns and extreme variability in weather patterns | 73 |
| Acute: | Increased severity of extreme weather events such as cyclones and floods | 41 |
| Policy and legal: | Enhanced emissions-reporting obligations | 28 |
| Policy and legal: | Mandates on and regulation of existing products and services | 26 |

#### KEY FOCUS AREA

The focus of opportunity identification is on markets and accessing markets through new products and services.

| | |
|---|---|
| Development and/or expansion of low-emission goods and services | 34 |
| Use of lower-emission sources of energy | 32 |
| Shift in consumer preferences | 30 |
| Access to new markets | 21 |
| Development of new products or services through R&D and innovation | 15 |

#### VALUE EXCEEDS COST

Disclosed data strongly shows that the value of managing risk and opportunity far exceeds the cost. SA companies need to translate their strong governance and systemic thinking on risk and opportunity into target-driven investment.

Financial impact vs. cost of management: