Helping business transition to net zero

Issued by Trialogue

20 Dec 2021

There are significant opportunities for businesses making the transition to a net zero future, but the private sector needs to accelerate its understanding of new codes, standards and frameworks, and integrate these into business models and governance frameworks, before these can be explored.

This was one of the messages delivered at the second in a series of climate change webinars hosted by Trialogue, in association with the Sustainability Institute (SI) and the Institute of Directors South Africa (IoDSA), on 2 December. The webinar series explores key topics around awareness of COP26 outcomes and related climate-change issues among South African directors. The webinar was held with the historic agreements reached at the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow from 31 October to 13 November in mind – an event that had important implications for governments and businesses worldwide.

Essentially, new codes, standards and frameworks – such as the Task Force on Climate-Related Financial Disclosures (TCFD) and the International Financial Accounting Standards (IFRS) Foundation's proposed sustainability standards – will fast become important for directors and executives, along with international and national green-tax structures and regulations that are either in effect already or about to be finalised.

Environmental outcomes see expansion

While the survey conducted by the IoDSA on its members revealed a marked improvement in data received, in relation to that received from the first Trialogue webinar, 48% of respondents still said they had limited to no engagement with COP26 and its outcomes, and only 48% considered South Africa's concessional climate finance deal with the United Kingdom, the United States, France and Germany to be relevant to their own businesses.

Alarmingly, only 21% of respondents considered the JSE's net zero by 2050 commitment to be relevant to their business, and only 28% considered the decision by the G7 and G20 to stop financing foreign new coal projects to actually affect them. Additionally, fewer than 8% of respondents were fully aware of SA's green taxonomy, only 10% were aware of SA's Nationally Determined Contributions (NDCs), 18% were aware of the National Treasury's Sustainable Finance Initiative, and less than 33% knew about COP26 taking place in the first place.

These results point to a very limited understanding among survey respondents of the full range of implications of the diplomatic agreements reached at COP26. By establishing the Presidential Climate Commission (PCC) to coordinate the country's Just Transition to a net-zero economy by 2050, the South African Government has been proactive in developing a common vision for the shift to a low-carbon and climate-resilient society that takes into account implications for employment and society's most vulnerable groups.

"Our role at the PCC is to broker social consensus on how to move to a more sustainable environment, society and economy from both a regional and national point of view," says project coordinator at the PCC, Dumisani Nxumalo. "The government is looking at pathways and technologies to achieve this vision while protecting livelihoods."

The February 2022 deadline for developing a draft framework for the country's shift in its attitude towards carbon emissions is both important and highly relevant to local business leaders' decision-making.

"The return of the US to the Paris Agreement and the China-USA pact will have a significant bearing on global outcomes. There is a common understanding globally of the need for a Just Transition, which is key for developing markets and Africa in particular – acknowledging that many developing countries have so far failed to meet key targets. COP26 gives effect to the Paris Agreement and carbon tax will be SA's instrument for mitigation… where we will be allocated US$8.5 billion by developed nations to assist us in our energy transition programme," Nxumalo enthused.

Anelisa Keke
Head of ESG, Redefine Properties Limited

Sue Lund
Chartered Director (SA). Advisor to Infrastructure South Africa.

Dumisani Nxumalo
Project Coordinator, Presidential Climate Commission

Green outcomes become more attainable

Anelisa Keke, head of ESG at Redefine Properties, said she could empathise with directors who felt overwhelmed by the complexity and enormity of the climate change agenda. "It has been beneficial for us to take a step back and to approach the challenge systematically. The first port of call is whether [any] organisation has a firm grasp of the risks and opportunities that climate change poses – e.g., extreme weather changes and events, or key regulatory changes," she said.

Keke emphasised that climate change issues will persist beyond the careers of business leaders. At board level, from a governance perspective, this means processes must be defined to ensure that targets are implemented, monitored, and even rebased if necessary – beyond the tenure of specific board and/or committee members. There must be a succession plan, and an understanding of environmental issues must inform HR procedures so there is continuity into the future.

Executives see a green 'step up'

Sue Lund, chartered director (SA) and advisor to Infrastructure South Africa, said the PCC's leadership in this space has been critical. "It makes all our jobs a great deal easier with their guidance [in place]. My observation is that the tide is turning. Investor and lender policies are firming up and with no access to competitive financing, carbon-intensive projects will go nowhere. In response, boardroom strategies must dig deep and think hard about investment plans."

Despite the positive signs, Lund says directors and boards needed to play a much stronger role. "Non-executive have an important role to play in committees. The climate questions should arise everywhere, not just in the social and ethics committee, to start shifting the strategy discussions. The questions being asked are not trivial because a Just Transition and changes in the generation, provision and distribution of low-carbon energy will have a profound impact on companies' options, regulation, costs and access," she enthuses.

Lund's recommendation is that boards ask chief executives to conduct maturity assessments on climate change. "This should look right across the spectrum of where the company stands on mitigation, adaptation, opportunities and the risks to which the company is exposed… From this assessment, the board and executives can unpack a roadmap and prioritise: what's achievable, manageable and affordable. [They can then] start with quick wins and … develop a longer-term vision that stakeholders and shareholders will buy into. The CEO should be accountable for establishing the big-picture climate roadmap with the executive team, not leaving it to the head of ESG," is her take on the matter.

A just transition is where it is at

Nxumalo has advised that climate change impacts and strategies are slowly but surely being comprehended. "I cannot say enough about risks and early warning system… Europe's carbon taxes will start discouraging imports into Europe of carbon-intensive products. These are among many market signals to South African businesses who export to developed markets. Businesses need to begin putting responses in place now."

The PCC continues to raise awareness of the opportunities inherent in Just Transition financing. "It is our ambition to develop a Just Transition fund, which will accommodate smaller players by providing access to funding to improve their project pipeline at a scale that is reasonable. We are engaging with Treasury around this regulatory environment and concessional funding. Funders like the Development Bank of SA, the IDC and NEF are already looking at climate change-related topics in their value chains. These are all important signals that business leaders should be reading to help them transition their businesses," he concludes.

Watch a recording of the webinar here - https://youtu.be/YF_y5hjH4WE.

Watch a recording of the previous webinar, "What climate change means for South African businesses", here - https://youtu.be/HZhRJYzuML4.

Further resources

How to keep up to date with COP26:

The Presidential Climate Commission: https://www.climatecommission.org.za/
COP26 in brief - What business leaders should know: https://www.mckinsey.com/business-functions/sustainability/how-we-help-clients/cop26/on-demand
COP26: Key Outcomes From the UN Climate Talks in Glasgow: https://www.wri.org/insights/cop26-key-outcomes-un-climate-talks-glasgow

Climate change series:

The following four videos are part of a four-part series on Climate Risk and Climate Oversight for South, produced by the IoDSA in partnership with the Embedding Project.

Climate Change for South African Directors: What corporate directors need to know about climate change and the science behind it. Watch the video.
Climate Change Impacts for South African Directors: What corporate directors need to know about the impacts of climate change in South Africa. Watch the video.
Climate Risk for South African Directors: What corporate directors need to know about the risks climate change poses for companies. Watch the video.
Climate Governance for South African Directors: What corporate directors need to know about climate risk governance. Watch the video.

Tools and frameworks to get you started on your TCFD journey:

Hear from Trialogue associate senior consultant Nicole Martens to learn more about TCFD and how you can get started - https://youtu.be/cH84K5zUJY8.
IoDSA King IV Guidance Paper: Responsibilities of governing bodies in responding to climate change. Read the report here.
The latest TCFD status report describes progress on climate-related disclosure and TCFD implementation efforts, insights, and challenges. Read the report.

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