Africa Business Agenda: ESG Perspective 2023

Purpose-driven companies leverage ESG strategies to create value and build trust

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Introduction

> Companies have never been subject to as much scrutiny from society as they are now. In the context of global climate and societal challenges, businesses need to demonstrate their ability to create value, build trust and contribute to solving important problems. ‘Business as usual’, with a sole focus on profitability, has become obsolete.
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> **Lullu Krugel – PwC ESG Africa Platform Leader**

PwC’s 26th Annual Global CEO Survey shows that companies across Sub-Saharan Africa are taking action on climate and social risk issues. However, more needs to be done. This report, part of our 2023 Africa Business Agenda series, looks at some of the survey results related to the ‘E’ and ‘S’ components of ESG; specifically, CEOs’ concerns and actions around climate and social risks and opportunities. The region’s business leaders have told us that they are concerned about climate change and social instability. Some of them are taking action, and there is a great deal to learn from these experiences and insights. In turn, this report also shares insight about what we have learned about how to develop successful strategies for making a meaningful, purpose-driven impact.

Increasingly, more stakeholders expect that companies should be purpose-led, committed to contributing towards important environmental, social and governance (ESG) goals through their influence in society. Purpose-driven companies are reaping the benefits of focusing on the triple bottom line of people, planet and profit — positioning themselves for sustainable success.

Historically, many private sector organisations believed that climate change and social justice were matters that should be addressed by the public sector, specifically governments. While the provision of a social safety net is no doubt a primary role of government, macroeconomic and environmental shocks and their impact on vulnerable groups remain persistent and endemic, for a range of reasons both within and outside direct government control.

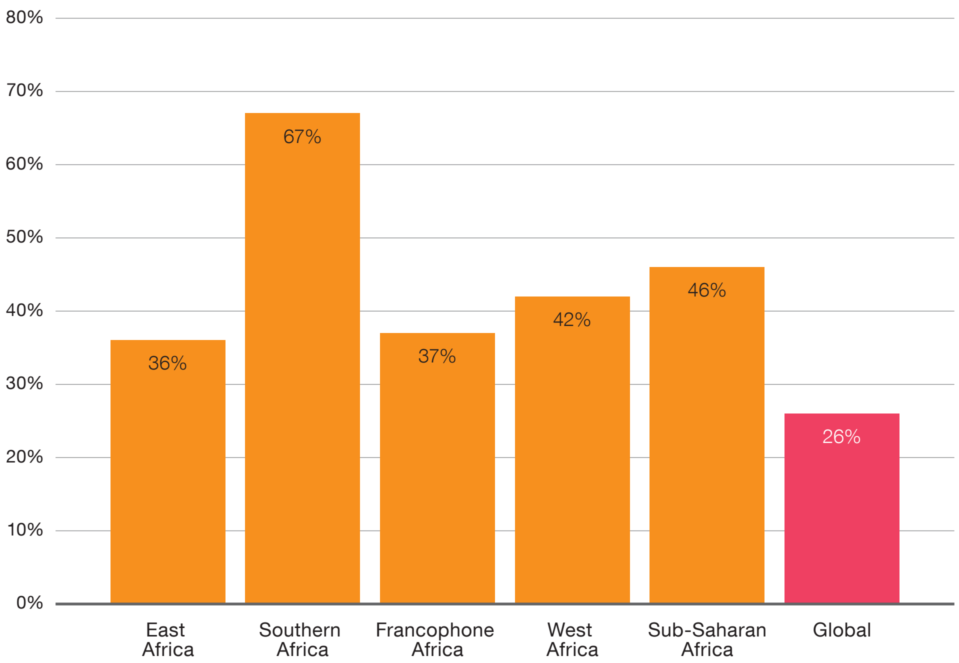
Meanwhile, governments are taking the lead in addressing current and future challenges around climate change from a policy and regulatory standpoint. Progress is uneven, with different policies emerging at different times in different places. Changing regulations can have a big impact on supply chains and company values, for example, and uncertainty is bad for business. It is in the best interest of the private sector to help address climate and social challenges, not only because these organisations may have additional capabilities to complement and augment public sector efforts, but because by working together we can create more stability which is conducive to growth.

Joining forces to tackle societal challenges

Governments cannot — on their own — fix the risks linked to social inequality

Some 46% of sub-Saharan African business leaders surveyed expected their companies to face moderate, high or extremely high exposure to threats stemming from social inequality — including those stemming from income, gender, race and ethnicity — over the next 12 months, compared to just 26% globally. This includes concern about social and political instability. (We looked at this in our report '*Rebuilding social cohesion is essential to South Africa's economic development*'.)

Figure 1: *Percentage of CEOs expecting their companies to face moderate, high or extremely high exposure to threats stemming from social inequality over the next 12 months.*



Source: PwC's 26th Global CEO Survey

CEOs in Southern Africa are the most concerned about social risk, with two out of three (67%) seeing exposure to threats stemming from social inequality. This is understandable, since the Southern African Customs Union (SACU), comprising Botswana, Eswatini, Lesotho, Namibia, and South Africa, is the world's most unequal region from an income and consumption per capita perspective.[1]

For South Africa in particular, the unrest it experienced in July 2021 is a typical example of what happens when communities feel aggrieved and ignored about the inequality they experience. This played out through a wave of civil unrest in the KwaZulu-Natal and Gauteng provinces where people were likely venting their frustrations through vandalising shops and causing destruction to property. It seems evident that if people's needs had been met and their concerns heard, an event like this could possibly have not happened.

Research by the World Bank found that inequality in South Africa, and the broader Southern Africa region, is caused by a myriad of factors, including the poor functioning of urban labour markets, large gender gaps in earnings, and inequality in land ownership, among other factors.[2] These and other African governments cannot fix these problems alone. They need the private sector and other stakeholders to work together on addressing social challenges.

Many private organisations across sub-Saharan Africa are already doing their part to address inequalities and associated social risks. We have worked with clients in Southern Africa, for example, to implement fair pay policies that provide, for instance, a 'living wage' (as opposed to a minimum wage) that allows workers to maintain a frugal but dignified standard of living. A public commitment to fair pay sends a strong message about values and purpose, improves reputation, and serves as a differentiator for a company within its industry. But more needs to be done. And this should be collaborative across all stakeholders.

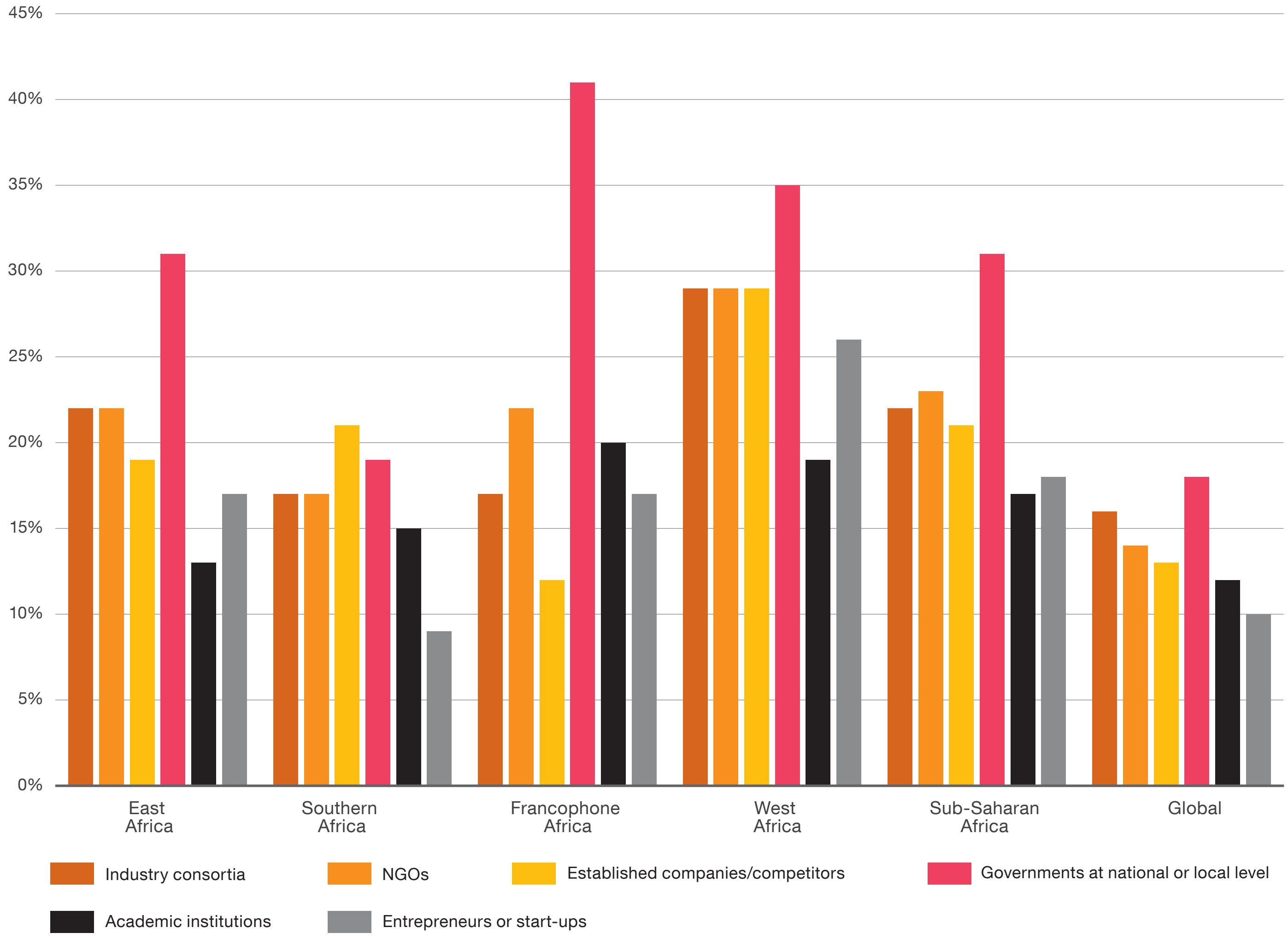
A collaboration model for real societal impact

'Winning today's race while running tomorrow's' is the theme of *PwC's 26th Global CEO Survey*. It talks about the need to balance short-term economic challenges with the long-term existential threats. Thinking just about the short term is a threat to sustainability. This orientation is focussed on maximising short-term shareholder value and not seeing beyond the next set of financial results and bonuses.[3]

We need to re-think how businesses operate, how success is measured, the definition of fiduciary duty, the regulatory environment, transparency, and how boards are remunerated. This requires buy-in and support of all stakeholders — including investors and shareholders. Real collaboration is the only way forward.

So, who are companies collaborating with to address societal issues? Governments and NGOs are most popular, but many of the other stakeholders are being left behind. For example, our survey results show that across sub-Saharan Africa, entrepreneurs and start-ups are the least likely to be meaningfully included in these collaborative efforts. Only 18% of CEOs mentioned working with them to a large or very large extent to address societal issues.

Question 1: *To what extent is your company collaborating with the following groups to address societal issues?*



Source: PwC's 26th Global CEO Survey

Note: Readings reflect a large or very large extent of collaboration.

A collaborative approach to working with entrepreneurs and start-ups could help to make a difference. We have seen many examples of them playing an important role when it comes to interacting with people at street level. COVID-19 relief efforts were a good example of this: entrepreneurs understand the people and their surrounding areas, especially in rural areas and informal settlements. These are people who practically solve problems — the social entrepreneurs. That is how we addressed COVID-19 most successfully: governments worked with the private sector and industry organisations, as well as with NGOs and entrepreneurs, to protect and safeguard public health.

Compared to the other regions, companies in West Africa are most likely to work with entrepreneurs and start-ups to address societal issues. In Nigeria, for example, there are 443,000 social enterprises whose mission it is to make a social impact through their activities. By partnering with these enterprises, large corporations are making an impact on societal issues. According to research by the British Council, social enterprises in Nigeria benefit the poor (68% of enterprises), the youth (67%), and the long-term unemployed (51%).[4]

> Something to think about: Does your organisation engage with local organisations and groups to achieve the most impact and create value? What is the long-term value of collaborating with these organisations to achieve environmental and social resilience?
>
> **Lullu Krugel – PwC ESG Africa Platform Leader**

Taking action on climate risk

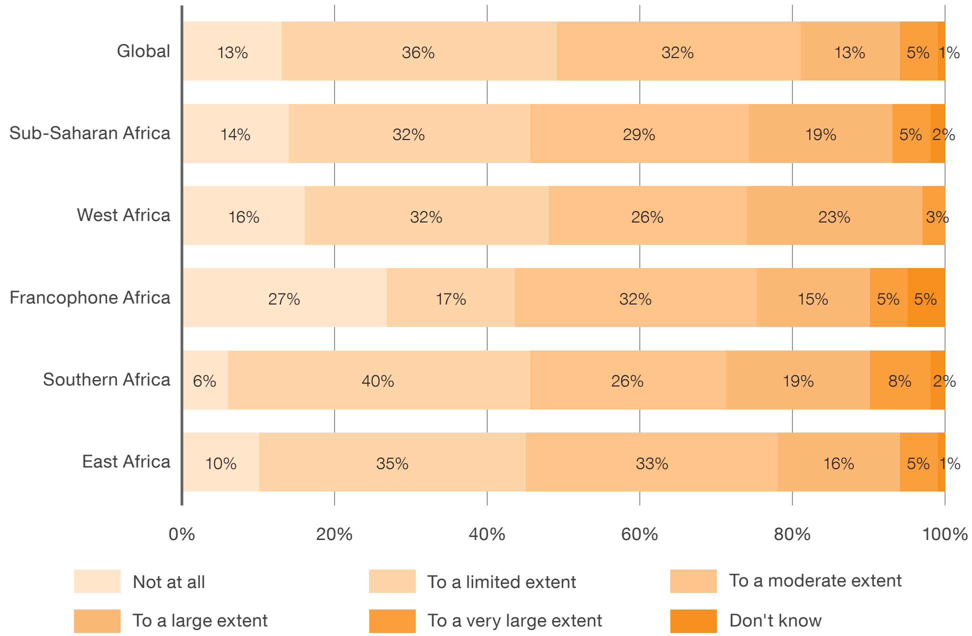
A holistic, operational approach drives value for business and society

The increasing prominence of ESG is helping companies and executives to pivot away from a sole focus on managing ESG-related activity through Corporate Social Investment (CSI) programmes and towards a more holistic, operational approach where concerns about social wellbeing and the environment are fully integrated with corporate strategies.

There is also a cost implication associated with climate risk. Some 52% of sub-Saharan African companies surveyed expect a moderate, large or very large impact from climate risk on their cost profile over the next 12 months, compared to 50% globally. These costs include insurance liabilities and financial outlays to comply with new regulations.

On the insurance front, 2022 was an expensive year for insurance premiums and pay-outs linked to climate disasters in sub-Saharan Africa. Flooding in South Africa's KwaZulu-Natal and Eastern Cape provinces were the third-most expensive climate disasters globally. Other major climate-related disasters included heavy rainfall and floods in West Africa as well as cyclones and other tropical storms threatening Mauritius, Seychelles and Réunion and, in some cases, landfall damage in Southern and East Africa. It is becoming clear that climate change has increased the severity of many of these storms and their frequency. Meanwhile, East African countries in the Horn of Africa have experienced their fourth year of drought.[5]

Question 2: *To what extent do you expect the cost profile of your business to be impacted by climate risk in the next 12 months?*



Source: PwC's 26th Global CEO Survey

> By implementing a more holistic approach to ESG and communicating and reporting progress more effectively, organisations can deliver more transparency for stakeholders and build trust in their brands and purpose. For many of our clients, this is brand-defining activity that supports sustainable growth.

Rukaiya el-Rufai – ESG West Africa Lead

Depending on regulatory requirements, companies now need to report certain ESG-related information in their annual reports. Other organisations may not necessarily be required to do so, but the trend is clear elsewhere and so they choose to get ahead of the regulatory curve and report. For reporting to be impactful and efficient, organisations need to create internal capacity to collect and verify information on the E, the S and the G components of this holistic approach.

For example, new regulations from the European Union (EU) are intended to be transformational and integral to the bloc meeting its net zero commitments. The 'Fit for 55' is a package of rules aimed at reducing the EU's net greenhouse gas emissions by at least 55% by 2030. At the very least, this means sub-Saharan Africa is impacted as a trading partner to the EU.

There are significant implications for organisations that trade with the bloc, others that are in the bloc's value chain of listed companies, or those that are subsidiaries of its companies. The wide ripple effect of regulatory compliance, direct and indirect, could compel sub-Saharan African companies exporting to the EU to comply with its expectations of environmental stewardship. The EU's evolving climate change rules could drastically affect what organisations can and cannot export to the region. While this might be a risk, it might also be an opportunity to get ahead of the curve and strengthen ties with trading partners.

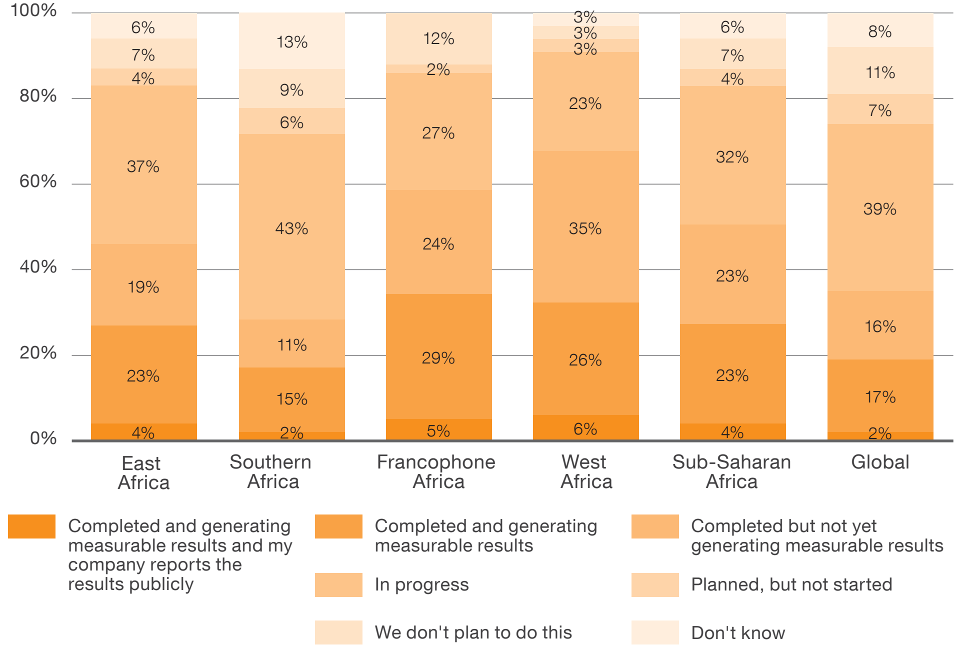
Data delivers insight for informing emissions-reducing strategies

Expectations in the market — from regulators, shareholders and customers — can influence the development and delivery of an ESG strategy. However, immediate concerns like affordable food and fuel and security tend to be top of mind amongst many stakeholders even though underlying environmental and social factors play a significant role. Food security, for example, is highly influenced by climate change and geopolitical unrest. An effective ESG strategy takes into account these underlying, immediate factors as well as future sustainability.

Yet only half (50%) of sub-Saharan African companies surveyed are working on or have implemented a data-driven, enterprise-level strategy for reducing emissions and mitigating climate risks, compared to 65% globally. That means the other half are not in this process of strategy development. One in four (23%) CEOs in sub-Saharan Africa indicate that they do not plan to do this at all.

We understand that there are many reasons why African companies seem to be behind the curve in adopting ESG-related strategies to reduce emissions and mitigate climate risks. These factors include human resource constraints, the need for a sustainability champion at the top of the corporate ladder, diversity in regulatory requirements (or the lack thereof) on reporting ESG matters, and seeing risk mitigation as a cost and not an investment.[6] Our discussions with CEOs suggest that the need for data is interlinked with these factors.

Question 3: *Which statement best characterises your company's level of progress on developing a data-driven, enterprise-level strategy for reducing emissions and mitigating climate risks?*



Source: PwC's 26th Global CEO Survey

> An ESG narrative that tells the story of a company's values and purpose is not enough anymore: it must be backed with credible data to provide a holistic picture of its performance throughout its value chain. By determining, gathering and analysing material data points, an organisation is empowered to manage its stakeholders through its reporting and any other formal interaction. With this data, companies can also react swiftly and aptly to changes in the socio-economic landscape due to real-time data transparency.

Edward Kerich – ESG East Africa Lead

ESG-focussed data analytics will help an organisation to not only manage operations more cost effectively, but allow supply chain visibility, customer insights, the impetus for innovation, and a critical lever to managing risk. Digital transformation to ensure that an organisation can focus on analysing material data — rather than just gathering and verifying data — seems a prudent strategic choice and worth taking on the challenges of adjusting organisational structures, systems and processes, and finding new talent to stay ahead of the curve to grow the bottom line.

We've learned from companies across all industries that identifying the sources of ESG data is often one of the primary challenges. In many cases, the data comes from multiple sources and/or is manually derived — which makes it susceptible to human error. Furthermore, the origin of the data may be unknown, which makes it challenging to identify and trace from initial source to final report.

There is no one-size-fits-all approach to effective ESG data collection and reporting. Company leaders should consider the following steps as they evaluate the best approach for their organisation:

- Understand the requirements and goals of the organisation, and regulatory requirements (if any). Consider trading partners and their requirements, or regulatory trends that could impact the organisation in the future.
- Determine responsibility and accountability for ESG and sustainability strategies and reporting within the organisation.
- Assess the reliability, availability and maturity of required data.
- Identify and remediate data gaps.
- Establish a sustainable, repeatable process and internal controls to collect and aggregate data, and remediate data quality issues in an efficient and effective manner that facilitates reporting and decision-making. Understanding and optimising existing and available IT systems in order to automate processes to facilitate real-time data visibility and reduce human error is recommended.
- Maintain and store ESG data in accordance with regulatory requirements and company policies.

Conclusion

Addressing social challenges and climate change presents opportunities for the public and private sectors to work together. Private sector organisations have the skills and capacity to positively influence a broader community of stakeholders, far beyond the financial bottom line. Their efforts can create value for customers, shareholders and the communities where they operate, and deliver improved sustainability for their businesses and suppliers.

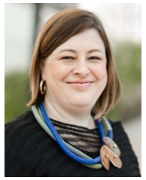
Transforming from a reactive, compliance-driven organisation to a pro-active, purpose-led organisation that makes a real impact on societal challenges and climate change is not simple. It is a journey along a maturity path. It starts by assessing current maturity, baselines, risks and readiness for the journey. This, in turn, delivers commercially integrated perspectives on ESG opportunities. This journey is more than desirable: it is a necessity. It is also a sound business practice.

Methodology

The weighted average score for sub-Saharan Africa is based on PwC's regional classification of African economies, using nominal GDP PPP data for 2022 to weigh the responses. The classification is as follows:

- **East Africa:** Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Mauritius, Rwanda, Seychelles, Somalia, South Sudan, Tanzania, Uganda, Zambia
- **Francophone Africa:** Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Democratic Republic of the Congo, Gabon, Guinea, Equatorial Guinea, Madagascar, Mali, Niger, Republic of Congo, Senegal, Togo
- **North Africa:** Algeria, Egypt, Libya, Morocco, Sudan, Tunisia, Western Sahara
- **Southern Africa:** Angola, Botswana, Eswatini, Lesotho, Malawi, Mozambique, Namibia, South Africa, Zimbabwe
- **West Africa:** Cape Verde, Gambia, Ghana, Guinea-Bissau, Liberia, Mauritania, Nigeria, São Tomé & Principe, Sierra Leone

Contacts



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> “Actions to improve society and the environment are at the core of the journeys that we are taking with clients by integrating ESG factors into their overall business strategy. ESG is much more than ticking boxes: it is about making a difference for your business and our world. It is also about creating sustained outcomes that drive value and fuel growth while protecting the environment, strengthening resilience and supporting the next chapter of Africa’s growth.

Endnotes

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