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Building Resilience?

BY TRACY HANCOCK

Vulnerable sectors driving climate change mitigation but no recourse against govt if emissions targets not met

While companies operating in vulnerable sectors are currently driving the country's climate change mitigation, South Africa's public sector does not have the necessary resources to regulate and enforce the climate change mitigation measures proposed by the Climate Change Bill, which awaits the signature of the President.

This is according to Business Unity South Africa (BUSA) energy and environment policy director **Happy Khambule** who says: "There isn't confidence and the enforcement measures that are by government, for government aren't clearly articulated. There also isn't any recourse, in fact, for anyone, or any stakeholder or any person within society to hold national, provincial and local government departments accountable when they fail to meet the targets and standards they have set for themselves."

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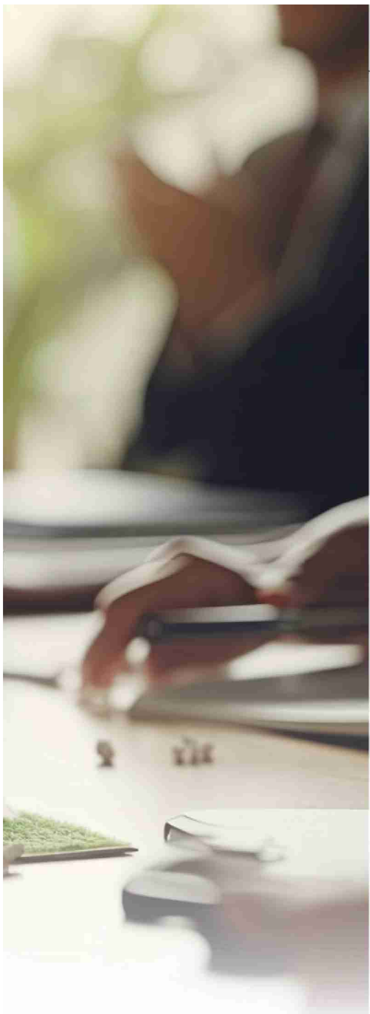

Conversely, leading South African companies in vulnerable sectors are taking climate change seriously and have been doing so for some time, having already experienced and dealt with the impact of extreme weather events on their businesses, says National Business Initiative (NBI) acting environment head **Alex McNamara**.

Khambule agrees, noting

HAPPY KHAMBULE
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that following the devastating impact of the floods in KwaZulu-Natal (KZN) in April 2022, and the subsequent flooding this year, corporate South Africa has realised that if parts of the value chain are exposed, so is the rest of the industry, placing it in a very high-risk environment.

"Therefore, numerous companies have adopted strategies to enhance their own resilience, but also to support the other value chain actors and stakeholders so that they can secure themselves.

"The lack of preparedness for the impact of the floods is owing to the absence of adequate and fit-for-purpose government frameworks to support the private sector and society at large. The problem with extreme weather events and climate change is that if the infrastructure and

ALEX MCNAMARA
If South Africa addressed the underspending across the economy on water and wastewater infrastructure, it would increase the country's resilience in times of extreme water scarcity

your readiness is not up to scratch, you will be exposed," emphasises Khambule.

Companies operating in industries vulnerable to the physical effects of climate change, including mining, the agroprocessing value chain, logistics, and state-owned enterprises (SOEs), are thinking carefully about business continuity and risk management, highlights McNamara.

"Accordingly, they have integrated extreme weather events and climate risk into their existing processes and systems, allowing for these additional stressors to be effectively incorporated into their current way of thinking and operating."

Companies are also partnering with government and society, for example, to reduce risk, not just in their operations, but in surrounding communities and their value chain.

Many NBI member companies, which include Anglo American, Eskom, PPC and South African Breweries, have also worked to make informed decisions by collaborating with principal technical specialists in the climate science field.

"Climate change science is a highly specialised field and climate change modelling at a regional level is a very complex undertaking. Working with climate specialists helps companies to delve into what the climate models are predicting for specific regions of the country to understand the uncertainties but also the likely implications for their operations and types of activities. In so doing, they are working to understand the risks they face and what climate projections are likely to affect them, and how they could mitigate some of those risks," states McNamara.

Vulnerable sectors directly impacted on by extreme weather events, such as the droughts in Cape Town and Nelson Mandela Bay, include agriculture, agroprocessing and food retailers, as they are heavily affected by the associated disruptions in the agricultural value chain.

Consequently, NBI has noticed water stewardship, for example, emerge as a paradigm that in many ways is a risk management approach to address water scarcity and build supply chain resilience.

Further, SOEs Eskom and Transnet have numerous concerns around extreme weather events that could affect their infrastructure and have had to respond to mitigate the associated risks.

"Several local mines are in a similar position. That vulnerability has resulted in the companies operating in these sectors being more proactive out of necessity to ensure their operations are not unduly affected," adds McNamara.

Employment & Economic Activity

The KwaZulu-Natal floods in April 2022 alone cost the provincial economy about R17-billion, illustrating that the impact of extreme weather events can be significant.

"The losses for the private sector were in the order of R7-billion. There were definite direct financial impacts for companies and the economy in general and that was only caused by a single flooding event."

Khambule says reoccurring floods, whether it be in Ekurhuleni, Tshwane or Durban, have resulted in economic losses, not only related to productivity and human resources being unable to report to work and perform their duties, but also capital losses, such as equipment and the destruction of physical infrastructure where water is left standing for too long, further deteriorating said infrastructure.

In addition, the Western Cape drought, between 2015 and 2018, also resulted in significant agricultural production and revenue losses.

"Regulations were passed requiring companies to reduce their water consumption by 45% in the Western Cape during this time. Agriculture had to reduce its consumption by even more. That resulted in a significant curtailment of certain companies' production capacity," states McNamara.

However, in South Africa, there are several economic opportunities related to climate change mitigation, which can drive employment and investment.

For example, a large amount of capital is needed to develop the commercially viable projects needed to grow the local renewable energy sector. These projects are bankable and have many investors clambering to invest in them, since South Africa has some of the best renewable-energy resources in the world, explains McNamara.

"These are projects that we can implement right now, that will lead to job creation in the renewable-energy sector. In addition, when the renewable-energy sector gets to a certain size, it does make sense to localise it from a logistics and management perspective."

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Therefore, large global renewable-energy companies will start to localise their production as the country achieves a certain scale, which is an achievable scenario for South Africa. At a minimum, the country needs to ramp up renewable-energy production to 6 GW/y. While grid constraints are still a concern that needs to be addressed, technically, it is economically feasible to develop renewable energy at this rate at least, says McNamara.

"We would start to see local assembly and some local manufacturers, not to mention the expansion of the downstream and upstream businesses supporting the industry. Economic modelling done by NBI in collaboration with Boston Consulting Group two years ago, suggests that the climate transition would have a net positive effect on jobs in the economy, without even considering the growth of the renewable energy value chain. However, it is necessary to be mindful of what types of jobs would be created, and to support an orderly transition, including the effective skilling and reskilling of people for employment," he advises.

Khambule says if South Africa fails to become climate change resilient and establish a low carbon economy it will not be globally competitive, which will have a direct impact on available jobs.

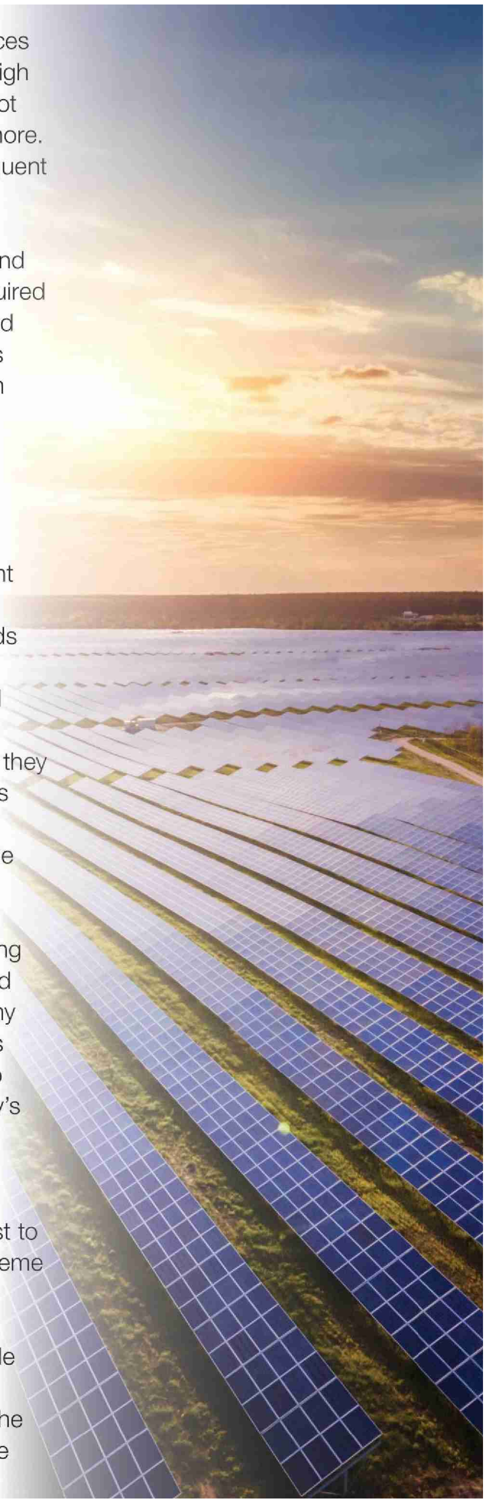
"Our products and services will be associated with a high carbon footprint and will not have market access anymore. And that means a consequent reduction in the number of available jobs, as our production will be lower and fewer services will be required locally, owing to decreased local economic activity, as well as demand by foreign markets."

He adds that while decarbonising is vital to reduce the country's contribution to climate change, it is also important to attract foreign direct investment, which also aids job creation.

Khambule believes it will be difficult for company secretaries to ensure that they safeguard their companies from extreme weather events unless they are able to adequately advise their boards.

"Essentially, we are asking how can boards safeguard companies? With company secretaries being advisors to the board, they need to ensure that their company's investment decisions involve the best locations for facilities and that their strategy includes how best to withstand or manage extreme weather events."

He adds that the most companies can do, outside of what is in their direct control, is to ensure that the local areas of influence are



ready for increasing extreme weather events, as well as to harness some of the fallout of extreme weather events.

For example, as much as South Africa is faced with flood-like conditions, most of the conditions that lead to flooding are the result of poor infrastructure planning. In most cases, that can be mitigated by having the correct infrastructure plans and investments in the right areas, Khambule tells *boardroom*.

Overreliance on Private Sector?

McNamara says the public sector could benefit from private-sector expertise and finance to deal with the aftermath of extreme weather events brought about by climate change as investments into public-sector infrastructure are not adequate, particularly at a municipal level.

"If we only look at our existing infrastructure, for example, we know that more than half of our wastewater treatment works are not adequately functional, and several water treatment works are also dysfunctional."

Khambule advances that there are pieces of South African infrastructure that are uninsurable because the risk is just too high, owing to their level of deterioration.

> *"There are pieces of South African infrastructure that are uninsurable because the risk is just too high"*

"In the private sector, companies are moving to not only ensure that their facilities are up to par, but also that the infrastructure feeding their operations or vice versa is of a good condition. It is really an indictment of the response from not only local government but also provincial and national government," he elaborates.

The deterioration and poor management of South Africa's water infrastructure by municipalities was confirmed through the Blue, Green and No Drop reports published in December last year, as well as the facts and figures presented in the National Water and Sanitation Master Plan.

"The country's water and wastewater treatment works are critical pieces of infrastructure that have a key bearing on our ability to manage extreme weather events brought about by climate variability and climate change, namely droughts and floods, and are underfunded compared with the status quo," states McNamara.

The funding gap in the water sector, just as an example, is in the order of hundreds of billions, he emphasises, adding that if South Africa addressed the underspending across the economy on water and wastewater infrastructure, it would increase the country's resilience in times of extreme water scarcity.

"We also haven't even effectively tapped into the adoption of sustainable drainage systems and improved stormwater management at a municipal level, which is often neglected by municipalities as well, and obviously helps with

managing flood events."

This underspending calls for private-sector intervention, particularly through public–private partnerships (PPPs), where governmental entities draw on the technical and financial expertise of the private sector, through long-term, legal contracts, whereby the private sector operates, maintains or builds infrastructure on behalf of government.

"In instances where a PPP is found to be feasible, the private sector can bring expertise and finance to areas that otherwise would be neglected, backed by performance agreements that drive delivery from the private party. This type of partnership is underrepresented, particularly in the water space, but also in other areas where there is a significant opportunity to develop PPPs," adds McNamara.

Khambule says the role of the private sector in the country's climate change mitigation is becoming increasingly more important, even though the role of the South African government is the most important.

Firstly, it is in the private sector where a significant amount of carbon reductions will be achieved following the decrease of the large proportion of carbon emissions associated with Eskom's coal-fired power stations, as well as that of energy and chemicals company Sasol's operations.

"Most of the companies that do have carbon emission reduction targets are listed and public companies, which are subject to meeting science-based targets. Consequently, the private sector is playing a big role in climate change mitigation. However, it will be even more important as we move ahead into a more liberalised energy market, as well as when there is a decreasing role of state investment in enterprises to achieve the just transition," explains Khambule.

He believes that when the state focuses on key infrastructure investment, the profile of emissions producers will change and that will largely be in the hands of the private sector.

"We need those players within boards and company secretaries to ensure that those risks are reflected in board deliberations, in company plans, as well as in the strategies that are adopted by the executives and implemented by general staff."

Khambule warns that while PPPs are important to ensure the resilience of the South African economy, at some point, the country needs to return to the traditional way of operating, where business focuses on doing business, and not on ensuring the delivery of basic services.

"We are at a point where the private sector is leaned on a little bit more than it should be. This is going to have a fundamental impact on the relationship between society and the private sector, the private sector and government, and the private sector and labour. This level of reliance on the private sector may be working now, but I don't think it will bode well for the country's social partner fabric into the future."