SONA expected to prioritise climate change. Why businesses need to follow suit

President Cyril Ramaphosa's upcoming State of the Nation Address (SONA) is expected to focus on climate change. Set to have a significant impact on the private sector, directors and business leaders should view climate risks and opportunities as more than a reporting or disclosure matter.

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Justin Smith, executive head of business development at WWF, says that climate change, together with biodiversity loss, is one of the biggest and most systemic challenges of our time. “Despite the clear goals of the Paris Agreement, and the urgent need for each country to put in place the necessary plans to curb emissions, progress is still much too slow, and the threats and impacts of climate change are becoming ever more critical.”

Catastrophic losses caused by extreme weather cost the global economy $280bn in 2021, and the number and scale of these events continue to grow each year, leading to it being recognised as one of the top risks to the global economy by the WEF’s Global Risk Report over every time horizon.

“Although COP26 in Glasgow in November 2021 saw some substantial progress in terms of improved Nationally Determined Contributions (NDCs) from many countries, it’s still not enough to shift our global climate trajectory and ensure we remain within a 1.5°C temperature increase scenario,” says Smith.

An energy revolution is possible - but only if leaders get imaginative about how to fund it
Michael Grubb 20 Jan 2022

Just energy transition

An important outcome of COP26, and likely to be included in Ramaphosa's SONA tonight is the $8.5bn just transition financing package to assist South Africa to shift away from our coal-based energy system to a more renewable energy-based system.

However, Smith cautions that this transition needs to happen in a manner that creates new opportunities for businesses and communities that are currently part of the coal supply chain, while at the same time ensuring South Africa's economy is not hit by trade barriers and tariffs due to being too carbon emission-intensive. Therefore, corporate and investment sector participation is critical.

"If we are serious about addressing the challenge of climate change, we must continue to engage the corporate and investor sectors in our efforts to influence the redirection of financial flows as a powerful lever to release money for sustainable investments. At the same time, we should withdraw the resources that underpin environmentally, socially or economically harmful impacts."

Currently, South Africa's Presidential Climate Change Commission is undertaking extensive stakeholder and community engagement on this critical topic in recognition of the fact that climate risk is not only an environmental issue but also a direct economic and social issue with implications for the future competitiveness of the country and the livelihoods of its people.

Former Absa chief executive to head Presidential Climate Finance Task Team
9 Feb 2022

Identifying vulnerabilities

In the 2021 edition of the *Trialogue Business in Society Handbook*, a publication produced annually by responsible business consultancy Trialogue, Smith advises directors and business leaders to understand that Scope 1 and 2 emissions are unlikely to be the only source of their climate risk. They should look up and down their value chains to identify vulnerabilities as well as opportunities for growth.

The World Economic Forum (WEF) Global Risk report published early in January 2022 continues to highlight how central environmental and social risks are to the stability and future of the global economy. Over the 5-10-year horizon, the top five risks are all environmental in nature, including climate action failure, extreme weather events and biodiversity loss.

Trialogue manager Matthew le Cordeur says that "directors need to factor climate change into their deliberations about strategy, risk management, and opportunities as part of their duty of care. Both the Companies Act and King IV create a basis for the expectation that directors should have the necessary skill and experience to perform their duties, and that this should extend to a broad range of matters that could significantly affect an organisation's ability to create value".

60% of South Africans optimistic that a climate disaster can be averted, research shows
27 Jan 2022

Implications for boards

Le Cordeur explains that this has two implications for boards. Firstly, all directors should have a foundational understanding of climate change and other key environmental, social, and governance (ESG) issues. Secondly, given the complexity associated with climate and biodiversity issues, and growing expectations around disclosure, appropriate risk management and engagement with stakeholders, directors with specific experience should be recruited or developed. This is especially true for those directors serving on board committees with delegated responsibility for climate and other ESG issues.

“Very little director training on climate and ESG issues seems to be available in South Africa, and more effort will need to be made by the Institute of Directors and similar organisations to close this gap. This will ensure that more directors are able to engage with investors on ESG issues in a competent manner, play the necessary internal oversight role, ensure the alignment of executive compensation with ESG performance and the identification, assessment, mitigation, and disclosure of climate and other ESG risks.”

“Instead of simply reacting to the uncertainty of climate change impacts, companies should track new risks affecting their industry, shape the correct strategic response, and strengthen their agility and resilience to build an uncertainty advantage,” concludes Le Cordeur.