strategy&
Part of the PwC network

South Africa Economic Outlook

Sustainable options to plug the energy deficit

29 November 2022

pwc

About this document

In the wake of the recent 27th Conference of Parties (COP27), this edition of the South Africa Economic Outlook focuses on opportunities and actions to improve power supply and energy sustainability in the country.

To achieve a sustainable, equitable, and stable society over the long term, South Africa must decarbonise its economy. This requires both the public and private sectors to play a role in the country's energy transition.

City governments have a role to play in helping reduce the electricity supply deficit through diverse avenues, including self-generation via microgrids and the enabling of more private small-scale embedded generation (SSEG). In turn, private sector entities need to think differently about their impact on society and the environment alongside actions taken to achieve net zero carbon emissions.

A key component of this month's report is sustainable options for plugging the energy deficit in South Africa. In this edition, you will find the following content:

Finally, we provide details on our new ESG Benchmark and Performance Analysis Tool, a solution that provides our clients with industry-level analytics of ESG metrics across South African companies and industries (page 9).

Macroeconomic forecasts (November 2022)				
Baseline scenario	**2020**	**2021**	**2022f**	**2023f**
ZAR/USD	16.46	14.78	16.40	16.90
Consumer price inflation (%)	3.3	4.6	6.8	5.4
Repo rate (end-of-period)	3.50	3.75	7.00	7.50
Real GDP growth (%)	-6.4	4.9	1.7	1.6
Unemployment rate (%)	29.6	35.3	34.0	34.1
Probability weighted average*	**2020**	**2021**	**2022f**	**2023f**
ZAR/USD	16.46	14.78	16.41	16.89
Consumer price inflation (%)	3.3	4.6	6.8	5.5
Repo rate (end-of-period)	3.50	3.75	6.78	7.63
Real GDP growth (%)	-6.4	4.9	1.7	1.5
Unemployment rate (%)	29.6	35.3	34.1	34.1

Macroeconomic outlook

The South African Reserve Bank (SARB) increased the repo rate by a further 0.75 percentage points on November 25 to 7.00%. The central bank is continuing with monetary policy tightening due to elevated price pressures. The SARB believes consumer price inflation peaked in the third quarter of 2022 and that headline inflation will be back at the midpoint of the inflation target (3%-6%) by the second quarter of 2024. PwC expects the SARB to continue raising interest rates during the first quarter of 2023, with another 0.75 percentage points factored into our baseline scenario. Our downside scenario sees two increases of 50 basis points each during January and March 2023. On a positive note, with expectations that inflation will moderate over the next several quarters, our upside and baseline scenarios suggest a small decline (25 basis points) in the repo rate late next year.

**PwC’s macroeconomic forecasts are based around baseline, upside and downside scenarios for the South African economy. Each scenario is ascribed a probability of it taking place, with the probability weighted average taking into account the scenario projections and the likelihood of each scenario playing out.*

Please sign up **here** to receive future editions of this report by email.

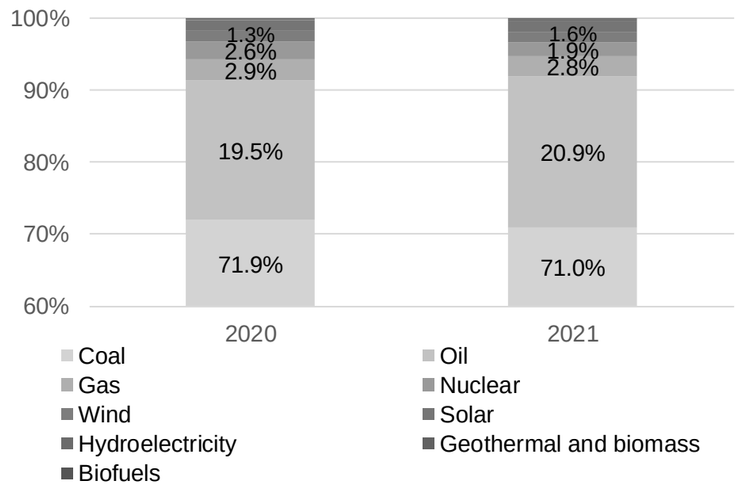
Reducing carbon intensity: Electricity load-shedding 'helped' reduce coal usage in 2021.

Coal accounted for 70.1% of South Africa's energy mix in 2021, down from 71.9% in 2020.

The world achieved a reduction in carbon intensity (measured as tonnes of CO_2/real GDP) of only 0.5% in 2021. This was less than the average decline of 1.4% per annum seen over the past 20 years due to the global economy largely returning to near pre-COVID levels of output. While skewed by the rebound in economic activity from the pandemic, the recovery has not — at least in the short term — been green from a G20 perspective. The world and South Africa now face the significant challenge of needing to achieve a global rate of decarbonisation of 15.2% per annum to limit global warming to 1.5°C. With further economic headwinds and energy price challenges ahead, countries and businesses have important decisions to make if they are to place decarbonisation efforts at the heart of their economic futures.

Ahead of COP27, we launched our 'Net Zero Economy Index 2022: South African viewpoint', which assessed the country's progress in reducing its carbon intensity. South Africa actually fared better than the global average decline of 0.5%, seeing a reduction in carbon intensity of 4.6% in 2021. This was due to real GDP growth of 4.9% being greater than that of the 0.1% growth in energy-related emissions. In turn, the main reason for this second consecutive year of decreased emissions intensity was a decline in the use of hydrocarbon-based fuels versus an increase in renewables. South Africa's coal (-0.8%) and gas (-3.0%) usage both experienced minor decreases in use while energy from wind (+16.7%) and hydroelectricity (+100.9%) increased significantly compared to 2020. Coal accounted for 70.1% of South Africa's energy mix in 2021 from 71.9% in the preceding year. The increased use of diesel power generation to try and keep the country's lights on resulted in oil products accounting for 20.9% of energy last year — up from 19.5% in 2020.

Figure 1: National fuel consumption by type (% of total)



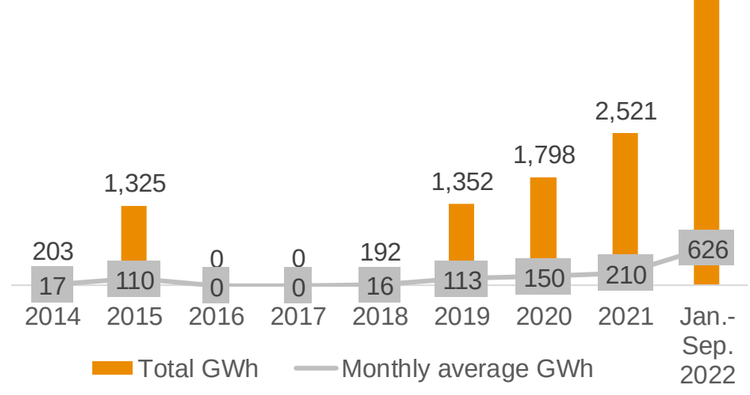
Source PwC calculations based on data from BP

The South African government recently made some regulatory changes to increase opportunities for the private sector to play a larger role in decarbonising the economy. This includes lifting the threshold for embedded energy generation to 100 MW and then the announcement soon thereafter to do away with this threshold entirely. The motivation behind this was to improve energy security thought it also has the benefit of allowing the economy to decarbonise without being entirely reliant on the government to achieve this. See page 7 for more information.

With increased power cuts, monthly average load-shedding has increased nearly threefold in 2022 so far.

To be fair, the recent decrease in South Africa's coal usage was not due to the country actively trying to use less of this resource. Rather, the decline was partly a result of record-high electricity load-shedding during 2021 due to the significant breakdowns at the coal-fired power stations. Eskom shed 2,521 gigawatt hours (GWh) during the year — an increase of 40.2% over 2020. We have estimated the adverse impact of load-shedding in 2021 was a reduction in real GDP growth of nearly three percentage points. More recently, load-shedding jumped to an average of 626 GWh per month in the first nine months of 2022 — a near threefold increase from 210 GWh per month in 2021. These numbers would have been worse were it not for diesel-powered generation being used.

Figure 2: Electricity load-shedding (GWh)



Source: Council for Scientific and Industrial Research (CSIR)

In South Africa, we are seeing increasing reports of failures to protect, maintain and develop our natural environment. We are also seeing a continued increase in unemployment numbers and wealth gaps which are leading to increased social tensions and breakdowns in social cohesion (see page 8). The country's struggles to act decisively on climate change and environmental degradation at this point is not necessarily directly linked to the breakdown in social cohesion. However, the two could be seen to be caused by the same system — a breakdown in the governance structures needed to prevent environmental destruction and social shortfalls.

Narrowing the electricity deficit: Cities' role in helping manage the country's energy supply challenge.

The ideal scenario would be for municipalities to purchase electricity from different suppliers.

South Africa is experiencing an energy shortage that is having a profound impact on its towns and cities. It is affecting economic growth and jobs at a time when the country's cities urgently need to recover from the COVID-19 crisis to retain their competitiveness and attractiveness. Resolving the energy shortfall requires a collective effort across private and public sectors, including (and especially) cities, which play a key role in the development of sustainable energy strategies. Municipalities can play a key role in resolving the energy supply gap and thereby contribute to local economic development, job creation, and the rebuilding of social cohesion.

Our new report 'Municipal energy: The cities' role in managing the energy supply challenges' outlines what can be done in the local municipal sphere to help fix the energy shortfall. South African cities' energy strategies will play a key role in achieving sustainability and energy stability in the long term. The ideal scenario would be for municipalities to purchase electricity from different suppliers in a competitive market at competitive prices, allowing resale at a surplus and transmission to households and businesses at a lower cost to consumers. Efforts are underway to achieve this through the unbundling of Eskom and opening up the energy market to competition from the private sector. However, in the interim, cities must also take immediate measures in the short-run both to bridge the energy supply gap and to secure their role as suppliers of energy with their corresponding revenue base.

Municipalities can generate electricity themselves on a large scale. However, generating power for distribution is very expensive at a time when municipalities are struggling with capital expenditure. They may also be unable to match private sector producers in terms of the cost-effectiveness of generating electricity. As an alternative, municipalities can generate power themselves on a smaller scale via microgrids, small-scale embedded generation (SSEG), and other sources such as biogas from wastewater treatment works, waste to energy through dry fermentation, landfill gas, and SSEG, including for the municipalities' own usage. This helps them keep their own institutions functioning during load shedding and prevents the interruption of public services as a result.

Rooftop solar on Midrand's commercial and industrial properties could reduce load-shedding by one stage.

Also on a smaller scale, municipalities can support the installation of private SSEG. This would allow for increased energy security, especially during load-shedding on the national grid. PwC conducted an analysis of the potential electricity that can be generated if commercial and industrial properties in Gauteng were to install rooftop solar PV systems. We examined the potential roof space in the Midrand area from industrial and commercial properties and found approximately 638,000 m^2 of roof space with the potential to produce between 1,600kWh/m^2 and 2,000kWh/m^2 of power. This electricity could be fed into the grid at local substations and reduce national load-shedding by one stage if used to power the national grid.

Other options include the purchase of electricity from independent power producers (IPPs), enabling the wheeling of energy generation, minimising leakage and non-technical losses, as well as encouraging households and businesses to alleviate pressure on the grid by reducing power usage. Each of the above options includes a trade-off between the cost and/or complexity of implementation and the possible impact it would have on the supply of electricity. For example, increasing large-scale own generation in the private sector would have a high impact on supply, though it would be difficult to implement. Conversely, supporting microgrids is a much easier endeavour, although with a lower impact on overall supply.

Table 1: Summary of options with estimated impact on supply and ease/complexity of implementation

Impact on the grid		Low	Medium	High
	High	- Own generation (large scale)	- Procuring from IPPs	
	Medium	- Minimise leakage and non-technical losses.	- Wheeling	
	Low		- Own generation (small scale)	- Supporting microgrids and SSEG - Energy saving campaigns
		Low	Medium	High
		Ease of implementation		

Source: PwC

Closing the energy supply gap can support more sustainable municipal revenue sources.

Municipal efforts to close the energy supply gap and bring down energy prices can also set the course for sustainable municipal revenue sources to finance municipal spending. The on-sell of electricity has traditionally left municipalities with a surplus which they have come to rely upon to cross-subsidise other debt and expenditure items. More recently, however, that surplus has been diminishing or turning into a deficit, owing to a range of issues that include the following:

- Years of underinvestment in repairs and maintenance of municipalities' distribution infrastructure;
- Losses from cable theft, vandalism of substations, illegal connections, and other forms of evasion;
- Increasing number of indigent households; and
- Rising cost of electricity provided by Eskom increasing municipalities' own energy costs.

COP27 debriefing: South African companies need to act on climate resilience and their net zero journey.

South Africa Economic Outlook November/December 2022

Breakthrough funding agreement on 'loss and damage' but no clarity yet on contributors or beneficiaries.

Climate change is not just a challenge for tomorrow; it is also an opportunity for all members of society to work together today in new and innovative ways to secure a cleaner and fairer future for all. To this end, every country in the world recently met in Egypt under a United Nations process to agree on how to limit greenhouse gas (GHG) emissions. The crucial role played by COP27 was to inject political momentum and to restore trust between governments to tackle the climate and linked crises together. The fact that COP27 took place amidst a period of global disruption and multiple global crises — climate, energy, food, cost of living, and war — cannot be ignored. Governments participating in COP27 did so while balancing difficult national policy choices against global pledges and commitments.

All of the key items that we hoped to see on the agenda were part of the COP27 discussions. However, the attention given to these areas were different from what we initially anticipated. PwC expected acceleration of decarbonisation efforts and supporting a clean energy transition to be the top two points of discussion. Instead, according to Lullu Krugel, PwC Africa ESG Leader, reparations for 'loss and damage' and climate justice were the two focal points. 'Loss and damage' was a proposition made at COP26 and developing countries requested the issue be added to the formal COP27 agenda.

This year's congress closed with a breakthrough agreement to provide 'loss and damage' funding for vulnerable countries hit hard by climate disasters like rising sea levels. Governments took the ground-breaking decision this year to establish a dedicated fund to assist developing countries in responding to 'loss and damage'. However, the agreement left unanswered issues like who would contribute to the fund and who would benefit. These elements will need to be worked on before COP28. Vulnerable countries have historically asked developed countries — those who caused the majority of climate change over the past two centuries through periods of industrialisation — to foot the bill. In turn, developed economies have resisted such ideas due to fears of spiralling liabilities over the long term.

Taking action: decarbonisation and net zero are powerful differentiators for individual companies.

From our interactions at COP27, we observe that providing clear evidence of decarbonisation is a powerful differentiator for companies in an environment where having such targets is merely a licence to operate. Furthermore, climate resilience, which cannot be achieved without decarbonisation efforts, is a powerful source of protection against disruption and value loss. Successful organisations in the post-carbon world are those taking steps today to create climate resilience by minimising their negative impact on the climate and adapting to avoid adverse climate impacts on their business.

Building climate resilience requires deep assessments of value chain exposure to physical and transitional risks. This will in all likelihood be mandated through sustainability reporting standards, although the speed of adoption in South Africa is still unclear. In the meantime, page 6 details four net zero priorities that businesses should pursue as part of their building climate resilience. These are 1) decarbonisation of operations and the supply chain; 2) understanding climate risk and building resilience; 3) mobilisation of sustainable capital; and 4) robust audit and ESG reporting. Before any of these processes can be put in place, it is critical to have the necessary data to understand a company's ESG situation. This requires a baselining process that includes benchmarking against peers against ESG metrics. As noted on page 9, our new ESG Benchmark and Performance Analysis Tool offers a solution that provides industry-level analytics of publicly available ESG data across South African companies.

> "Climate resilience, which cannot be achieved without decarbonisation efforts, is a powerful source of protection against disruption and value loss. South African companies need to build climate resilience via a deep assessment of value chain exposure to physical and transitional risks. This will in all likelihood be mandated through sustainability reporting standards, although the speed of adoption in South Africa is still unclear.
>
> *Lullu Krugel, PwC Africa ESG Leader*

Environmental, Social and Governance (ESG) focus: Four priorities for businesses to accelerate their net zero transition.

South Africa Economic Outlook November/December 2022

Private business is one of the fastest and most effective agents of change in the world.

In South Africa, we are seeing increasing reports of failures to protect, maintain and develop our natural environment. The country's failure to act decisively on climate change and environmental degradation is caused by a breakdown in the governance structures needed to prevent environmental destruction. These are the same challenges that are resulting in a decline in trust in the legitimacy of government institutions. The need to decarbonise faster is not simply to protect the environment, but rather because this will have fundamental impacts on our society. Ultimately, the need for action is not only an environmental need but a social need as well

Corporate leaders increasingly embrace the need to act on environmental and related social challenges. They recognise that failing to address climate change would both undermine trust with their stakeholders - from employees to investors - and compromise their ability to deliver sustained outcomes. The need to increase management and boardroom commitment to change will never go away, but it needs to be matched with a focus on directing the commitment that exists into the most effective areas, with actions that deliver real impact.

A recent call to action by PwC Global Chairman Bob Moritz and PwC Global ESG Leader Will Jackson-Moore highlights four net zero priorities that private sector businesses (including those in South Africa) should pursue, as summarised in the accompanying table. Global business is one of the fastest, most effective agents of change in the world. The history of the last century shows that market systems can rapidly innovate, reduce costs and create opportunities. The challenge is to ensure that private enterprise uses that engine to deliver the change needed for a net zero future, i.e. where carbon dioxide emissions are balanced by CO_2 removal. That is the responsibility of policymakers who set the rules which define how markets work, but it is also imperative for investors, employees, consumers, and management to recognise the urgency of the challenge and get it done.

As a practical example, PwC has made a worldwide science-based commitment to achieve net zero greenhouse gas (GHG) emissions by 2030. We have made a worldwide science-based commitment to decarbonise the way we operate and decouple our business growth from our emissions. PwC is offsetting our emissions through high-quality carbon credits in order to reduce our climate impact immediately. See more here about our commitment to net zero by the end of the decade.

Table 2: Four net zero priorities for private sector businesses

 **Decarbonisation of a company's operations and supply chain**	 **Understand climate risk and build resilience**	 **Mobilisation of sustainable capital.**	 **Robust reporting and audit**
Supply chain emissions often dwarf the carbon impact of direct operations: for most companies, they make up 65%–95% of their carbon impact. Many organisations recognise in principle the need to tackle these emissions but are put off doing it in practice by a fear that it is too complex or costly to do. However, we have typically found that as much as 80% of an organisation's supply chain emissions come from as few as one-fifth of its purchases. Companies need to commit to understanding and cutting these emissions. (See page 7 for our perspective on the key regulatory challenges that the private sector and municipalities currently face in their strive for decarbonisation.)	**From the droughts that have gripped the world this last year to the catastrophic floods in Pakistan, there is no longer any doubt that climate change is a material threat to communities and businesses around the world.** The supply chain is, again, an important element here. Many businesses may feel their centres of operations are relatively secure from, at least, the short-term risks of climate change. The pace of climate change means that judgement is not always reliable. And even if it is, a study of supply chains will often identify locations that are highly vulnerable. Businesses have both a duty and an interest in helping identify and manage risk.	**The net zero transition is the right choice for the world economy. However, it can only happen if it taps into the capital held in the private sector.** For example, investing capital to fund technology breakthroughs is critical to achieving the net zero transition too. While there is growing investment in climate technology, our research found that it is currently focused on technology solutions that account for only 20% of emissions reduction potential. There is an opportunity to shift greater emphasis to areas and technologies that can make a bigger impact.	**In a global survey of investors, we conducted last year, only about one-third thought the quality of the ESG reporting they're seeing today is good enough.** However, A survey of the public might find an even lower number. There is a real effort going into addressing this trust problem, with regulators demanding new types of disclosure and standard setters creating frameworks that should enable robust, comparable reporting. From a user perspective, before a regulation is finalised, we encourage businesses to leverage the work of both the World Economic Forum and the International Sustainability Standards Board which provide a good starting point.

Regulatory perspective: Legal changes create opportunities for the private sector to help improve the energy situation.

The Electricity Regulation Amendment Bill will create new opportunities in the power market.

Our call for net zero action is timeous: South Africa is experiencing pressure to reduce its emissions in alignment with climate change commitments made last year at COP26. These decarbonisation targets, along with the increasing electricity generation challenges and social impact of a slow-growing economy, require an expedited roll-out of renewable energy technologies and the necessary market reforms to address the growing electricity supply deficit. At the same time, PwC's call to action on net zero sets the decarbonisation of operations and supply chain as a key agenda item for private companies. However, climate change pressures, and the rapid innovation in clean technologies, are increasing the complexity of the regulatory reform required to facilitate the energy transition, and the regulatory environment will remain in a dynamic state of flux for the foreseeable future. All stakeholders will have to understand and work within this uncertainty in order to improve energy security, grow opportunities as well to address decarbonisation pressures.

The reality of load-shedding has led private organisations to explore alternative energy solutions. In addition to the procurement of electricity itself, companies want to be able to report on the green attributes associated with the renewable energy being procured. The necessity to claim the green attributes associated with renewable energy has created a new market in South Africa where Renewable Energy Certificates (REC) can be traded and the green attributes can be claimed by a company to reduce its carbon footprint. Although this is a nascent market in South Africa, increased decarbonisation efforts may lead to the expansion of the REC market.

Our new report 'Navigating the regulatory aspects of an Energy Transition from a climate change perspective' outlines the relationship between South Africa's increasing climate change pressures and the deployment of renewable energy from a regulatory perspective. It outlines the key regulatory challenges that the private sector and municipalities currently face from an energy perspective and the possible regulatory changes that will alleviate these challenges. It is clear that the investment in renewables at the scale necessary to address South Africa's decarbonisation commitments and the growing energy shortfall will only be achieved if supported by an enabling regulatory framework. As such, the country's energy landscape will undoubtedly undergo regulatory and structural changes going forward.

South Africa's slow progress in deploying large scale renewables is directly related to the degree of regulatory uncertainty and lack of market reform. Since the promulgation of the Integrated Resource Plan (IRP) 2019, South Africa has seen a range of regulatory amendments and proposals for reform which are considered very positive. However the lack of certainty on the timing and execution of the proposed changes is undermining the benefits and ability to close the referenced electricity supply gap. Our new report finds that more holistic and detailed regulatory reforms are therefore necessary to rid existing electricity laws of their inertia and achieve a low-carbon economy while ensuring access to affordable, reliable, and environmentally sustainable energy.

Given the publication of the Draft Electricity Regulation Amendment Bill in February 2022, numerous new opportunities and challenges will manifest themselves in the energy sector over the next few years. Table x summarises the key developments that can be expected from a business perspective.

Table 3: New opportunities and challenges in the energy sector

	New business models based on the ability to partake in peer-to-peer electricity trading. Companies will be able to buy and sell electricity on a newly established electricity trading platform, creating commercial opportunities for the private sector to generate and/or trade with electricity.
	With greater ease of access to clean energy via wholesale and retail electricity markets, companies will face increasing pressure to reduce their Scope 2 emissions (emissions associated with electricity consumption) and to transition away from fossil-fuel-based energy.
	With the expected increase of renewables in the energy market, more stringent regulations aimed at environmental regulation can be expected. This will include rules and standards related to permitting, waste management, and regulations aimed at improving the circularity of materials used in the energy sector.
	As part of South Africa's Just Energy Transition (JET), it can be expected that innovative small-scale community-owned renewable energy projects will become a part of corporate social responsibility requirements.
	Increased participation of municipalities in the procurement of energy. This will also include voluntary renewable energy targets which will drive the increased deployment of renewables at a municipal level.
	Improved harmonisation and implementation of laws and policies where legislative climate change commitments will be achieved by leveraging renewable energy solutions.

Featured research: A new approach for companies to make a positive impact on their environment and communities.

Purpose-driven companies can help reverse the deterioration of South Africa's social cohesion.

As noted on page 3, load-shedding is South Africa's primary challenge to faster economic growth and job creation, which, in turn, can improve the country's poverty and inequality challenges. We estimate that power outages cost the country up to 400,000 potential jobs in 2021 — a lack of jobs excludes millions of adults from a productive economic life. The country's electricity problems are partly a result of governance failures and weakness in state institutions. In South Africa, we are seeing increasing reports of failures to protect, maintain and develop our natural environment. The country's failure to act decisively on climate change and environmental degradation is also caused by a breakdown in the governance structures needed to prevent environmental destruction and social shortfalls. These are the same challenges that are resulting in a decline in trust in the legitimacy of government institutions.

Joblessness and weakness in state institutions are key factors identified in a February 2022 report by a panel of experts investigating the causes behind the violent civil unrest in KwaZulu-Natal and parts of Gauteng during July 2021. In turn, exclusion from economic life due to unemployment and weak legitimacy of institutions are two key elements in the recent deterioration of South Africa's social cohesion. As explored in our new report ' Rebuilding social cohesion is an essential contributor to economic development in South Africa', there is ample evidence that social cohesion has significantly deteriorated in the country over the past five to ten years.

Our concern right now is that many of the driving forces behind the 2021 unrest have not improved. Some factors (e.g. spatial planning) are structural and impossible to change over a short period, while other challenges (e.g. youth unemployment) have deteriorated further. The risk faced at present is that the break-down in social cohesion experienced in recent years continues on a negative trend over the short- to medium-term. PwC's 25th Annual Global CEO Survey (conducted locally shortly after the July 2021 events) showed that three out of four South African business leaders are very or extremely concerned about the impact of social inequality on their businesses. At the same time, the public sector is stretched in every direction to cope with these and other challenges.

However, our new report also delivers a message of hope about the country's social challenges. South African companies can make a meaningful and sustainable impact on their communities by adopting the right strategy for their business and stakeholders. It is undeniable that the private sector will need to play an increasingly important role in helping the state address socio-economic challenges — specifically at the community level. Modern societal expectations are that companies should be purpose-led organisations, committed to contributing towards important ESG goals through their influence on society. Purpose defines how an organisation can contribute to society, and there is growing acceptance that purpose is a commercial imperative amid evidence of a strong link between purpose-driven companies and strong financial performance. Only purpose-driven organisations can earn the trust of communities and employees, reduce social risk, and rebuild social cohesion.

Social cohesion is defined in the South African context as comprising the following five pillars:

- **Inclusion in economic and social life.**
- **Trust in the legitimacy of institutions.**
- **Acceptance and belonging in society.**
- **Social relationships and trust.**
- **Participation in political life.**

We advocate for a new approach to making an impact on communities and highlight the tools available to the private sector to adapt their impact strategies to help rebuild social cohesion. While national Corporate Social Investment (CSI) increased from approximately R8bn in 2013 to R10bn in 2021, real (i.e. inflation-adjusted) spending during 2018-2021 was similar to the level seen in 2013. In any case, providing feedback in annual reports on the quantum of annual CSI spending is not enough. Organisations can only have a meaningful impact on social cohesion by deliberately taking a purpose-driven approach to their general business operations with a focus on the five pillars of social cohesion.

Addressing the breakdown in social cohesion at a community level can best be achieved by implementing a comprehensive ESG approach that is embedded within an organisation's core business strategy. ESG is more than ticking boxes: it is about making a difference by creating sustained outcomes that drive value and fuel growth while strengthening our environment, societies, and governance structures. Our report includes an example of where PwC was contracted to assist a water user association in the Limpopo Province to achieve these outcomes. The organisation is composed of the commercial mining sector, local communities, and relevant government departments, and was created more than two decades ago to supply bulk raw water to both the mining sector and communities in the region. Socio-economic development and environmental protection have been placed at the heart of the initiative to ensure communities sustainably benefit from the programme through direct and indirect opportunities.

PwC Economics services and contacts.

South Africa Economic Outlook October 2022

How can we help?

Benchmarking ESG performance across industries and against competitors.

There are many reasons why South African organisations are lagging behind their global counterparts in adapting strategies that embed ESG factors. These include, among others, a lack of human resource capacity, and the perception that acting on ESG issues is a cost and not an investment.

Another big frustration for business leaders is the lack of granularity and relativity of ESG ratings and associated data. So we asked ourselves: How can we show clients where they stand against competitors on underlying E,S, and G metrics so that we can bring facts to discussions and depict meaningful insights?

Our new **ESG Benchmark and Performance Analysis Tool** offers a solution that provides our clients with industry-level analytics of publicly available ESG data across South African companies. Our database provides metrics pulled from listed South African companies across all industries on a wide variety of topics, including, for example, carbon intensity (E), spending on human resource training (S), and board diversity (G).

The benchmarking tool then allows us to drill down into a specific company while simultaneously analysing where it stands against other companies or competitors in its industry. In the end, we can show a client where it leads or lags in a specific industry regarding ESG metrics and identify potential areas for improvement.

This new tool was recently successfully used to support a large South African financial services firm: our comparative metrics benchmarked the firm against its competitors allowed the company to redesign its ESG strategy for greater societal impact.

Our services

The PwC South Africa Strategy& Economics team is a specialised unit of economists who serve our clients in a variety of ways. Our services include:

Measure your impact on the economy and society

- Environmental, Social and Governance (ESG) and Just Transition
- Economic Impact Assessment (EIA)
- Socio-Economic Impact Assessment (SEIA)
- Regulatory Impact Analysis (RIA)
- Total tax contribution
- Localisation calculations

Make decisions about risk and investment

- Macroeconomic research
- Market entry analysis
- Country and industry risk assessments
- Commercial due diligence assistance

Plan for future economic scenarios

- ESG scenario planning
- Economic and political scenario planning
- Industry and macroeconomic modelling
- IFRS 9 audit assist

Please visit our website to learn more:
https://www.pwc.co.za/en/issues/economy.html

Lullu Krugel
Partner and Chief Economist
lullu.krugel@pwc.com
+27 (0) 82 708 2330

Jeaunes Viljoen
Senior Manager
jeaunes.viljoen@pwc.com
+27 (0) 82 634 2036

Salome Ntsibande
Senior Manager
salome.ntsibande@pwc.com
+27 (0) 72 210 1013

Dirk Mostert
Senior Manager
dirk.mostert@pwc.com
+27 (0) 82 800 9326

Christie Viljoen
Senior Manager
christie.viljoen@pwc.com
+27 (0) 82 472 8621