The South African Economy and Climate Change: Transition Risk

Some early thinking in response to the TCFD

July 2018
South Africa is one of the most unequal societies in the world.

More than half of the population of South Africa is living in poverty, and is increasing since 2015.

High unemployment remains the key challenge for South Africa.

Nearly 50% Youth unemployed

Number of service delivery protests in 2017, compared to 137 in 2016

Number of people on social grants in 2015/16

Percentage of SAs over 26 with no formal education. Poverty declines with rising levels of education.

Our low rate of economic growth means it is difficult to generate sufficient jobs.

0.66 Gini Coefficient

55%

26% Unemployment rate

23%
Despite good corporate reduction progress since 2011 it seems that the private sector, in partnership with other sectors, needs to enhance ambition.

The uptick in total sample emissions is explained by sample changes.
The global and local support for We Mean Business is a very strong signal that businesses will continue to support the transition to a low carbon economy.

These forward-looking companies have a combined market cap of more than 20% of the entire global economy, and it is growing fast.
South Africa exists in a global context and our growth and risk is impacted by global change...

There is a global low carbon transition underway and this imposes transition risk on our economy.
Our major trading partners are all moving towards low carbon economies, even the USA.

Countries who have signed the Paris Agreement and who have invested in carbon infrastructure (physical and policy) will seek to protect those investments through trade, trade agreements, pricing and ultimately sanctions.
It is important to note that the rate of change, especially if the transition is unmanaged, impacts financial stability

“Climate change is a tragedy of the horizon which imposes a cost on future generations that the current one has no direct incentive to fix. The catastrophic impacts of climate change will be felt beyond the traditional horizons of most actors. Once climate change becomes a clear and present danger to financial stability it may already be too late to stabilise the atmosphere at two degrees.”

“Too rapid a movement towards a low-carbon economy could materially damage financial stability. A wholesale reassessment of prospects, as climate-related risks are re-evaluated, could destabilise markets, spark a pro-cyclical crystallisation of losses and lead to a persistent tightening of financial conditions: a climate Minsky moment. “

Mark Carney in a speech at the International Climate Risk Conference for Supervisors, De Nederlandsche Bank, Amsterdam
How vulnerable is South Africa to transition risk?

Transition risk can be thought of in a number of ways, we focus here on trade exposed sectors.
The commodities that contribute to our balance of trade are vulnerable to global change.
The transition to Electric Vehicles is inevitable, it’s a matter of timing. How does this impact PGMs and the vehicles we manufacture?
The stability of the South African coal sector requires a healthy domestic and export market.

Source: UCT's Energy Research Centre
It is still early days in NBIs thinking but we as a society need to explore how transition risk might impact:

• Credit risk generally
• Debt and equity portfolios
• JSE market capitalisation
• Government tax revenues and bond rates
• Capital availability
• Balance of trade
• Money supply

What next:

• Evaluate transition risk via implementing TCFD recommendations (including scenario generation)

• A just transition requires a concerted, cohesive, collaborative national development plan that results in a competitive South Africa in a global low carbon economy.

• If SA manages the transition well it will unlock significant opportunity and mitigate the risks

• We must all engage collectively on the SA energy transition as a priority, as energy is the source of 82% of SA’s carbon emissions
“Given the uncertainties around climate, not everyone will agree on the timing or scale of the adjustments required. And different people will have different views about the effectiveness of timelines of government climate policies. The right information allows sceptics and evangelists alike to back their convictions with their capital.”

Mark Carney in a speech at the International Climate Risk Conference for Supervisors, De Nederlandsche Bank, Amsterdam
The National Business Initiative is a voluntary coalition of South African and multinational companies, working towards sustainable growth and development in South Africa and the shaping of a sustainable future through responsible business action. Since our inception in 1995, the NBI has made a distinct impact in the spheres of housing delivery, crime prevention, local economic development, public sector capacity building, Further Education and Training, schooling, public private partnerships, energy efficiency and climate change.

The NBI is a global network partner of the World Business Council for Sustainable Development (WBCSD) and an implementation partner of the CEO Water Mandate, We Mean Business and the CDP.

www.nbi.org.za  www.facebook.com/NationalBusinessInitiative  @NBISA
Many of the sectors that underpin the South African economy are extremely vulnerable to climate change. Sectors that are explicitly vulnerable to climate change and transition risk make up 23% of GDP:

- Agriculture (2%)
- Transport (10%)
- Mining (7%)
- Electricity (4%)

Many of which will have knock on impacts within the economy.

If we consider that portions of finance, government and manufacturing will also be severely curtailed by climate change transition the impact on GDP and growth is much higher.
Sectors that are trade exposed and subject to transition risk employ 26% of our people.