Africa Business Agenda: Sustainability focus

Staying the course on your sustainability journey during times of disruption and uncertainty.

June 2024

pwc

Executive summary

Sustainability is one of the most relevant issues of our time. Data from PwC's 27th Global CEO Survey shows that business leaders across sub-Saharan Africa are constantly thinking about and frequently acting on the sustainability needs of their organisations. These thoughts and actions are shaped by a myriad of factors within a polycrisis world of disruption and uncertainty, including disinformation, macroeconomic volatility, climate risks and regulatory change.

Technological disruption is gaining speed and cyber risks are increasing. Technology like artificial intelligence (AI) can create opportunities for African companies but can also pose risks. For example, disinformation campaigns against sustainability reporting and messaging can result in reputational damage. Sustainability reporting is often scientific in nature; this complexity can be exploited to create confusion or spread disinformation. Organisations, therefore, need to ensure that their sustainability reporting is extremely accurate.

Macroeconomic volatility is among the top threats organisations worldwide are exposed to this year, while traditional levers to resolve these issues may not work. Amid this economic volatility, social problems are becoming more prevalent and pernicious across all facets of our world. Under these circumstances, companies face immediate operational challenges that could detract from sustainability priorities. It is precisely at this time that long-term strategy cannot be sacrificed for the sake of short-term interventions. Both time horizons must be included in any organisational strategy and action plan.

Sub-Saharan Africa's largest companies identify transition risks caused by climate change as the highest financial impact risk to their organisations. Physical risks have a smaller reported impact: this can be associated with different methodologies and systems used across organisations to quantify these risks. Fortunately, there are tools available to companies to help them understand these factors. These include modern imaging technology that allows companies to view the modelled change in climate hazards at an asset level over different time periods and under various climate scenarios.

From a global perspective, this year's most significant regulatory themes include climate change, trade policies and technology. Some 88% of sub-Saharan CEOs say that regulation will have a moderate, high, or extreme impact on how their company creates, delivers and captures value in the next three years. Business leaders need to build the capacity within their organisations to be agile around changing government regulations. Rather than setting on a single fixed course, businesses must continually engage in scenario planning — constructing and evaluating an array of options that offer a broader view of the regulatory landscape.

Sustainability is critical to any organisation's operational strategy, ensuring long-term economic viability amid disruptions such as cyber risks, macroeconomic changes, and climate risks. These disruptions not only shape the sustainability strategy but also pose challenges to its implementation. Companies that neglect to integrate sustainability into their business strategy risk shortening their lifespan and capacity to operate sustainably.

Contents

Introduction

Lullu Krugel

Africa Sustainability Platform Leader, PwC South Africa

Sustainability is one of the most relevant issues of our time. Investors are backing significant growth in sustainable investments. Governments are implementing emissions-reduction targets and other climate resilience and social development plans. Students and younger generations of workers worldwide are advocating for less talk and more action. The climate is changing, social expectations are changing, and governance is also changing.

Across sub-Saharan Africa, business leaders are constantly thinking about — and frequently acting — on the sustainability needs of their organisations. These are being shaped by a myriad of trends, including technological disruption, macroeconomic volatility, social inequality, the challenges brought by climate risks, and regulatory change, to name just a few. These factors can also disrupt planning and implementing the sustainability journey across different business models.

African companies must get ahead of these issues and implement the right strategies to transform alongside regulatory changes. Only a future-proof business strategy can deliver the full potential of sustainability and drive societal impact during this time of disruption, volatility and change. In this report, we provide practical steps that business leaders can take to mitigate risks to sustainability associated with disinformation, climate change and regulatory uncertainty.

As cyber risks multiply, sustainability reporting could be targeted by disinformation campaigns.

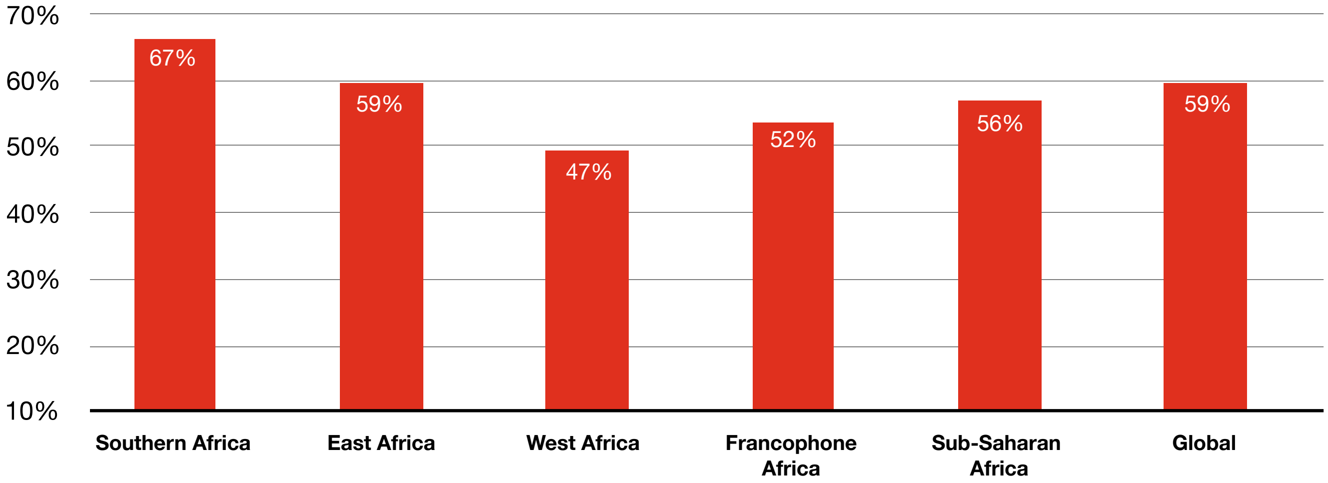
Cyber and technology risks, inflation and macroeconomic volatility are the top three threats that organisations worldwide will be exposed to this year, according to PwC's Global Risk Survey 2023.

Technological disruption is certainly gaining speed. For example, Artificial Intelligence (AI) has all the hallmarks of a technology that could significantly change how companies operate and how sustainable their current business models are. Generative AI, in particular, is rapidly gaining traction: one in three sub-Saharan CEOs responding to PwC's 27th Global CEO Survey reported changes to their technology strategies due to this transformative technology, mirroring the global trend at 31%.

> AI is approaching a critical juncture, seemingly poised to transform business models, redefine work processes and overhaul entire industries. Unsurprisingly, technological change was identified in our survey as the number one global factor that will reshape the way companies create, deliver and capture value in the next three years. This is due both to the risks and opportunities that technological change brings.
>
> Femi Osinubi,
> **Technology Consulting Leader, PwC Nigeria**

On the other side of the equation, the malicious use of technology like AI is also increasing. Half (56%) of sub-Saharan Africa CEOs surveyed believe their companies face moderate, high, or extreme exposure in 2024 to cyber risks such as disinformation, surveillance and hacking.

Figure 1: Share (%) of CEOs identifying moderate, high, or extreme exposure to cyber risks such as disinformation, surveillance and hacking over the next 12 months



Source: PwC's 27th Annual Global CEO Survey

Recent trends justify concerns about disinformation. According to the Africa Centre for Strategic Studies, the number of active disinformation campaigns on the continent has nearly quadrupled over the past two years. Africa's adoption of technology has created a large and fertile target audience for disinformation campaigns, as there are currently around 400 million active social media users and 600 million internet users on the continent (Africa Center for Strategic Studies 2024).

Disinformation is used in many applications, including inflicting hard-to-repair damage on an organisation's reputation. For example, companies making a concerted effort to be transparent about their sustainability journey could see disinformation campaigns against this endeavour. Corporations can be discredited by creators of disinformation by, for example, having the facts in their sustainability reporting slandered by malicious campaigns.

Sustainability reporting and messaging can be a prime target for disinformation campaigns.

Sustainability topics often involve complex scientific data and long-term projections, which require a certain level of expertise to understand fully. This complexity can be exploited to create confusion or spread disinformation. In turn, companies need to ensure that their sustainability reporting is extremely accurate.

Four actions to fighting a disinformation attack:

Assess your risks, keeping in mind vulnerabilities specific to your organisation.

- Identify the disinformation actors, their methods, and the associated risks that represent the greatest threat to your company.
- Understand the motivation: Are you facing disinformation campaigns focused on financial gain, competition, general disruption, political messaging or something else?

Monitor social media channels to get real-time alerts to emerging disinformation campaigns.

- Develop a deeper understanding of how media manipulation tactics can be used to create distrust, destabilise organisations and inflict harm on people and communities.
- Engage in third-party monitoring and sentiment analysis.

Fortify your brand against disinformation.

- Strive to hold a continuous, authentic conversation with customers in interactions and channels — digital or otherwise. Consistency and frequency matter.
- Understand how your customers connect with your brand. The idea is that when negative information surfaces, you want your customers to turn to you first to verify the facts.

Create a disinformation recovery plan aligned with your existing incident and crisis management programmes.

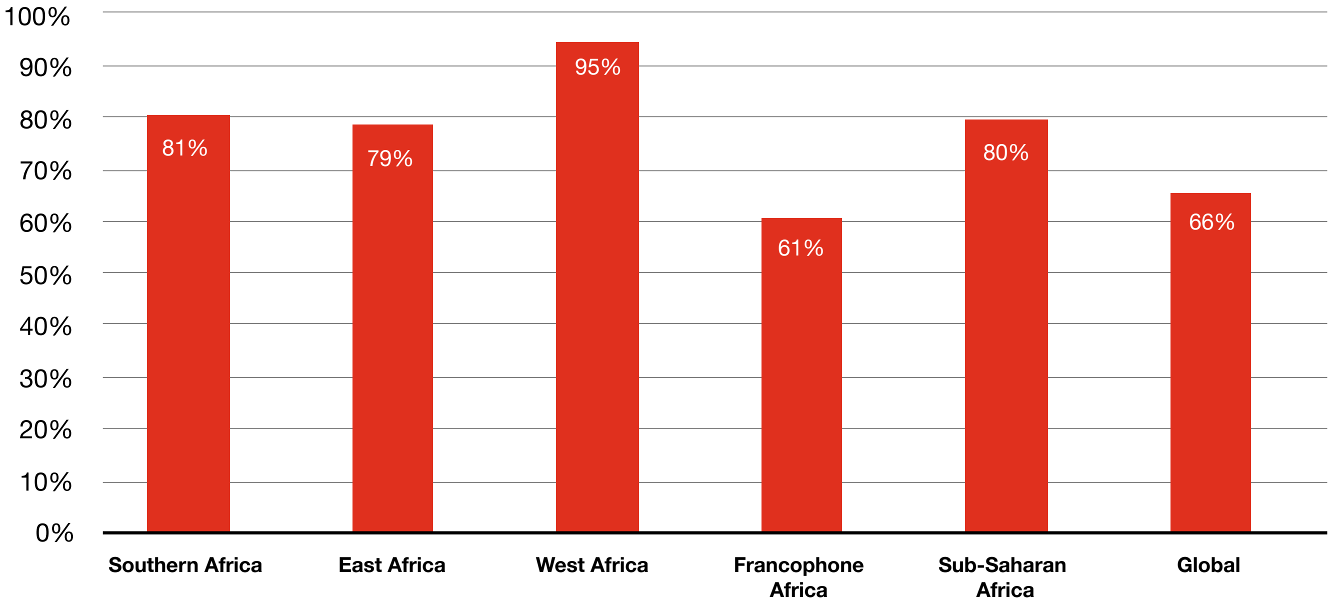
- Develop a playbook, test it and be ready to put it into action when disinformation arises. Practice for a disinformation attack like you would for other types of attacks through simulations and exercises.

Macroeconomic volatility and social risks can detract from sustainability planning and action.

As noted above, macroeconomic volatility is among the top threats organisations worldwide will be exposed to this year. At the same time, traditional levers to resolve macroeconomic issues (like elevated inflation) may not work or may be unavailable. As a result, companies and governments are struggling with strategies they can adopt to create stability and maintain growth.

The global economy is under strain from multiple headwinds, with corporations and governments alike having to make difficult decisions on how to navigate these challenges in the short term. Eight out of ten (80%) sub-Saharan CEOs surveyed believe their organisation has moderate, high, or extreme exposure to macroeconomic volatility this year, compared to a global average of 68%.

Figure 2: Share (%) of CEOs foreseeing moderate, high or extreme exposure to macroeconomic volatility over the next 12 months



Source: PwC's 27th Annual Global CEO Survey

Business leaders in West Africa are the most concerned about macroeconomics among the regional cohorts, with 95% voicing concern about exposure to macroeconomic volatility and the financial losses that could come from this. CEOs are concerned by a number of factors, including:

- Political instability after recent coups
- Many countries are either at high risk or already in debt distress
- Risks to increased inflation and food security challenges due to grain import disruptions
- High petroleum product costs.

Amid macroeconomic volatility, social issues are becoming more prevalent and pernicious, which will increasingly challenge the decisions business leaders make. Disruption from climate change, technological developments, political uncertainty, macroeconomic volatility, and other significant events will continue to grow in 2024. This will increase the gap between those individuals, organisations, and nations that can adapt and those that cannot.

Nearly half (43%) of sub-Saharan CEOs are concerned about the impact of social inequality on their business and bottom line, almost double the global average (24%).

Two out of three (66%) CEOs in Southern Africa are concerned about the impact of social issues on their bottom line. Alongside the technological, political and macroeconomic factors already mentioned, the region will also be challenged in 2024 by adverse climatic conditions. A large part of Southern Africa suffered one of the driest Februarys in four decades, blamed on the El Niño weather phenomenon.

> Business leaders in Southern Africa, already the continent's most unequal region from a household income perspective, are very concerned about the social risks stemming from reduced food security and uncertainty over the government and regulatory response to the challenging economic environment. Understandably, governments need to continue modifying their rules, regulations, laws and policies to adapt to changing societal trends.
>
> Shirley Machaba, Chief Executive Officer,
> **PwC Southern Africa**

In this type of socio-economic milieu, companies face operational and strategic challenges that could detract from sustainability priorities. In a volatile macroeconomic environment, leaders could sideline medium-to long-term sustainability priorities to rather focus on immediate and short-term operational challenges. This is not hard to understand: The immediate need to keep the doors open will trump the distant goal of net zero.

However, it is exactly at this time that long-term strategy cannot be sacrificed for the sake of short-term interventions. Both time horizons must be included in any organisational strategy and action plan. And the sustainability journey cannot be sacrificed in the name of day-to-day decisions. Sustainability planning and action cannot be left for better times. As the current decade has shown, disruption and a polycrisis world of uncertainty suggest that better times might not materialise. The new (more volatile, more uncertain) normal is now.

Climate change action is needed — and should focus on both risks and opportunities.

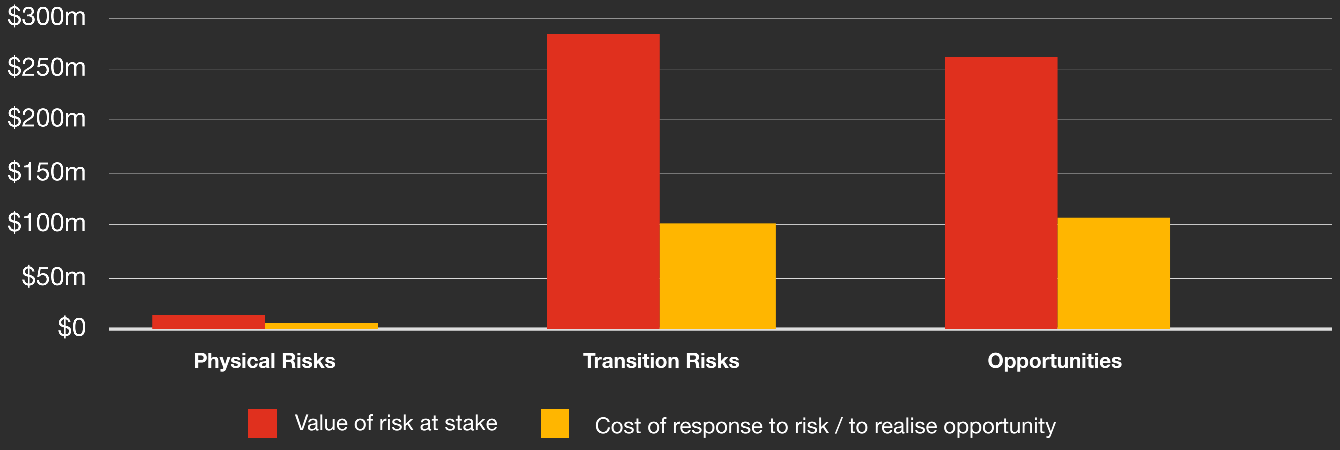
Climate change is no longer a risk for the future because climate change is a reality today. As such, it is more important to focus on the various impacts of climate change, including physical and transition risks (and opportunities).

Half (52%) of sub-Saharan CEOs told us that their companies face moderate, high or extreme exposure to physical and transition risks associated with climate change in the next 12 months, compared to a global average of 39%. This indicates that, quite understandably, business leaders in the region are very concerned about the impact climate-associated risks will have on their bottom line.

For a lot of Africans, this is not necessarily a surprise. Africa is heating up more, and faster than other regions worldwide. The average rate of warming in Africa was 0.3°C per decade during the 1991-2022 period, compared with 0.2°C worldwide. While this may seem small, every decimal degree of warming has an exponential impact (World Meteorological Organisation 2023).

Sub-Saharan African companies are not just aware of these risks but have started quantifying their financial impacts. Climate risk exposure is beginning to become a regular reporting item across larger organisations' integrated and sustainability reports. However, when we look at data disclosed by ten of the largest companies in sub-Saharan Africa, an interesting picture emerges: Climate opportunities are also solidly on the table.

Figure 3: Value of climate-related risks and opportunities and cost of response disclosed by top sub-Saharan African companies



Source: PwC research based on company reports

These mega companies — operating in various industries, including telecoms, mining, media, energy, retail, heavy industry and consumer goods — identified transition risks as the highest financial impact risk. The region's largest enterprises are feeling pressure from, for example, policy changes, market shifts, technological advancements, and consumer preferences changing towards greener products.

Surprisingly, physical risks — related to the direct physical effects of climate change, such as extreme weather events and long-term climate shifts — have the least reported financial impact among the categories.

The significantly lower reported physical risk values do not necessarily mean that the actual physical risks are that much less. Rather, it highlights that different methodologies used for risk valuation vary, and not all companies have mature systems in place to quantify these risks accurately, or that businesses are only considering impacts to their direct operations and not their value chains, which is often where most of the risk is concentrated.

Part of the risk and opportunity valuation challenge is the long time frames that some of these risks could manifest over (e.g., the next 20-30 years), making quantification in today's terms challenging. What this highlights is that while CEOs may recognise climate risks and opportunities over the short term, they need better decision-making tools to understand the potential financial impact of these risks and opportunities on their business, to make more informed decisions to, for example, reduce risks, adapt to the risks and build resilience.

Fortunately, there are tools available to companies to help them understand these factors. For instance, modern imaging technology provides tools that utilise data sets with high resolution of less than 100m^2. This allows companies to view the modelled change in climate hazards at an asset level over different time periods (e.g. five, 10, 20, or 30 years) and different climate scenarios (e.g. fossil fuel intensive future, mixed future, low fossil fuel future). With this data in hand, organisations can then assess and understand their business resilience and adaptive capacity to future shocks to make better-informed business decisions.

Climate-related opportunities (e.g., development of new products, services, or markets) are valued at nearly the same quantum as transition risks, with a similar cost to unlocking these opportunities. This highlights that sub-Saharan African companies recognise that there is substantial opportunity to be unlocked through the transition to greener economies.

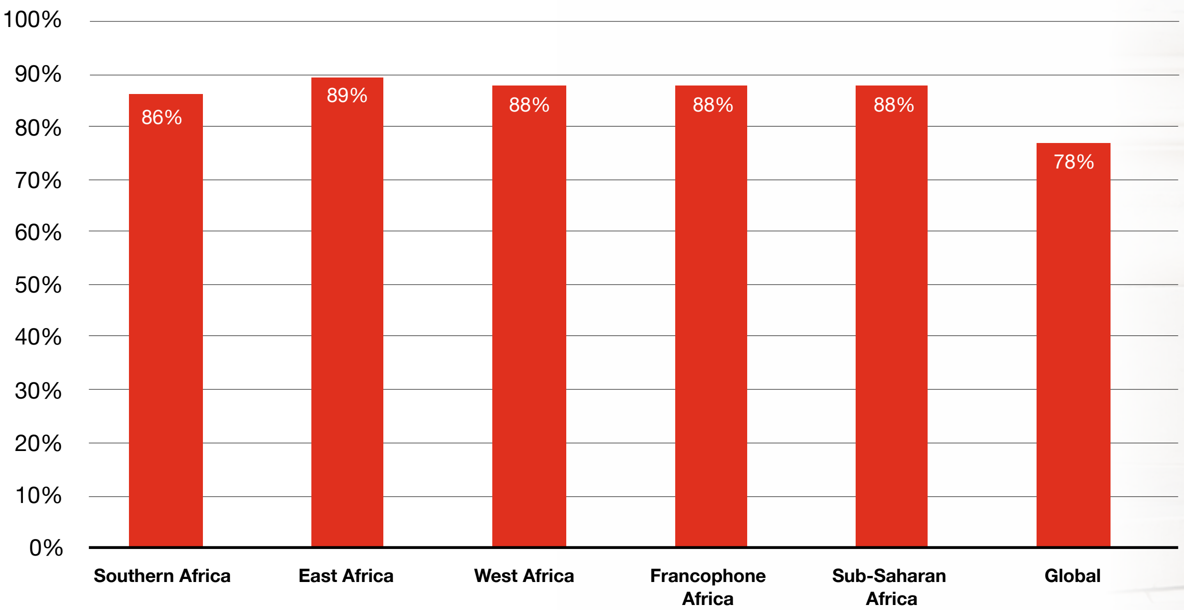
Governments are changing regulations in response to disruptions like climate change.

Eight out of 10 (81%) sub-Saharan CEOs told us government regulations drove how their company has created, delivered and captured value over the past five years. This period included the COVID-19 pandemic and the diverse sets of government regulations put in place to combat the disease, respond to global supply chain disruptions, and revive declining economies.

Looking ahead, cyber risks, macroeconomic volatility, social pressure, and climate risks all raise the prospect of regulatory change in the near future. Understandably, governments need to continue modifying their rules, regulations, laws and policies to adapt to changing societal needs.

Most CEOs worldwide expect government regulation to impact their businesses over the medium term. Some 78% of global CEOs surveyed said regulation would have a moderate, high, or extreme impact on how their company creates, delivers and captures value in the next three years. In sub-Saharan Africa, this figure was even higher at 88% of respondents.

Figure 4: Share (%) of CEOs saying government regulation will to a moderate, large or very large extent, drive changes to the way their company creates, delivers and captures value in the next three years.



Source: PwC's 27th Annual Global CEO Survey

The world is in a polycrisis situation — where disparate crises interact in such a way that the overall impact significantly exceeds the sum of its parts.
The challenges for sub-Saharan Africa listed in this report are compounded by several other significant issues, including supply chain disruption and climate change.

In East Africa, where CEOs are more concerned about government regulation than any of the other regions, respondents identified the regulatory environment as the most significant obstacle to value creation. They talked about the potentially onerous impact of compliance requirements on operational flexibility. As noted in PwC's East Africa Family Business Survey 2023, 70% of respondents in Uganda said they see tax compliance as a cost to their business, and that the associated risk of fines for non-compliance could impact operational flexibility.

It is, however, impossible to provide a shortlist of top regulatory challenges across the vast sub-Saharan African region due to the diversity of countries and industries across the region. However, if we take a global perspective, the most prominent regulatory themes this year include climate change, trade policies and technology.

The courage to succeed: How to face regulatory uncertainty head-on

> The interlinked and mutually reinforcing attributes required to succeed in times of uncertainty are clear. Organisations must be biassed toward action — align costs with priorities and strategy, invest in differentiated capabilities, and use traditional and digital levers to execute.
>
> Rather than setting on a single fixed course, businesses must continually engage in scenario planning, constructing and evaluating an array of options that offer a broader view of the regulatory landscape — both in general terms and related to climate change — and possibilities for success.
>
> Business leaders need to build the capacity within their organisations to be agile around changing government regulations. Teams need the balance and capabilities to enable them to shift focus, priorities, and resources to meet changing circumstances.
>
> To be resilient to shifts in the tax and regulatory environment, companies must get ahead of the changes and, where appropriate, work with industry peers and the government to improve outcomes.
>
> In some instances, changes in the regulatory environment can fundamentally alter the business model. In other cases, regulatory shifts may lead to a rethinking of existing practices and an opportunity to further align operating models with regulatory, legal, and fiscal policy.
>
> Peter Ngahu,
>
> **Chief Executive Officer, PwC Eastern Africa**

A call to action

Sustainability considerations are integral to an organisation's overall operational strategy.

In designing and implementing sustainability journeys, it is essential to consider disruptions like cyber risks, macroeconomic volatility, social pressure, climate risks, and regulatory change, as well as what this means for operational and strategic planning. These factors are both driving forces of sustainability strategy as well as potential obstacles to implementation.

As companies respond to volatility, disruption and uncertainty, failing to incorporate sustainability considerations into short-term action plans will significantly reduce the time during which a company can remain economically viable and operate sustainably.

Please contact us to help you and your organisation plan a sustainability roadmap and organisation strategy.

References

Africa Center for Strategic Studies. 2024. "Mapping a Surge of Disinformation in Africa – Africa Center for Strategic Studies." Africa Center for Strategic Studies. https://africacenter.org/spotlight/mapping-a-surge-of-disinformation-in-africa/.

World Meteorological Organization. 2023. State of the Climate in Africa 2022. Geneva: UN. https://wmo.int/publication-series/state-of-climate-africa-2022#:~:text=The%20State%20of%20the%20Climate,ocean%20of%20what%20is%20needed.

Contact us

Southern Africa

Lullu Krugel
Africa and Southern Africa Sustainability Platform Leader
PwC South Africa

Chantal van der Watt
Director, Sustainability Services
PwC South Africa

West Africa

Bolanle Adekoya
West Africa Sustainability Platform Leader
PwC Nigeria

Marilyn Obaisa-Osula
Partner, Sustainability Services
PwC Nigeria

East Africa

Edward Kerich
East Africa Sustainability Platform Leader
PwC Kenya

Anish Chandra
Director, Sustainability Services
PwC Mauritius

www.pwc.com