Furthering the Green Economy in Industry Value Chains

– BRICS country successes and lessons

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SA BRICS Business Council Energy and Green Economy Group Roundtable

Gauteng, South Africa, 19 August 2023

The South African BRICS Business Council held the 2023 BRICS Energy Cooperation Forum at Gallagher Convention Centre in Midrand, Gauteng, on Saturday, 19 August 2023.

As part of the proceedings, Naspers and the National Business Initiative of South Africa (NBI) hosted a roundtable discussion with a diverse group of private and public sector industry leaders on the topic of furthering the green economy in industry value chains.

We know that growing economic activity in the green industry sector and shifting the economy as a whole towards cleaner industries is critical for countries to move towards a resource-efficient and low-carbon growth path. The aim of this dialogue with diverse representatives across the ecosystem was to shine a light on the successes and lessons learnt, as well as the challenges experienced by the BRICS countries regarding industry value chains.

This discussion seeks to encourage collaboration and hold all ecosystem players accountable for their commitments to effect tangible and lasting change. It marks the beginning of a vital conversation that must continue.

Naspers and NBI look forward to further input and are optimistic that many productive follow-up discussions will ensue.

Panellists

Prajna Khanna (moderator)
Vice President, Global Head of Sustainability at Naspers

Shameela Soobramoney
CEO and Chief Sustainability Officer at National Business Initiative (NBI)

Lullu Krugal
Partner at PwC

George Mienie
CEO of AutoTrader

Gavin de Kock
Engagement Manager at Science-based Targets (SBTi)

Justine Bolton
Carbon and Biodiversity Specialist at FirstRand Group, Co-chair of the Partnership for Carbon Accounting Financials (PCAF) Africa Working Group

Kesh Mudaly
Principal Consultant in Climate and Sustainability at Boston Consulting Group (BCG)

Willem Fourie
Professor and Coordinator SA SDG Hub at the University of Pretoria

Crispian Olver
Executive Director at Presidential Climate Commission (PCC)

Six key insights from the discussion

1

There is significant value to be unlocked by decarbonising the economy; we need to focus on creating future plans and not just responding to short-term crises

An industry value chain encompasses the entire process of creating, producing, and delivering a product or service within a specific industry, covering stages from raw material sourcing to final consumer delivery. It represents a series of interconnected activities and stakeholders, where each stage adds value, and where the overall efficiency can influence the competitiveness and profitability of businesses in that industry.

In the journey to transition to a low-carbon economy, South Africa stands at an unusual crossroads. Our carbon-intensive industry value chains are reflective of our high-emissions economy that relies predominantly on coal power. We know that significant change is required to transition, but we are plagued by massive short-term challenges such as the electricity crisis, social inequality, poverty, and unemployment.

Shameela Soobramoney, CEO and Chief Sustainability Officer at NBI (National Business Initiative) explained that our predicament is that we have short-term challenges, such as needing power and protecting jobs, and it's tempting to rely on existing carbon-intensive forms of energy production to meet this urgent need. In the long term, however, we stand to lose a lot. We need to focus our efforts on future decarbonisation plans to make a meaningful change. This requires significant shifts across entire value chains. However, with challenges, opportunities always present themselves. Soobramoney emphasised that there is significant value to be unlocked by decarbonising the economy.

NBI's members consist of a diverse spectrum of businesses across South Africa. In NBI's journey to help these businesses achieve sustainable growth and development across their value chains, they have recognised several drivers that are motivating businesses to reassess their strategy. From actively engaging with the Sustainable Development Goals (SDGs) to exploring opportunities in the circular economy, biodiversity preservation, creating competitive advantage, and supporting SMMEs in the green economy, there is a sense of a shifting consciousness towards sustainability as more businesses recognise the benefits.

Georgie Mienie, CEO of automotive marketplace, AutoTrader, emphasised that although businesses are starting to see net benefits to being sustainable, there should also be a sense of responsibility. As custodians of the car-buying community in South Africa, AutoTrader use their platform to advocate for sustainability across automotive industry value chains through educational initiatives, partnerships, and data-driven insights. They also support circular economy principles such as reusing vehicles and recycling parts.

Mienie is also a huge supporter of electric vehicles. In a country where 95% of the grid is powered by coal, is it still worth running an electric vehicle? Mienie says yes. He reiterated that a future-focused approach is needed: "The grid is not the problem; [lack of] future plans are the problem."

Prajna Khanna, Global Head of Sustainability at Naspers, mentioned that Naspers has recently transitioned the company's fleet to electric, following a review of their Scope 1 emissions.

Innovation was a central theme too, with Kesh Mudaly, consultant at BCG (Boston Consulting Group), discussing the potential

for green hydrogen as an affordable clean-energy alternative for the Global South. South Africa has great natural resources (an abundance of wind and solar) for generating hydrogen at low cost. Green hydrogen presents economic opportunities in the form of exports to developed countries that can afford it. It could also be used as a clean fuel in heavy-duty freight transport. This would go a long way towards decarbonising logistics across value chains.

2 Context is everything

Understanding the complex environment in which business value chains exist is crucial. As illustrated by Prosus' experience

with online food ordering and delivery service businesses, the approaches to climate response and the adoption of impactful innovations are not uniform but differ significantly across markets. These differences reflect the diverse economic, environmental, and regulatory landscapes in various regions. In some places, the aggressive adoption of sustainability practices may be encouraged by government incentives or consumer preferences, whereas in others, a lack of resources or existing infrastructure may slow progress. The challenge for businesses, particularly in the Global South, is recognising these disparities and

tailoring strategies accordingly, ensuring that every link in the value chain aligns with both the local conditions and global sustainability goals.

A growing concern expressed by Prajna Khanna is the widening divide between businesses and market ecosystems that have mature sustainability strategies – including voluntary ESG (environmental, social, and governance) disclosures – and those that do not. This divide is not just a barrier for businesses in the Global South. It is representative of 'intergenerational wealth' and its benefits for businesses and markets in the Global North, who have leveraged their economic prosperity to prioritise and build out their sustainability agendas and mature ESG reporting. With EU-driven ESG disclosure regulation mandating a high level of ESG disclosures, this gap will only widen. In the near term, it can limit or even block access to capital for businesses in the Global South. This challenge becomes increasingly significant considering that many businesses in the Global North are built on supply chains that end in the Global South.

Khanna's assertion that 'context is everything' underlines the essential need for a broader understanding and appreciation of the environmental, economic, and social landscapes that influence value chains.

3 Transparency as an enabler for value chain collaboration

Transparency serves as a fundamental enabler for value chain collaboration. Recognising and addressing the issues within a value chain requires transparent practices, and this transparency is often proven through ESG disclosures. Despite challenges in the Global South, there is a growing commitment among emerging market businesses to meet science-based targets, though significant work, including capacity building, still needs to be done.

Gavin de Kock from SBTi (Science-based Targets initiative) explained that science-based targets show organisations how much and how quickly they need to reduce their greenhouse gas (GHG) emissions to prevent the worst effects of climate change. In essence, SBTi is an ambitious decarbonisation roadmap, aligning with the Paris Agreement, and promoting the transition to net zero. SBTi is the only climate actor that independently assesses and approves organisations' targets, in line with strict criteria, promoting transparency, consistency, and comparability. SBTi defines and promotes best practice in science-based target setting, offering a range of resources and guidance.

Many companies report that adopting a science-based target boosts profitability, drives innovation, improves investor confidence, reduces regulatory uncertainty, and strengthens brand reputation.

SBTi guides businesses wanting to set their own decarbonisation targets and helps them engage with supply chains to meet their goals. For many companies, supply chain-related emissions are their largest emissions source and the most challenging to reduce; on average, they are 11.4 times larger than direct emissions from operations. To this end, SBTi has developed a useful online toolkit to engage supply chains on the decarbonisation journey. This toolkit consists of a supplier engagement guidance, slide deck, speaker script and executive summary.

De Kock ended off by sharing that global corporate climate action accelerated in 2022 with an 87% increase in companies setting science-based targets – more companies set targets in 2022 than the entire seven years prior. Thirty-four percent of companies worldwide (more than one-third of the global economy by market capitalisation) had set or committed to setting science-based targets by the end of 2022. Setting a science-based target is "not only the right thing, but a very urgent thing to do," De Kock emphasised.

Lullu Krugal, partner at PwC, further elaborated on the role of transparency in value chain collaboration. PwC has observed

a shift in company attitudes as they recognise the financial benefits of ESG disclosures and the adoption of new sustainability accounting standards such as IFRS S1 and S2. Companies in a position to do so are even assisting SMMEs with their disclosures. To succeed in this complex landscape, it is essential to understand the value chain and the varied pressures facing different stakeholders, particularly SMMEs.

4 Collaboration and engagement are key

The discussion then pivoted to emphasise the vital role of collaboration and engagement in driving the change required for a just transition. This includes better engagement and synergy between both public and private sectors.

Justine Bolton's spotlight on PCAF (the Partnership for Carbon Accounting Financials) served as a beacon for this theme in the financial sector. PCAF enables global collaboration of financial institutions, uniting over 400 members in a shared mission to develop the knowledge and tools necessary to assess and disclose greenhouse gas emissions related to financial activities. Whether it's addressing challenges related to data accessibility or supporting less advanced financial institutions, the regional working groups within PCAF play a vital role in the capacity-building journey, defining impacts and forging a path forward.

The Task Force on Climate-related Financial Disclosures (TCFD) and the Task Force of Nature-related Financial Disclosures (TNFD) are also initiatives that provide support connected to environmental accounting and financial reporting. TNFD is pushing the necessity to consider not only the climate but also nature and biodiversity and their impacts on operations.

Emphasising education, Bolton further noted FirstRand's role in helping customers understand and mitigate their impact. FirstRand's strategy includes targeting material sectors, such as vulnerable businesses heavily impacted by climate change and those that have a high carbon impact. With data and insights gained in these areas, collaborative efforts can be continuously refined and expanded, learning from experience, and growing in effectiveness over time.

Panellists concurred that collaboration between all parts of the economy is essential to making swift progress with climate-related goals.

5 Green procurement policies are necessary across the board

Green procurement plays a key role in shaping and sustaining value chains in both the private and public sectors. Procurement – the process of finding, acquiring, and buying goods and services – serves as the connective tissue within a value chain. It can guide the entire lifecycle of a product, from sourcing raw materials to production and distribution, all while enforcing sustainability standards. As such, it is a crucial tool for governments and businesses to achieve their climate targets.

Crispian Olver from the Presidential Climate Commission (PCC) stressed the need to build out green value chains with South Africa's abundant 'raw materials' – wind, solar, and entrepreneurial capabilities. With public procurement accounting for half a trillion rand in spending per year, preferential green procurement policies could directly influence these value chains, fostering growth among SMMEs, women, and youth. Lessons from the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) demonstrated the importance of realistic and consistent policy implementation.

The successful use of green procurement in the Western Cape province, in areas such as waste management and renewable energy, highlights the potential for deliberate policy to mould sustainable value chains. From a national government perspective, Treasury is currently working on making its green procurement policies more developmental. Olver encouraged policy-makers to ask: "What is the impact of the spend?" rather than "What policies can we create?" to encourage a more meaningful outcome.

Ultimately, strategic and comprehensive procurement policies are instrumental in driving a greener economy and forging

value chains that benefit all. Choosing green procurement is not just an environmental consideration, it's a deliberate, inclusive approach, essential for the just transition to a low-carbon economy.

Six key insights from the discussion continued

6 We need a holistic value chain point of view

Taking a holistic view of value chains is necessary. Value chains are found to produce four times more emissions than a company's direct emissions, according to SBTi. Though a third of companies have set targets to reduce these emissions, the pace of uptake remains slow.

Prajna Khanna stressed the need to explore both upstream and downstream impacts within value chains, weighting opportunities against risks, and bringing in SMMEs where possible. Leveraging fintech can further de-risk investments, making a more inclusive and sustainable value chain attainable.

In reference to the SDGs, Willem Fourie, professor at the University of Pretoria, pointed out that the trend of hyper-localisation is often at odds with the need for shared global prosperity – the ultimate goal of the SDGs. Many global value chains are heavy on the 'development' aspect but neglect the 'social' part. The challenge is managing the embedded carbon in global trade, and the SDGs can be used as a tool to talk about these trade-offs.

Longer value chains have proven to be beneficial for developing economies, contributing to greater diversity and inclusivity. On Naspers' journey towards setting science-based targets by 2028 for the majority of their portfolio and 2040 for the entire portfolio, Khanna reiterates that global value chains are instrumental in making this a reality.

In essence, adopting a holistic value chain perspective requires looking beyond immediate business concerns, recognising interdependencies, considering social implications, and strategically aligning efforts with global sustainability goals. The integration of different stakeholders, from governments to the private sector, and the deliberate targeting of all aspects of sustainability are key to this transition.