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Why emerging markets are defined by ESG

ESG forces are moving deeper into emerging markets from the network of central banks sharing best practice, stock exchanges mandating ESG disclosure requirements, regulators acting in the area of fiduciary duty and the launch of new EM-focused investment products

Introduction

Emerging market countries are particularly exposed when it comes to environmental, social and governance issues such as population growth, income inequality, biodiversity loss, water stress, extreme weather events, corruption and forced labour. While many of these issues also exist across developed markets, the macro stability risks for emerging markets are more acute and the institutions available to address them weaker.

For some emerging markets, their increased vulnerability reflects the greater dependency on natural resources from an export earnings and GDP perspective. For example, rising global temperatures will threaten agricultural productivity which will hit low lying EM agricultural-based economies particularly hard.

Meanwhile technological change, government regulation and changing consumer preferences have introduced new hazards for fossil fuel exporting countries, many of whom are based in EM countries. Since emerging markets constitute 60% of world GDP[1] and 80% of the world's population[2], these hazards pose significant risks to the global economy. On our estimates, EM countries are forecast to contribute just over 75% of the 3.2% gain in world GDP growth this year.

It should therefore come as no surprise that when examining the link between ESG and corporate financial performance from a regional perspective, our research shows that emerging markets display the strongest correlation of any region[3]. Surveys also reveal that investors in emerging market countries have the highest levels of concern when it came to ESG issues such as the burning of fossil fuels, the use of child labour, excessive CEO remuneration and companies that make use of tax loopholes[4]. Consequently, how a company manages such ESG issues provide important insight into how the company is run.

Yet, the adoption of sustainability initiatives across the investor, corporate, supervisory and regulatory universe in these countries remains patchy and typically concentrated in just a few emerging market countries.

To assess the penetration of sustainable finance activity across emerging markets, we track membership of the Network for Greening the Financial System (NGFS), the Principles for Responsible Investment (PRI), the Principles for Sustainable Insurance (PSI), the Sustainability Stock Exchanges (SSE) Initiative, the number of TCFD supporters, the corporate take-up of RE100, as well as the activities of insurance and pensions' regulators.

We find EM Asia is making the most strides. This is reassuring since the region faces acute climate risks from a financial perspective. Regulators are also stirring in South America while efforts in Africa and the Middle East are concentrated in a handful of countries, namely South Africa, Kenya, Morocco, Nigeria and the UAE.

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Population growth, urbanisation and demographics

Emerging market country risk is closely tied to environmental, social and governance factors. In the 20th century, the world's population increased from 1.5 billion to 6.1 billion, or by 4.6 billion. In this century, the UN estimates that the world's population will increase a further 4.8 billion to reach 10.9 billion with 75% of this increase occurring in the first half of the century. Of the anticipated 2.1 billion growth in global population between now and 2050, 58% is expected to occur in Africa, with the next 33% of world population growth occurring in Asia[5].

This growth will also coincide with increasing levels of urbanisation. In 1950, 30% of the world's population, or 751 million people, lived in cities. Today this stands at 55% or 4.2 billion. By 2050, 68% of the world's population is projected to be urban. Just three countries – India, China and Nigeria, will account for 35% of the growth in the world's urban population between 2018 and 2050[6].

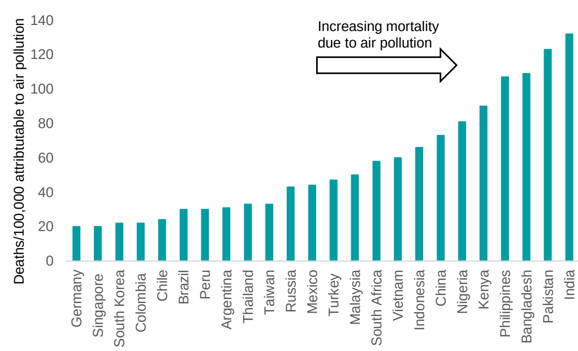
In total, this means the migration of 1.4 billion people from rural areas to cities with the effect of boosting productivity, increasing consumption (urban dwellers typically consume three times more energy than that their rural counterparts) and added pollution risk to land, air and water. Urbanisation will lead to an estimated 25 million kilometers of new paved roads by 2050[6]. Inevitably, urbanisation will require investment in housing, transportation, energy systems and other infrastructure as well as increasing demand for basic services such as education and healthcare.

This infrastructure investment will need to be built with climate change and specifically physical climate risk in mind. This is why this year has seen the Coalition for Climate Resilient Investment (CCRI) being established. It brings together 34 companies and organizations, including DWS, with US$5 trillion in assets to help develop solutions to advance climate change resilience. Work by the New Climate Economy estimates that US$90 trillion will be invested in infrastructure between now and 2030[7].

An estimated 60% of this infrastructure demand will be in the energy and transportation sector, with 70% of total infrastructure demand coming from emerging markets and low income countries[7]. The delivery of renewable energy to these markets should help unlock significant growth potential since approximately 1 billion people in the world currently live without electricity, predominantly in India and Africa[8]. However, off-grid solutions provide a strong chance that energy access will arrive soon. Indeed investment products in this area already exisit, for example in Sub-Saharan Africa. Part of the work of the CCRI will be to eancourage sure infrastructure investments flows and to ensure they are climate-smart.

Urbanisation and the rise of megacities is increasing the risks posed by pollution. 91% of the world's population live in areas with levels of air pollution that exceed WHO guidelines, with South-East Asia and the Western Pacific regions the most polluted. In fact, less-developed countries experience PM2.5 levels of air pollution that are typically four or five times higher than those of more developed countries. Indoor and outdoor air pollution are together responsible for more than one tenth of all premature deaths globally each year, or 7 million people according to the World Health Organization (WHO)[9]. Even so, there exists a significant dispersion across EM such that air pollution mortality rates in India are six times that of Singapore, Figure 1.

FIGURE 1: AIR POLLUTION MORTALITY RATES BY COUNTRY



Source: State of Global Air database (2018 data)

In terms of the incidence of pollution, populations in low-income cities are the most impacted. For example, according to the WHO 97% of cities in low- and middle-income countries with more than 100,000 inhabitants do not meet WHO air quality guidelines. However, in high-income countries this percentage drops to 49%. Meanwhile, the proportion of the urban population living in slums is approximately 56% in Sub-Saharan Arica, 32% in Central and Southern Asia, 21% in Latin America compared to 0.1% in Europe and North America[9].

Steps to curb outdoor air pollution tend to be focused on introducing clean technologies across industry, ensuring access to affordable clean household energy for cooking, heating and lighting, shifting to clean modes of power generation and prioritising rapid urban transport systems and low-emission vehicles. In addition, improving the energy efficiency of buildings and introducing strategies for waste reduction, recycling and reprocessing.

While emerging market countries are often lauded for their strong growth outlooks reflecting favourable demographics, between now and 2050, two-thirds of the increase in over 60 year olds will occur in Asia meaning that by 2050 nearly 8 in 10 of the world's older persons will be living in the developing world[2]. In Asia, China, Korea, Taiwan, Singapore and Hong Kong will be hit hardest as their workforces' age rapidly. In certain countries, favourable demographic trends do still exist, but, in Asia are largely confined to Indonesia, Malaysia and the Philippines.

Conversely populations in many other EM regions are still young. In Africa, children under 15 account for 41% of the population currently and 15 to 24 years old account for a further 19%. Latin America/Caribbean and Asia have smaller percentages of children under 15 (26% and 24% respectively) but similar percentages of youth (17% and 16% respectively). Meanwhile, Mexico has one of the youngest populations in the world (median age 28) and its working age population is projected to keep growing for the next 30 years. Argentina will also enjoy favourable demographics, but, to a lesser extent[2].

Biodiversity loss, water stress and food security

At a global level, it is estimated that nature provides services worth at least USD125 trillion per annum[10]. However, after armed violence and terrorism, biodiversity loss is one of the greatest societal costs[11] and since 1970, humanity has wiped out 60% of mammals, birds, fish and reptiles with South and Central America the worst affected regions[10].

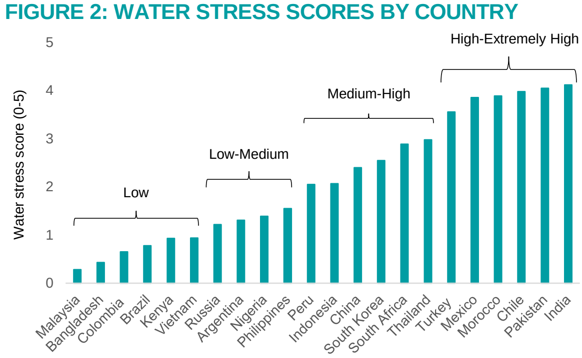
Calculations show that the planet has available 1.7 hectares of biologically productive land per person to supply resources and absorb waste yet the average person on Earth already uses 2.3 hectares worth. These "ecological footprints" range from 8.1 hectares claimed by the average American to 0.7 hectares used by the average Mozambican[12].

Agriculture also causes around 70% of the projected loss of terrestrial biodiversity[13]. In particular, the expansion of cropland from grasslands, savannahs and forests contributes to this loss. The commodities most linked to deforestation are cattle, palm oil, soy, timber and cocoa with key producing countries located in EM such as Brazil, Argentina, China, India, Indonesia, Malaysia, Ivory Coast and Ghana[14].

Land degradation is being caused by, among other things, deforestation, overgrazing and urbanisation. It is also undermining the well-being of 40% of the world's population, or 3.2 billion people, and raising the risks of migration and conflict. The worst affected regions are the dry fringes of sub-Saharan Africa, South-eastern Asia, southern Iraq and Afghanistan. The World Wildlife Fund assessment also reveals that only 25% of land on Earth is substantively free of the impacts of human activities and this is projected to decline to just 10% by 2050[10].

Urbanisation will inevitably put increasing pressure on natural resources such as water as well as threaten a further loss in biodiversity. While three-quarters of the Earth is covered with water, only 2.5% is fresh water and less than 1% is available to sustain all terrestrial life and ecosystems[15]. Currently, 1.7 billion people in 44 countries are chronically short of water. By 2050, roughly half the world's population, or 4.9 billion people, will live in a country where the lack of fresh water will be chronic or recurrent[16]. The World Resources Institute show water stress is most acute in the Middle East and within the invesitble EM universe, India, China, Mexico, Turkey and Thailand are the most vulnerable, Figure 2.

FIGURE 2: WATER STRESS SCORES BY COUNTRY



Source: World Resources Institute (August 2019)

Inevitably this will focus attention on companies and their operations in water stressed regions and their license to operate. In fact, 20% of today's global GDP is already produced in water-scarce regions and this could rise to 45% by 2050[17]. The sectors most likely to be exposed to substantive water risks are consumer staples, utilities, energy and mining. Water stress reflects not just climate change, but, also the unsustainable extraction from rivers, lakes and groundwater. Countries of particular concern are those that are depleting non-replenishable aquifers to meet water demand, most notably in China, India, Mexico, Spain, South Korea and the US[17].

Agriculture accounts for 70% of the world's total freshwater withdrawal mostly through irrigation, but some 60% of this is wasted due to leaky irrigation systems and the cultivation of crops that are too thirsty for the environment in which they grow[12]. Solutions include deploying new or existing technologies such as recycling waste water, rainwater harvesting, drip irrigation technology, precision planting and hybrid seeds, improved infrastructure and pipes as well as introducing desalination facilities.

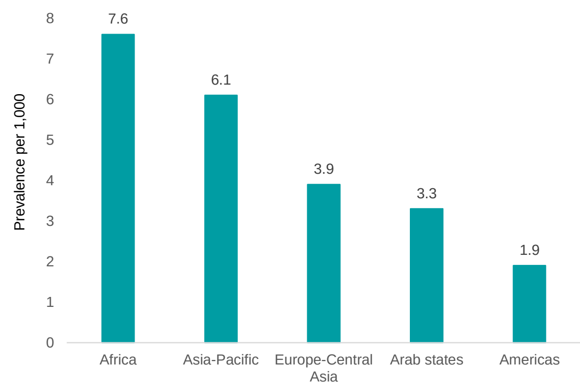
Since more than 75% of the world's food comes from just 12 plants and five animal species, these risks expose the world economy in the event of extreme crop failure or disease in one or more of the major agricultural producer economies[18]. When it comes to agricultural production, the superpowers are the US and China followed by India, the EU and Brazil[13].

For the third year in a row, there has been a rise in world hunger such that the number of undernourished people has increased to nearly 821 million in 2017 from around 804 million in 2016[19]. The most concentrated areas of under-nourishment occur in India, China, Pakistan, Ethiopia and Indonesia. Climate change and population growth threaten to increase the number of undernourished people worldwide by 40-170 million this century, according to the Intergovernmental Panel on Climate Change (IPCC)[20]. While higher average temperatures may lead to increases in crop yields in higher latitudes, in lower latitudes, where most agricultural-based emerging market countries are located, the negative impacts on yields and hence production are likely to become more evident.

Forced labour, migration and financial inclusion

An estimated 40.3 million people were victims of modern slavery in 2016, through either forced labour or forced marriage. Put another way, 1 in every 185 people are in a situation of modern slavery and human trafficking. The majority of these reside in Africa and Asia-Pacific with women accounting for 71% of modern slavery victims. In addition, almost one of every four victims of forced labour were exploited outside their country of residence which points to the high degree of risk associated with migration[21].

FIGURE 3: PREVALENCE OF PERSONS IN MODERN SLAVERY BY REGION



Source: United Nations University Centre for Policy Research (September 2019). Unlocking Potential: A Blueprint for Mobilizing Finance Against Slavery and Trafficking

The US Bureau of International Labor Affairs maintains a list of goods and their source countries which it believes are produced by forced labour or child labour. As of September 2018, the list of good produced by child labour or forced labour comprised 148 goods from 76 countries of which approximately 50% were in the agricultural sector such as sugarcane, cotton and tobacco. However, forced labor is pervasive across all sectors. Gold mining has the largest amount of forced labour when measured by number of countries while Brazil, India, Paraguay and Vietnam have the largest number of goods linked to forced or child labour[22].

Like countries in the developed world, emerging market countries are also faced with the challenges of migration. The total number of international migrants in 2017 was 257.7 million, an increase of 49% since 2000. The international migrant stock as a percent of the total population stands at 3.4%, compared to 2.8% during the 1990s[23].

The number of migrants as a share of the population residing in high-income countries has risen from 9.6% in 2000 to 14% in 2017. The countries with at least 20% of their population's living abroad include Syria, Kazakhstan, Bosnia, Portugal, Albania, Armenia and Jamaica. In absolute terms, India, Mexico, Russia, China, Bangladesh, Pakistan and Ukraine have the largest diaspora, ranging from 6 to 11 million[23].

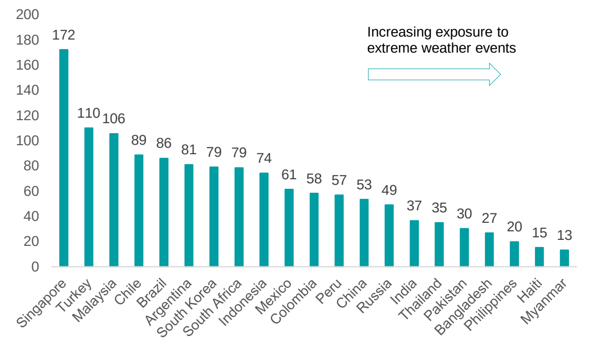
The findings of the Liechtenstein Institute's financial sector commission on modern slavery and human trafficking report[24], published in September 2019, was that not only was migration a sign of the failure of labour markets to provide decent employment opportunities, but, that the exclusion of an estimated 1.7 billion adults from banking services[25] was pushing people and households into risky borrowing, labour and migration practices. This reinforces why we promote the microfinance sector and broader financial inclusion ambitions across EM. Indeed without the work of microfinance financial institutions, lending rates could be in excess 300% compared to MFI lending rates of 25-30%[26].

Customer and client protection has become an important theme in the microfinance market over the past decade, illustrated by the Smart Campaign and the establishment of the Client Protection Principles[27]. In addition, the work of MIMOSA and their assessment in the level of credit saturation or over-lending in individual countries has been helpful to limit or avoid a repeat of the over-indebtedness and irresponsible lending practices of the past[28].

Emerging markets and climate risks

Between 1998 and 2017, the ten most affected countries to extreme weather events were in emerging markets and most notably Asia, Central America and the Caribbean[29], Figure 4. As the index is backward looking, since it assesses the vulnerability of countries to floods, droughts and storms that have happened in the past, it makes no prediction of future climate impacts. Even so, it does reveal how extreme weather events have a disproportionate impact on emerging market countries in terms of death toll and financial loss as a share of GDP.

FIGURE 4: COUNTRIES EXPOSURE TO EXTREME WEATHER EVENTS BETWEEN 1999 AND 2017



The Climate Risk Index assesses country exposure in terms of economic loss and fatalities to extreme weather events
Source: Germanwatch Global Climate Risk Index 2019

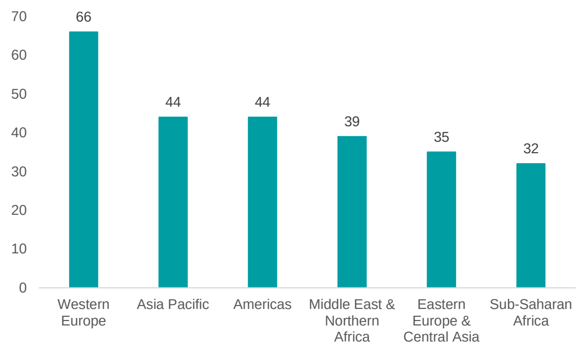
Asia is particularly exposed in this regard. Not only is the region urbanising rapidly, but, this urbanisation is increasingly concentrated in low-lying coastal areas. It is anticipated that between now and 2050 flood losses are likely to be most extreme in Guangzhou, Mumbai, Kolkata, Shenzhen, Tianjin, Ho Chi Minh City, Jakarta, Chennai, Surat, Zhangjiang, Bangkok and Xiamen, which are home to a combined population of roughly 130 million people[30].

Governance, corruption and political risk

Low-income emerging market countries are also vulnerable to weak democratic values and poor legal enforcement. To assess the levels of corruption and the health or otherwise of democracies around the world, Transparency International publishes the Corruption Perceptions Index. It measures the perceived levels of public sector corruption in 180 countries around the world.

From a regional perspective, sub-Saharan Africa has the highest levels of corruption followed by Eastern Europe and Central Asia[31], Figure 5. High levels of corruption pose significant risks as they not only deter foreign direct investment, but, they may also encourage a large black market economy to develop, with the associated loss of tax revenues for local and central governments.

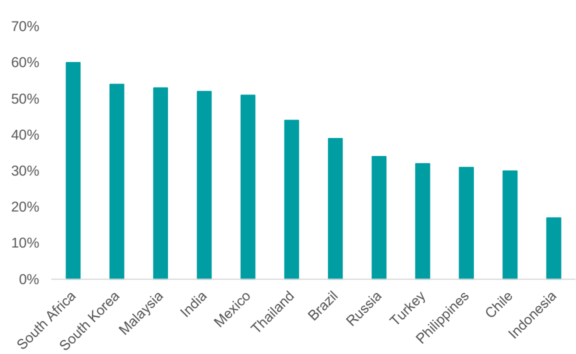
FIGURE 5: CORRUPTION PERCEPTIONS SCORES BY REGION



Scale: 100 (very clean) to 0 (highly corrupt)
Source: Transparency International (February 2019)

From a corporate governance perspective, emerging market countries can also be exposed to weak shareholder rights, opaque ownership structures and poor disclosure. Work by Harvard Law School and ISS Analytics reveals the significant divergence across emerging markets when it comes to the independence of company boards ranging from 60% in South Africa to 17% in Indonesia[32], Figure 6. The introduction of corporate governance codes across certain emerging market countries has helped to introduce better governance practices, but, this remains work-in-progress for certain markets.

FIGURE 6: PERCENTAGE OF INDEPENDENT DIRECTORS BY COUNTRY IN 2018



Source: ISS Analytics, Harvard Law School (February 2019)

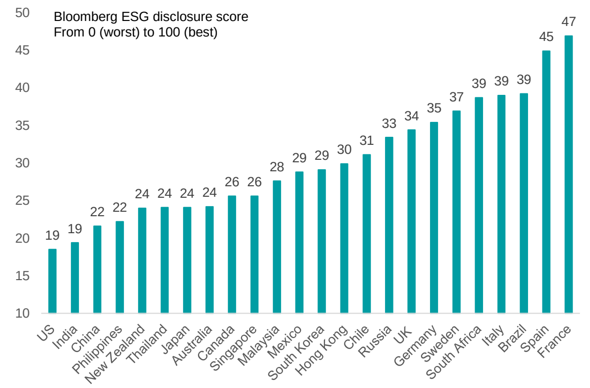
EM exchanges, regulators and supervisors are responding

When it comes to disclosure and improving sustainability in capital markets, the Sustainable Stock Exchanges (SSE) Initiative encourages efforts to enhance corporate transparency as it relates to ESG. Currently there are 90 SSE partner exchanges, of which two-thirds are in emerging markets[33]. However, when it comes to ranking issuers according to their ESG quality across emerging markets, challenges exist from the low level of ESG disclosure.

In its 2018 progress report, the SSE analysed the ESG disclosure practices of over 4,300 companies listed on 35 stock exchanges around the world[34]. While European exchanges typically lead when it comes to overall disclosure rates and timeliness of reporting, improvements are taking place in certain emerging market exchanges. Their 2017 findings revealed that two emerging markets, South Africa and Thailand, were ranked in the Top 10 for overall disclosure rates. Similar results can be found by more recent ESG disclosure scores published by Bloomberg earlier this year with Taiwan and Brazil topping the league table among the universe of EM countries, Figure 7.

However, problems persist in the haphazard nature of what is being disclosed. Our research shows that currently ESG disclosure has the weakest correlation to financial performance[35]. This is why we are strong advocates of such initiatives as the EU Sustainable Finance Action Plan and the Task Force on Climate-related Financial Disclosures (TCFD), both of which aim to improve and enhance the level of ESG and specifically climate-related financial disclosures.
Still, we welcome the growing number of stock exchanges that are publishing guidance on ESG issues and ESG disclosure for listed companies, which has grown from 13 in 2015 to 47 today, or roughly half of all exchanges worldwide. Of the 47, 31 are in emerging markets with adoption most prevalent in EM Asia (12) followed by Africa & the Middle East (9)[36]. Needless to say, the introduction of listing rules and the role of regulators can play a critical role in raising ESG awareness.

FIGURE 7: ESG DISCLOSURE SCORES IN 2019



Source: Bloomberg Finance (LP) June 2019

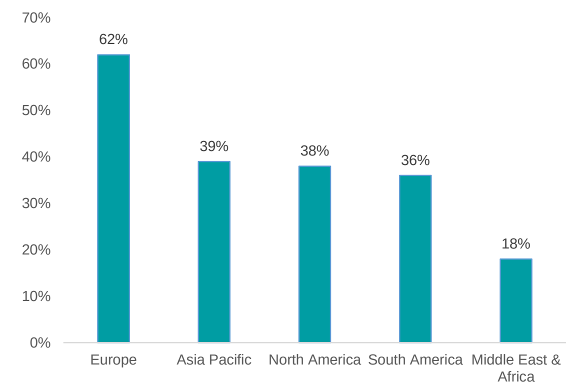
In larger EM countries pressure to disclose is building. For example, the inclusion of the China A share index into EM and global equity indices has meant Chinese companies are coming under increasing scrutiny and pressure to disclose ESG information such as how a company's is managing its emissions and waste. In addition, from next year, all listed companies and bond issuers will be mandated to disclose ESG risks. In addition, for unlisted Chinese entities will be required to have three years of ESG disclosures before being allowed to IPO on the Shanghai and Shenzhen exchange[37]. The Chinese authorities are therefore very focused in this area with intensive work underway by the China Securities Regulatory Commission (CSRC), the China Institute of Finance and Capital Markets (CIFCM) and domestic stock exchanges.

Even so, regulatory ESG disclosure rules are still a relatively new tool. Early adopters in EM have been South Africa, Brazil followed by India and Thailand. Encouragingly, a growing number of other EM regulators are requiring listed companies to provide ESG disclosure information, for example, in Hong Kong, Indonesia, Malaysia, the Philippines, Singapore and Vietnam[32].

When it comes to climate-related financial disclosure, all eyes are on the TCFD, which was set up to address the financial stability risk of climate change and the need for consistent, comparable and reliable data of how companies were approaching climate risk from a governance, strategy and risk management perspective.

The numbers of organisations and governments that have become supporters of the TCFD has grown to 867 organisations as of September 2019[38]. However, the majority of supporters are located in Europe, the US and Japan with emerging markets trailing. In EM, Asia ex-Japan leads (67), followed by Central & South America (31) and then the Middle East & Africa (14). Not surprisingly, when assessing climate-related metrics' disclosure we find that European companies have a relatively high percentage of disclosures aligned to the TCFD, with very low disclosure rates occurring elsewhere, Figure 8.

FIGURE 8: DISCLOSURE RATE BY REGION OF TCFD RECOMMENDED CLIMATE-RELATED METRICS



Source: TCFD Status Report (June 2019)

In certain jurisdictions, the pensions' regulator has also been an important facilitator in promoting responsible investing. For example, in Brazil last year the pensions' regulator CMN published a new standard to govern the investment practices of occupational pension plans which included clarifying that ESG issues must be considered in the pension funds' regular risk assessment process. In Mexico, CONSAR the pensions' regulator has encouraged institutional investors to consider ESG topics in their investment process[39].

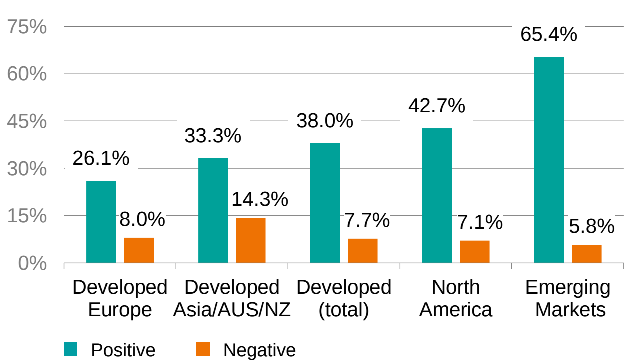
The formation of the Network for Greening the Financial System (NGFS) has been another important initiative in terms of promoting ESG best practice through the central bank and supervisor community. Established in December 2017, the NGFS has grown from its eight founding members to 46 central banks and supervisors. It now has representation across five continents, covering over half of global greenhouse gas emissions and the supervision of two thirds of the globally systemically important banks and insurers[40]. Its aim is to share best practices and contribute to the development of climate risk management in the financial sector and to mobilise finance to support the transition toward a sustainable economy.

While the current membership of NGFS is heavily concentrated in developed markets, with 28 members in Europe alone, membership among emerging market central banks and supervisors is growing in number, with five in Asia and four in the Middle East & Africa and Central & South America respectively. The recent speech by the Governor of Bank Negara Malaysia highlighting the development of a local sustainable finance taxonomy and introducing the prospect of climate risk assessment for financial institutions from next year is likely a sign of things to come elsewhere[41]. One therefore just needs to look down the list of EM central banks who are part of the NGFS network to get a sense of where this will likely happen next.

ESG in EM from an investor's perspective

Since the early 1970s, around 2,250 academic studies have been published on the link between ESG and corporate financial performance. DWS and the University of Hamburg reviewed this literature in a white paper published in December 2015[3]. Among the many findings, we found that from a regional perspective, studies showed that ESG is particularly effective in emerging markets. Indeed where the body of ESG-CFP research had a regional identifier, emerging markets displayed the strongest correlation of any other region, Figure 9.

FIGURE 9: EMERGING MARKETS POST THE STRONGEST POSITIVE LINK BETWEEN ESG AND CORPORATE FINANCIAL PERFORMANCE



Source: DWS-Global Research Institute white paper (December 2015). ESG and Corporate Financial Performance.

The more compelling results from an EM standpoint corresponds well with survey evidence conducted by the PRI, which found that retail investors in emerging markets such as South Africa and Brazil appear to be more engaged on ESG issues than their counterparts in the developed world.

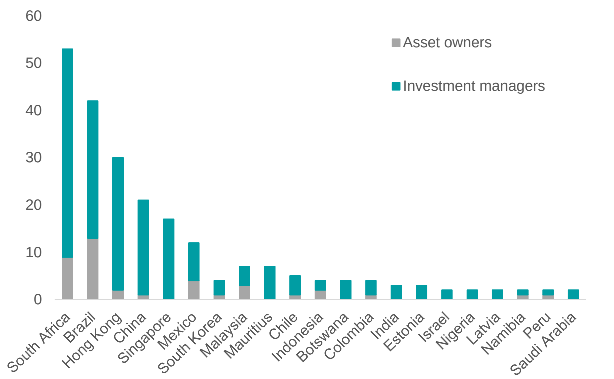
The PRI survey polled pension fund holders in the US, UK, France, Australia, South Africa and Brazil. It revealed that respondents in emerging market countries had the highest levels of concern when it came to the burning of fossil fuels, the use of child labour, excessive CEO remuneration and companies that made use of tax loopholes. When asked whether they felt how a company manages ESG issues provides insight into how the company is run, 67% of respondents in Brazil and 58% of respondents in South Arica sad that they strongly agreed with this statement. This compared to less than 25% in the US, UK and France[4].

The reach of responsible investing activity can also be gleaned from the number of PRI signatories by country. The obligations on PRI signatories include a commitment to incorporate ESG issues into the investment process. We find that among EM countries, South Africa and Brazil have the largest number of asset owner and asset manager signatories to the PRI[42]. This most likely reflects these markets being early ESG adopters in terms of stewardship codes and ESG disclosure requirements. Along with Hong Kong, China, Singapore and Mexico, these six countries/administrative areas account for almost three-quarters of all PRI signatories in the EM universe.

Another way to assess the local adoption of ESG initiatives is examining membership of the UNEP FI Principles for Sustainable Insurance. This initiative serves as a global framework for the insurance industry to address ESG risks and opportunities. Over 130 organisations, split between companies and institutions, are signatories and supporters of the PSI with those adopting the four principles including insurers representing more than 25% of world premium volume and USD 14 trillion in assets under management[43].

While signatories to the PSI are heavily concentrated in Europe, EM participation is on a par with North America and OECD Asian countries such as Japan, Australia and New Zealand. The typical approach adopted by European insurers in pursuing a sustainable investment strategy has been through divestment programmes most notably in fossil fuels, specifically coal, and investing in sustainable energy and impact investments.

FIGURE 10: NUMBER OF PRI ASSET OWNER AND ASSET MANAGER SIGNATORIES ACROSS EMERGING MARKETS



Source: PRI signatory database (October 2019)

From a corporate perspective, the RE100 initiative brings together global companies pledging to source 100% of their energy needs via renewables in the shortest time span and by 2050 at the latest. While corporate signatories to RE100 reached 204 in October 2019, the list is still dominated by companies headquartered in developed markets, with EM companies making up just 7% of RE100 membership[44]. This is significantly below the share of EM participation rates in other ESG initiatives, Figure 11 at the endof this report. Of the companies signed up to RE100 in emerging markets, the majority are centred in EM Asia and specifically India, China, Taiwan and Singapore.

We pay close attention to the signatory list of RE100 since research conducted by The Climate Group reveals that there is a direct correlation between companies signed up for RE100 and of those companies achieving above-average financial performance as measured by net profit margin and EBIT margin[45]. This out-performance is irrespective of the sector in which the company operates and, in our view, means RE100 companies are typically leaders in their respective sectors.

FIGURE 11. REGIONAL REPRESENTATION OF KEY ESG INITIATIVES BY NUMBER OF ORGANISATIONS

	Network for Greening the Financial System (NGFS)	Principles for Responsible Investment (PRI)	Principles for Sustainable Insurance (PSI)	Sustainable Stock Exchanges Initiative (SSE)	Task Force on Climate related Financial Dsclosures (TCFD)	RE100
Europe	54	1254	54	11	333	93
N. America	18	571	18	2	153	67
OECD Asia	14	234	13	3	258	31
C. & S. America	23	71	23	5	31	1
Middle East & Africa	16	74	16	9	14	0
EM Asia	12	102	12	12	67	11
E. Europe & C. Asia	1	18	1	5	4	1
Total membership	138	2324	137	47	860	204
EM share (%)	**37.7**	**11.4**	**38.0**	**66.0**	**13.5**	**6.4**

Note: Government supporters of TCFD have been excluded
Source: PRI, PSI, NGFS, SSE, RE100, TCFD (all data as of October 2019)

We expect the increasing competitiveness of renewables compared to traditional power generating feedstocks will accelerate the commitment of the corporate sector to this initiative. In terms of clean energy investment, the APAC region has accounted for approximately 50% of global renewable energy investments every year since 2013 and China represents on average two-thirds of this investment[46]. We believe of all EM corporates, Asian ones are particularly well placed to make even greater commitments to RE100.

Conclusion

ESG will be a defining trend for the 21st Century given the increasing rates of urbanisation, biodiversity loss, extreme weather events, food security and possibly even forced labour and migration that lie in front of us.

The financial sector has a critical role to play in addressing these challenges through the delivery of investment products, for example, that facilitate energy access and financial inclusion in emerging market countries. This will help to address the fact that still around 1 billion people in the world have no access to electricity[8] and 1.7 billion adults have no bank account[7].

Our research shows that, more than any other region, emerging markets display the strongest correlation between ESG and corporate financial performance, yet when it comes to the adoption of ESG initiatives, commitments are still relatively patchy. But not for long. We are already seeing central banks, supervisors and regulators across emerging markets moving in the area of ESG and they are set to become even more powerful agents of change in the months and years ahead.

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