Global Asset Management

ESG reforms

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We highlight some positive developments in specific emerging countries in terms of ESG-related reforms.

ESG and sustainability-related reforms are becoming increasingly important for countries in EM. Countries that implement ESG-related reforms are more likely to have sustainable economic growth compared to ones that do not prioritise these reforms. By being aware of specific ESG-related risks and opportunities at a country level, we can address these matters with management of companies operating across emerging countries.

Three examples where we have seen positive developments in emerging countries recently, in terms of specific ESG-related reforms, are:

1. The net-zero commitment of India,
2. Improving gender diversity at management and board level in EM countries,
3. Increasing ESG disclosure across China A-share listed companies.

"India's announcement at COP26 that it aims to reach net-zero emissions by 2070 and meet 50% of its electricity requirements from renewable energy sources by 2030 is likely to be significant in efforts to address climate change."

India's net-zero commitment: environmental factors

India's announcement at COP26 that it aims to reach net-zero emissions by 2070 and meet 50% of its electricity requirements from renewable energy sources by 2030 is likely to be significant in efforts to address climate change[1]. The rapid growth in fossil energy consumption has meant that India's CO_2 absolute emissions have risen to become some of the highest in the world (Exhibit 1). Yet, India's CO_2 emissions per capita are still low and much below that of other large economies (Exhibit 2).

> "India will attempt to pioneer a new model of economic development that is focused on environmental reforms, in contrast to the carbon-intensive approaches of other countries in the past."

India's size, and its growth potential, means that its energy demand is set to grow by more than that of any other country in the coming decades[2]. On its pathway towards net-zero emissions by 2070, a key question is where the future additional energy supply will come from. An important challenge for India will be how it transitions its economy away from coal, which accounts for nearly half of all energy supply, to more low-carbon sources (Exhibit 3). For India, the coal sector is intertwined with many other areas of the economy and coal levies are an important revenue source for central government and coal-producing states (amongst some of the poorest in the nation), and this could impact labour markets[3].

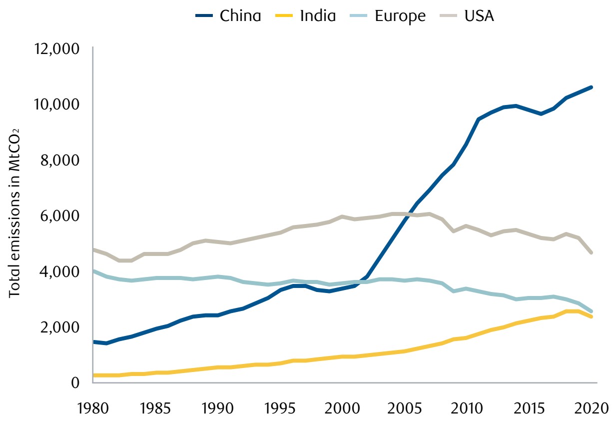
India will attempt to pioneer a new model of economic development that is focused on environmental reforms, in contrast to the carbon-intensive approaches of other countries in the past. The Prime Minister, Narendra Modi, has announced ambitious targets for 2030, including installing 500 gigawatts of renewable energy capacity[4]. Given the complexities involved in a net-zero transition for India, how this is financed is likely to be an important question going forward. In introducing India's net-zero target, Modi called for developed economies to step up climate finance commitments. Climate finance recognises that the contribution of countries to climate change and their capacity to deal with the implications varies substantially between the developed and developing world. Increased climate finance from developed nations would provide crucial tailwinds for a low-carbon technology rollout in India.

[1,2] India's clean energy transition is rapidly underway, benefiting the entire world – Analysis - IEA.

[3] Jefferies research: 'COP26: Big Numbers, Real Change?' (November 2021).

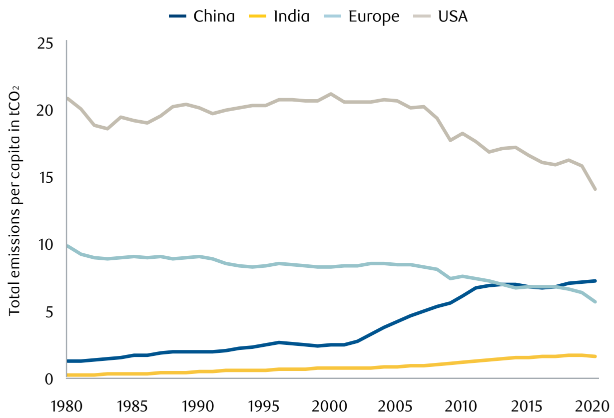
[4] India aims to add 500 GW of renewables by 2030 | S&P Global Market Intelligence (spglobal.com).

Exhibit 1: Total CO_2 emissions among major global economies



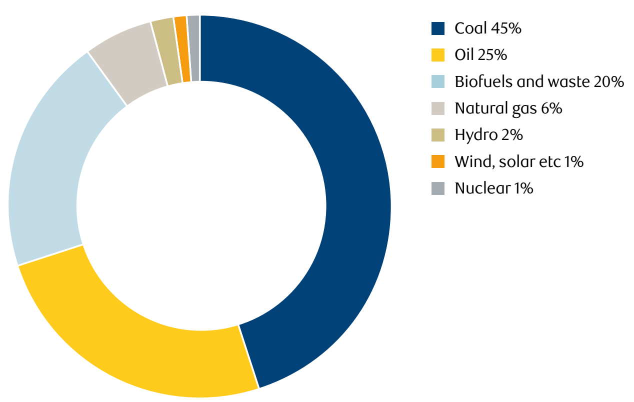
Source: Global Carbon Atlas. Data as at December 2020. Figures are in in $MtCO_2$.

Exhibit 2: Total CO_2 emissions per capita among major global economies



Source: Global Carbon Budget. Data as at December 2020. Figures are in tCO_2.

Exhibit 3: India's sources of energy supply



Source: IEA, Jefferies. Data as at November 2021.

Improving gender diversity in EM countries: social factors

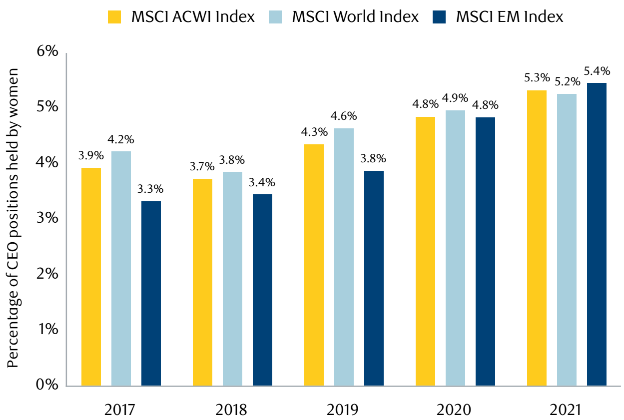
Diversity has been, and continues to be, an important area of engagement for our team. To that end, it is positive to see that the representation of women across senior management positions has been increasing in EM countries. As shown in Exhibit 4, the share of female CEOs in EM, as represented by the MSCI EM benchmark, has been on an upwards trend. In 2021, it slightly overtook the share of women CEOs in DM (5.4% in the MSCI EM Index compared to 5.2% in the MSCI World Index and 5.3% in the MSCI ACWI Index). A similar trend can be seen in the prevalence of women CFOs in EM, where the share is even greater at 19.2% in the MSCI EM Index, versus 12.8% in the MSCI World Index and 15.8% in the MSCI ACWI Index.

> "We would expect similar reforms and regulation to be introduced in more EM countries going forward, which should help further improve the participation of women on boards."

Looking at gender diversity on boards of directors, the representation of women on boards across EM varies greatly, but continues to show improvements overall year-on-year, and as such, represents a positive trend (Exhibit 5). South Africa stands out, with 34% of all director seats held by women, as of 2021. On the other hand, Saudi Arabia scores particularly poorly, with only around 2% of seats held by women. South Korea also scores relatively low but it is encouraging to see a significant improvement in the last few years.

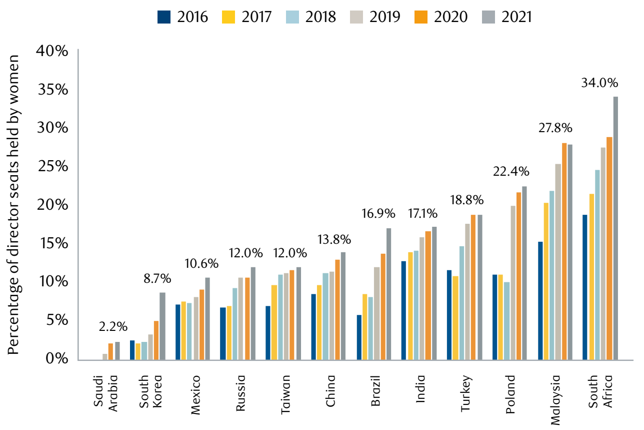
South Korea is an example of a country reforming its legislation to improve diversity. South Korea recently revised its Financial Investment Services and Capital Markets Act ("FSCMA") to ensure that the boards of publicly-listed companies (with assets exceeding KRW2 trillion) will not be comprised entirely of members of one gender. This is expected to lead to higher ESG performance ratings and increased representation of women on boards[5]. We would expect similar reforms and regulation to be introduced in more EM countries going forward, which should help further improve the participation of women on boards.

Exhibit 4: Percentage of women CEOs across MSCI ACWI, EM and World indices



Source: MSCI ESG Research, November 2021.

Exhibit 5: Representation of women on boards has grown steadily across EM countries



Source: MSCI ESG Research. Data as at November 2021.

[5] Mondaq com: Amendments of the Financial Investment Services and Capital Markets Act of Korea requires board diversity.

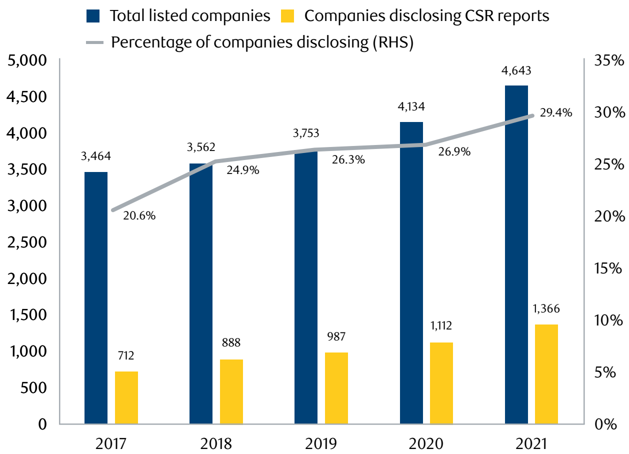
Increasing ESG disclosure by listed Chinese companies: governance factors

The level of ESG disclosure of Chinese A-share listed companies has continued to improve over the last five years as the number and proportion of listed companies that actively disclose ESG information has increased. In 2021, there were a total of 1,366 China A-share listed companies that disclosed Corporate Social Responsibility ("CSR") reports, accounting for 29.4% of all listed companies (Exhibit 6). As illustrated, the number and percentage of companies disclosing CSR reports has been increasing steadily. That said, there is still significant room for improvement, as less than one-third of companies overall currently disclose ESG reports.

A key reason for the lower disclosure of the Shenzhen, SSE Star and ChiNext boards is that these have higher shares of companies in the IT sector, which happens to be the sector with the lowest proportion of companies disclosing CSR reports[6]. The Shanghai Stock Exchange, on the other hand, is more diversified across sectors – for instance, there are more companies from the Financials sector that have the highest percentage disclosure of any sector at present.

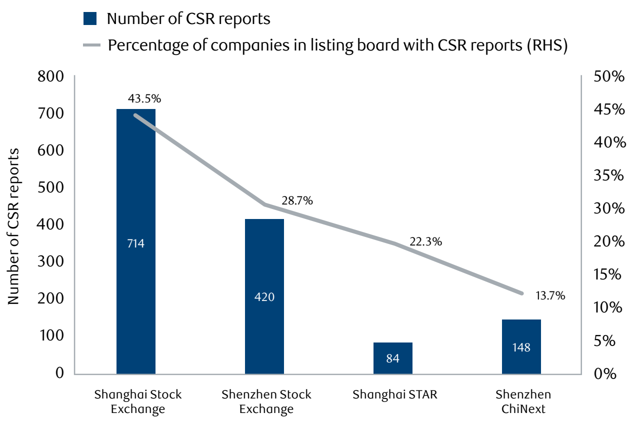
"The level of ESG disclosure of Chinese A-share listed companies has continued to improve over the last five years."

Exhibit 6: Disclosure of CSR reports by A-share listed Chinese companies



Source: Nankai University Green Governance Database.
Data as at April 2022.

Exhibit 7: Number of CSR reports and the percentage of companies in listing board with CSR reports



Source: Nankai University Green Governance Database.
Data as at April 2022.

Looking at ESG disclosure by listing board, the highest number of CSR report releases came from the Shanghai Stock Exchange, with 43.5% of companies disclosing CSR reports. This is followed by the Shenzhen Stock Exchange board, the Shanghai Science and Technology Innovation Board (Shanghai STAR) and finally the Shenzhen ChiNext (Exhibit 7).

Looking ahead, it is probable that we will see a further increase in the number of companies producing CSR reports in China. In June 2022, the first China-focused ESG disclosure standard was introduced in the country. The guidance is comprehensive and covers 118 ESG metrics across topics such as climate change, governance mechanisms, labour rights and resource consumption. The guidelines were developed in compliance with China's existing domestic regulation, which should ensure that they are relevant for Chinese-listed companies. For now, the guidelines are voluntary, however, it is promising to see China increasingly focus on reforming its ESG disclosure.

[6] China Association for Public Companies.

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