Over the past 20 years notably due to pressure exerted by sustainability investors and other corporate stakeholders, ESG standards for companies in developed markets have progressively moved towards environmental sustainability, this process is in a very early stage and is driven by an increasingly informal infrastructure. Therefore from a development perspective, applying identical standards for benchmarking of emerging and developed market companies can prove ineffective.

Emerging markets constitute tomorrow’s markets for goods and services and carry huge business opportunities. However, ecological and social challenges caused by unsustainable growth are now to be faced. Through capital markets, investors can aid the shift towards sustainable development and have an important economic steering effect.

As highlighted by the International Finance Corporation, “the investment case in emerging market economies is complex to understand in light of emerging market countries’ characteristics. Where not all the variables are captured in the current stock-based 

In emerging market economies, this pressure remains, however, a vague and evolving one. The most important institutions (e.g. international environmental organizations, local governments, etc.) are not yet fully involved in the formulation of the environmental regulatory infrastructure, as well as in the liberalization and internationalization of capital flows and products. Moving towards sustainable development requires the use of relevant and meaningful corporate performance indicators.

Emerging market economies all important economic powershouses with strong regional and global influences. The last decade, the growth rates of emerging markets have been volatile. The recent financial crisis added further volatility and uncertainty to emerging market economies.

By investing in emerging market economies investors can act as important catalysts for sustainable economic growth. Investors might find it relatively easier to engage with emerging market companies. Investors might find it relatively easier to engage with emerging market companies. These companies have an important advantage when combining the conditions in developed countries. According to the United Nations, historically the term “emerging market economies” appeared during the period of stock market expansion in the 1970s to describe the rapid growth in certain developing countries. The definition includes nations with a rapidly growing middle class, as well as nations that have high growth rates.

CONCLUSION

With leading emerging market companies performing well enough to be part of traditional global investment portfolios, there is a growing momentum toward investing in emerging market economies and scrutinizing firms about the level of ESG integration in their business practices.

This sector report has been compiled by:

Eurosif, the Emerging Markets Report Steering Committee:

La Ruche

4 REGIONS

AFRICA & MIDDLE EAST

#companies: 125

Share in Index: 10%<br>

AMERICA

#companies: 125

Share in Index: 23.8%

ASIA

#companies: 75

Share in Index: 10%

EASTERN EUROPE

#companies: 75

Share in Index: 55.8%

LA TROBE BUSINESS SCHOOL - CHINA EMERGING MARKETS RESEARCH INSTITUTE - EMERGING MARKETS THAI BUSINESS SCHOOL - TARTU UNIVERSITY - UNIVERSITY OF ARIZONA - UNIVERSITY OF CHICAGO - UNIVERSITY OF LEEDS - YALE UNIVERSITY

EMERGING ECONOMIES – BIG POWERHOUSES WITH LARGE POTENTIAL


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Latin America

#companies: 125

Share in Index: 23.8%

Emerging economies are the most dynamic and promising ones in global economic development. As a result, the term “emerging market economies” appeared during the period of stock market expansion in the 1970s to describe the rapid growth in certain developing countries. The definition includes nations with a rapidly growing middle class, as well as nations that have high growth rates.

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Views from an Indian ESG research agency

"Change is the only constant." In such a dynamic and fluid environment, quick decision-making is critical to the success of any business. However, in emerging market economies, this pressure remains, however, a vague and evolving one. The most important institutions (e.g. international environmental organizations, local governments, etc.) are not yet fully involved in the formulation of the environmental regulatory infrastructure. Therefore, from a development perspective, applying identical standards for benchmarking of emerging and developed market companies can prove ineffective.

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The lack of sustainability integration by emerging market companies that is often seen as a barrier to investment in such regions is less common. However, a lack of institutional infrastructure and regulatory frameworks can result in limited opportunities for investors to engage with emerging market companies. As a result, there are no clear guidelines for investors to follow when investing in emerging market economies.

As highlighted by the International Finance Corporation, “the investment case in emerging market economies is complex to understand in light of emerging market countries’ characteristics. Where not all the variables are captured in the current stock-based

In emerging market economies, this pressure remains, however, a vague and evolving one. The most important institutions (e.g. international environmental organizations, local governments, etc.) are not yet fully involved in the formulation of the environmental regulatory infrastructure, as well as in the liberalization and internationalization of capital flows and products. Moving towards sustainable development requires the use of relevant and meaningful corporate performance indicators.

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Historically the term “emerging market economies” appeared during the period of stock market expansion in the 1970s to describe the rapid growth in certain developing countries. The definition includes nations with a rapidly growing middle class, as well as nations that have high growth rates.
The average degree of ESG integration in emerging markets has improved over the past years but remains, on average, below the standard global average. Companies in emerging markets can lag in adopting market products if they are able to anticipate these trends and position their products accordingly.

Investors who are willing to take advantage of the economic growth and direct capital towards more sustainable businesses in emerging market regions need to understand how local companies manage sustainability challenges in around 90 countries that are expected to become large consuming economies in the future. Resource exploitation and consumption patterns in emerging markets are becoming more critical as the world population grows. The following chart shows the degree of ESG integration in developed and emerging market regions. Companies in Europe are, on average, better positioned in ESG integration. Emerging market regions, such as South America and India, lag behind in terms of environmental and social issues. Investors who are willing to invest in emerging markets need to understand how local companies manage sustainability challenges in about 90 countries that are expected to become large consuming economies in the future. Resource exploitation and consumption patterns in emerging markets are becoming more critical as the world population grows.

Corporate Disclosure and Sustainability

The level of corporate disclosure on sustainability issues in emerging markets has improved over the past years but remains, on average, below the standard global average. Companies in emerging markets can lag in adopting market products if they are able to anticipate these trends and position their products accordingly. In public reporting, such proper developments when it comes to external verification or the adoption of market standards.ickle countries have a better sustainability track record. The implementation of a comprehensive code of conduct for companies in emerging markets is ongoing. IFC/World Bank has experienced a similar development through the creation of the original index on sustainability performance. In this context, investors have a prominent role to play as they are expected to account for the largest increase in resource demand.

Investors can mitigate some of the shortcomings of the current crisis that has halted economic growth by focusing on companies with strong sustainability performance. In the survey, only 29% took part in the reporting initiative. Some Chinese companies underperform significantly in this area, with below average performance indicators. In general, the picture is mixed. Chinese companies tend to underperform in terms of disclosure on environmental data. For example, most of the top-tier firms in China have a very low level of disclosure on ESG performance. In this context, investors have an opportunity to influence companies to improve their sustainability performance. The following chart shows the degree of ESG integration in developed and emerging market regions. Companies in Europe are, on average, better positioned in ESG integration. Emerging market regions, such as South America and India, lag behind in terms of environmental and social issues. Investors who are willing to invest in emerging markets need to understand how local companies manage sustainability challenges in about 90 countries that are expected to become large consuming economies in the future. Resource exploitation and consumption patterns in emerging markets are becoming more critical as the world population grows.

Environmental Issues

On average, 80% of emerging market companies report environmental commitments in the form of policies or guidelines. They remain active in implementation and progress tracking. Again, South African companies are ahead of their peers when it comes to environmental issues, especially in terms of sustainability performance and therefore contribute to the economic success of emerging market regions.Governance in such countries is often characterized by a culture of information and openness, and emerging market companies are progressively aligning with the Anglo-Saxon business culture and an early adoption of corporate governance models.

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Governance Issues

Governance structures and practices are important elements that investors should consider when assessing emerging market investment opportunities. Governance in such countries is often characterized by a culture of information and openness, and emerging market companies are progressively aligning with the Anglo-Saxon business culture and an early adoption of corporate governance models.

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Environmental and Social Trends in Emerging Market Economies

Rapid growth in emerging markets does not only carry social progress but also environmental challenges. Economic development and urbanization impact the environment and natural resources, often significantly. In turn, environmental degradation exacerbates social problems, such as poverty and inequality. For instance, pollution from industrial activities, deforestation, and land degradation can lead to health issues and forced migration.

In many emerging market countries, the pace of economic growth has outpaced the development of environmental and social regulations. This has resulted in a lack of transparency and accountability in corporate behavior. Investors, governments, and civil society organizations are increasingly calling for greater disclosure and alignment with international standards.

Corporate Disclosure and Sustainability

The level of corporate disclosure and sustainability integration in emerging markets has improved over the past years but remains, on average, lower than in developed countries. Companies in emerging markets are underreporting material sustainability issues, which nearly 9 out of 10 companies in the emerging market sample provide some sort of overview or disclosure of their sustainability practices. The level of external reporting in emerging markets is generally lower than in developed markets. However, emerging market companies are proportionately satisfying as well as developed market peers in terms of ESG transparency and aligning with best practices.

The following chart shows the degree of ESG integration in developed and emerging market regions. Companies in Europe are, on average, better positioned in ESG integration. Among emerging market regions, South Asia and Latin American companies tend to be the most advanced in ESG issues.

Environmental Issues

On average, 80% of emerging market companies report environmental achievements in the form of policies or initiatives. They remain modest on implementation and progress tracking. Again, African companies tend to report less environmental issues than their emerging market peers and often provide less environmental strategies and outcomes in their financial reports. The main reasons for limited sustainability reporting are, on the key topics of climate change, emerging market companies report less than one-third of the economic data included in the survey; only 60% of companies report initiatives to reduce carbon emissions. However, emerging market companies report more progress than developed market peers on sustainability performance. Chinese companies underperform significantly in this area, with below average performance on carbon disclosure and sustainability reporting. In contrast, Latin American companies report more progress on sustainability issues, with Brazil leading the way in terms of sustainability reporting.}

Goverance Issues

Governance structures and practices are important factors that contribute to the performance of emerging market companies. Some investors consider the most important criteria when assessing emerging market companies is the level of transparency and accountability of corporate management. Emerging market companies often differ in terms of corporate governance structures, executive compensation, and board composition. Many companies lack independent and diverse boards, and there is limited disclosure of executive compensation, particularly in the areas of remuneration, shareholding, and governance practices. These factors can impact the overall performance and sustainability of emerging market companies.

In summary, emerging market companies face significant challenges in terms of environmental and social sustainability. However, there is growing interest and pressure from investors, governments, and civil society organizations to improve corporate disclosure and alignment with international standards. This requires a collective effort to develop more sustainable business models and practices.
ENVIRONMENTAL AND SOCIAL TRENDS IN EMERGING MARKET ECONOMIES

Resource exploitation and consumption patterns in emerging markets create environmental and social pressures on their resource bases. In some cases, this is because of the need for increasing national sustainable social and economic outcomes.

Rapid growth in emerging markets does not equate easily to environmental and social sustainability. Even countries that have made genuine efforts towards sustainability do so with significant challenges and limitations.

The integration for a company in this emerging market sample reaches 62%. The average degree of ESG transparency in emerging market regions is likely to grow, particularly in fast-growing countries like China and India, which have a growing middle class. However, there are still significant differences between developed and emerging market regions.

Investor relations will be required in order to meet the needs of a growing shareholder base. A significant portion of emerging market countries are emerging from the recent financial crisis and the road to recovery is still challenging. The need for corporate disclosure on sustainability issues by key corporate stakeholders (stock exchanges, governments, actors, analysts, NGOs, consultants) is likely to remain.

The following chart demonstrates the degree of ESG integration in developed and emerging market regions. Companies in Europe are, on average, better positioned in ESG integration than their emerging market peers and have often implemented sustainability policies in the past. Many emerging market countries, however, are beginning to recognize the importance of sustainability integration.

Corporate Disclosure on Sustainability

The level of corporate disclosure on sustainability in emerging markets has improved over the past years but remains, on average, below the standards implemented in developed countries. The level of corporate disclosure in the emerging market sample is compared with the standards implemented in the developed market sample from around the world.

The average level of corporate disclosure on sustainability issues is higher in developed market regions than in emerging market regions. The degree of corporate disclosure is significantly higher in developed market regions, particularly in North America and Europe, where companies are mandated to disclose sustainability information. In emerging market regions, companies are expected to voluntarily disclose information on sustainability issues.

There are many social factors that can influence corporate sustainability performance and therefore contribute to the economic and social sustainability of emerging market regions. These factors include the availability of environmental and social data, the level of corporate and government commitment, and the role of external stakeholders.

Corporate Governance

Governance issues are important for the development of emerging market regions. The role of external stakeholders in the governance of emerging market companies is critical for the development of sustainable business models and the achievement of long-term social and environmental goals.

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EMERGING ECONOMIES – BIG POWERHOUSES WITH LARGE POTENTIAL

Emerging market economies have become important economic powerhouses within and among the major regions of the world. For the investor, emerging markets offer a dynamic and fluid environment. While some of the countries are relatively stable and well managed, others are vulnerable to significant political and economic shocks. This makes emerging markets a challenging investment environment. Despite these challenges, emerging market economies have shown strong growth in recent years and are expected to continue to grow at a faster pace than developed markets in the coming years. This growth is driven by a number of factors, including population growth, urbanization, and increasing disposable income.

Over the past 20 years, the rapid growth in emerging market economies has led to a significant increase in the number of listed companies in emerging markets. According to the World Bank, the number of listed companies in emerging markets increased from less than 1,000 in 1980 to more than 10,000 in 2018. This growth has been driven by a number of factors, including the increasing number of emerging markets, the rise of emerging market economies, and the growing importance of emerging markets in the global economy.

EMERGING MARKETS

This paper provides an overview of global and corporate sustainability trends in Emerging Markets and describes Environmental, Social and Governance (ESG) risks and opportunities for investors in emerging markets.
Emerging economies constitute tomorrow's markets for goods and services and carry huge business opportunities. However, ecological and societal concerns caused by unsustainable corporate practices (such as pollution, overexploitation of natural resources, environmental pollution) are driving companies to increasingly integrate sustainability concerns into their corporate strategies.

With rising environmental and social expectations, companies are forced to change their business strategies. This is particularly true in emerging market economies, where sustainability issues are playing a crucial role in determining market success. The rapid growth in emerging markets means it is no cliché that emerging market economies are going to lose are either facing stiffer competition in over-regulated, over-polluting and over-exploitative markets or in relative terms, growing at a slower rate.

In such scenarios, companies are increasingly being evaluated on their performance in these areas, and sustainability is becoming a key parameter for assessing a company's overall performance.

Another important aspect of sustainability is the rapid development of local capacities to empower and connect key stakeholders in emerging market economies. The current context favors investment in emerging markets due to the following:

- The rapid growth in emerging markets means it is no cliché that “climate is the only option.” In a dynamic and fast-operating context, companies cannot take their markets for granted or operate with the same rules that work in relatively stable developed markets for mature companies, especially given that many emerging market economies are going to see an increase in business activity as a result of increasing business opportunities and economic growth.

- The current context fosters investment in emerging market economies due to the following practices that are rapidly moving towards a sustainable future.

- Participation in collaborative networks (UN-PRI) and facilitating the development of local capacities to empower and connect key stakeholders.

Despite the rapid growth in emerging market economies, the recent financial crisis has highlighted the importance of sustainability in today’s business environment. The recent economic downturn has shown that companies that have been pursuing sustainable development and have an important economic steering effect.

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