

EMERGING MARKETS

Championing sustainability reporting

Poor ESG disclosure is proving a drag on responsible investment into emerging markets. **Lauren Compere**, **Mike Lombardo** and **Peter DeSimone** explain how an investor initiative is aiming to improve reporting

Sustainability reporting plays an important role in helping investors determine which companies are best positioned to deliver strong long-term returns. However, while a growing number of companies understand that effective management of sustainability challenges and opportunities can contribute directly to financial success, few are issuing comprehensive sustainability reports. This is especially true in most emerging markets, where investors are placing more money than ever before.

The Emerging Markets Disclosure Project (EMDP), an international initiative to improve corporate environmental, social and governance (ESG or sustainability) reporting, aims to change the *status quo*. It has set up country teams in six markets and issued a renewed call to action last month to involve additional investors in its efforts to engage companies on the ESG disclosure issue.

According to a joint International Finance Corporation (IFC)/Mercer report in 2009, sustainable investment assets under management in emerging markets have exploded to more than \$300 billion. With this tremendous growth has also come greater demand from investors for sustainability disclosures from emerging market companies.

Shortly after the idea for joint work on emerging markets disclosure was proposed by Calvert Investments, at a conference organised by the UN-backed Principles for Responsible Investment (PRI) in July 2007, the project quickly became an informal, collaborative effort by a number of international global investors and ESG research firms. The structure of the EMDP has since evolved and is now under the leadership of a steering committee comprising representatives from the US Social Investment Forum (SIF) staff and members Boston Common Asset Management and Calvert Investments, with technical advisory support from the Global Reporting Initiative (GRI) and the PRI. SIF is the secretariat for the EMDP.

The EMDP has unfolded in three distinct phases. The first involved research to assess the state of corporate ESG disclosure in emerging markets. In January 2008, the groups released the first benchmark report, *Sustainability Reporting in Emerging Markets: An analysis of selected sectors of*

seven emerging market countries. The report assessed ESG disclosure in 75 companies across three sectors – energy, materials and telecommunications – in China, India, Taiwan, South Africa, Brazil, South Korea and Russia. It found that, although a significant number of emerging market companies have begun to report on ESG issues, the practice is not yet widespread and most reports do not conform to a global standard. Brazil and South Africa exhibited some of the best sustainability reporting and overall transparency practices, while firms in China and India lagged.

Two follow-up EMDP reports yielded similar results. A 2009 joint SIF-UN Conference on Trade and Development (UNCTAD) report, *Corporate Sustainability Disclosure in Emerging Markets*, found that only 14 of the 100 largest emerging market companies analysed reported in accordance with the GRI's guidelines, and only 30% of the companies offered climate-related information.

During phase two, the participants created a sign-on statement for investors to declare their support for the EMDP. The Investor Statement on Sustainability Reporting in Emerging Markets urges companies to publish sustainability reports using GRI's third generation 'G3' guidelines, the most widely used sustainability reporting standard worldwide. EMDP originally launched the sign-on statement in March 2008 and, by June 2008, there were 28 global institutional investor signatories, representing almost \$1 trillion in assets under management, as well as 15 affiliated supporters, including research organisations and civil society groups. In early 2009, EMDP also commissioned an investor survey report to quantify the volume of responsible investments in emerging markets and the key challenges and opportunities this particular group of investors face. EMDP recently issued a renewed call to investors to sign on to the statement¹.

In preparation for its third phase, the EMDP has formed teams in six countries – Brazil, China, India, Indonesia, South Africa and South Korea – all with local participants with expertise on sustainability issues. It hopes to add more participants and country teams as the project grows.

The country teams have devised individual work plans tailored to their specific markets. For example, the Brazil team is led by PREVI (Caixa de Previdência dos Funcionários do Banco do Brasil) and consists of members of the PRI's local



Buying into growth – but the corporate picture is often murky

network in Brazil. It plans to engage the worst performing companies in Brazil's IBrX index, one of the main local market indexes.

The South Africa team – comprised of Calvert Investments, Element Investment Managers, the South African Government Employees Pension Fund, RiskMetrics Group and the PRI – has set a higher bar for engagement. Since South African companies were the most likely among the project countries to produce sustainability reports and to use the GRI guidelines, the South Africa team will target companies that were not included in the Johannesburg Stock Exchange's socially responsible investment index, that are not addressing significant sustainability controversies or did not respond to the Carbon Disclosure Project's latest survey.

In China, EMDP participants are working with the PRI to identify local stakeholders, and teams in India, Indonesia and South Korea are wrapping up their benchmark assessments and are beginning to choose their first corporate targets.

EMDP participants are seeking greater corporate ESG disclosure because sustainability performance data is critical to investors for evaluating a company's financial health and risk management. This information augments financial analysis by indicating material risks, potential liabilities and business opportunities that are often overlooked by general accounting standards. Furthermore, ESG issues management can be used as a proxy for a company's overall management quality, competitive positioning in face of mounting sustainability challenges, and growth potential. In the absence of regulation requiring comprehensive disclosure, it is critical that investors band together to persuade more companies to produce sustainability reports. ■

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Further information on the EMDP can be found at: <http://socialinvest.org/projects/iwgemdp.cfm>

¹ To sign on to the investor statement, please contact Kristin Lang at +1 202 872 5347 or klang@socialinvest.org