British International Investment

at COP27

Emerging Economies Climate Report

2022

Introduction

The climate emergency is having a significant impact on communities all around the world, especially those living in Africa and Asia. A recent report from the UN's Intergovernmental Panel on Climate Change (IPCC) said that 40 per cent of the world's population is now 'highly vulnerable' and predicts that future climate risks are even more severe than previously thought.

Developing countries – which are least responsible for causing climate change but among the most vulnerable to its impacts – will feel the brunt of the climate crisis. And many people living in these regions are already being affected. This year, for example, we have seen severe droughts on both sides of the African continent, extreme rainfall in South Africa and devastating floods in Pakistan. These increasing extreme weather events will expose millions of people to acute food and water insecurity in Africa and South Asia in the years to come.

It is clear we need urgent climate action. Incremental improvements in sustainability will not get us to net-zero and resilient economies. The focus must now be on embracing emerging climate-friendly technologies, and embedding reduced emissions and increased climate resilience into business models and behaviours across all sectors. More financial support has been pledged to help make this a reality. At COP26 in Glasgow, the Climate Finance Delivery Plan was published, which sets out how developed countries will achieve the target of mobilising $100 billion per year to enable developing nations to address the crisis and adapt to its impacts. The UK is playing its part too – it is providing £11.6 billion in climate finance up until the end of 2026.

In the markets where we invest in Africa and Asia, there are huge opportunities to use climate finance for green economic transformation. From clean energy and mobility solutions, to green buildings and new adaptation and resilience technologies, there is huge potential to address the climate crisis in a way that delivers prosperity and supports a just transition to a new, green economy.

Last year, we launched our Emerging Economies Climate Report to try to understand the extent to which the climate emergency is affecting companies, how they are responding and what more can be done to support them as we move to a greener future.

Amal-Lee Amin
Managing Director, Climate, Gender and Advisory

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For questions on this report, please contact us at
enquiries@bii.co.uk

We surveyed senior executives working across our portfolio of companies and funds in Africa and Asia. Questions in the survey were structured around the pillars of the Task Force on Climate-related Financial Disclosures (TCFD), which provides an international framework to help businesses disclose climate-related risks and opportunities.

We found that nearly half of the participants had already experienced an extreme weather event that affected their business, 86 per cent thought that climate change would negatively impact their firms in the decade to come and 94 per cent thought the international community has a duty to support emerging economies respond to climate change.

A year is a long (and critical) time in the climate crisis. Since we published our 2021 report, the scale, urgency and complexity of the challenge have become clearer, as have the tools we need to rise to meet it. So, 12 months on, what has changed for the companies and funds in our portfolio?

The results of this year's research are covered in this report. They show how climate change is becoming an increasingly significant concern for businesses and investors in Africa and Asia, the difficult decisions it is presenting firms and what they need to effectively tackle the crisis:

- 68 per cent of respondents said climate change is affecting their business today.
- Over half of respondents have experienced an extreme weather event (58 per cent) – up from 48 per cent from last year.
- 40 per cent of respondents have been impacted by flooding, while 25 per cent have been affected by drought.
- More than half (56 per cent) thought climate change will affect the viability of their business in the next five years, while 72 per cent were concerned that climate change will impact plans to grow their business or investment portfolio over the next ten years.
- 91 per cent agreed to some extent that organisations that take steps to reduce their carbon emissions and reduce vulnerability to physical climate change risks will be more successful in the long-term – up from 82 per cent last year.
- In comparison to last year, the number of respondents adapting their strategy or financial planning in response to climate change increased from 69 per cent to 73 per cent.
- Nearly half of respondents (48 per cent) are introducing new green or climate-friendly products.
- 92 per cent agreed that better and more targeted investment is needed to reduce emissions and vulnerability.
- Respondents were largely optimistic that COP27 will have a material impact on how countries address climate change.

At COP27, eyes will be on progress and initiatives that are delivering on commitments made under the Paris Agreement and in Glasgow. Critical will be the extent to which emerging markets are benefiting from the global transition to prosperous and green economies.

68%

of respondents said climate change is affecting their business today.

58%

over half of respondents have experienced an extreme weather event – up from 48 per cent last year.

01

How is climate change affecting businesses in emerging economies?

Put simply: climate change is already affecting businesses and firms' lived experiences of climate change appear to be getting worse.

68 per cent said that climate change is impacting them today, while the number of survey participants who have experienced a physical climate change event affecting their business rose from 48 per cent last year to 58 per cent this year (figure 1).

This second statistic is particularly significant as it means more respondents have now been affected by a climate event than have not. We will continue to monitor this trend in future and may see it increase further still. This is because, as we see more climate-attributed extreme weather events, participants will possibly 'feel' affected by them even if the impact is indirect.

68%

of respondents said climate change is affecting their business today.

58%

said they have experienced a physical climate event that had affected their business – up from 48 per cent last year.

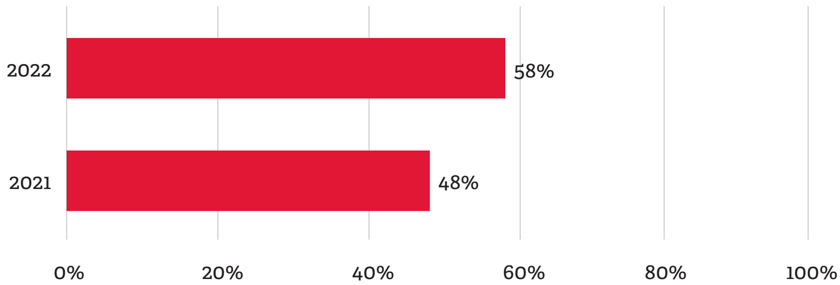


Figure 1: Participants' responses to the question: 'Have you experienced an extreme weather event?'

What types of physical climate events are affecting businesses?

The most frequently reported physical climate event was flooding, where 40 per cent of respondents said they have been affected by it (figure 2). There was a relatively broad split of companies that have experienced flooding, ranging from electric utilities firms, to agricultural companies, banks and real estate businesses.

Drought (25 per cent) was the second most reported physical climate event, with agricultural companies largely the most affected. Zebu Investments, a firm that invests in the food and agriculture sector across Africa, reported that drought is having a significant impact on its portfolio companies. In central Africa, it has affected maize production at one business it invests in, while a pig farming business has seen water shortages damaging crops grown for feed.

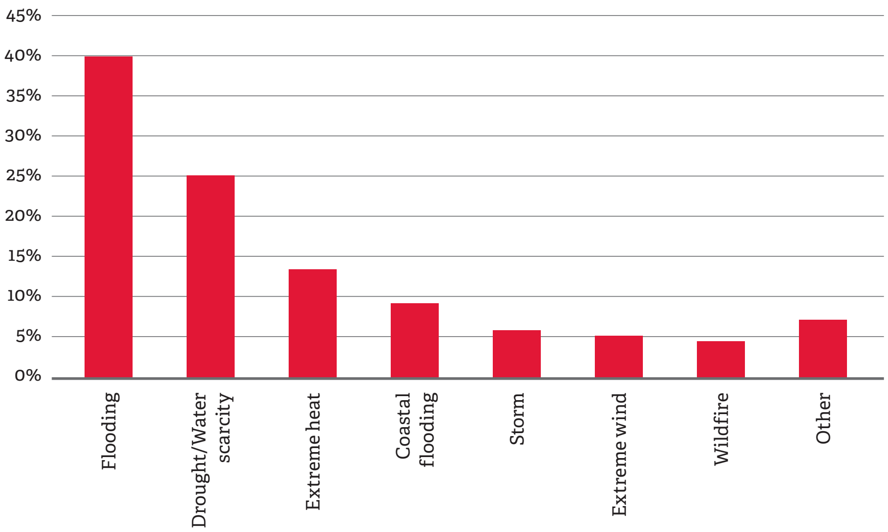


Figure 2: Participants' responses to the question: 'What extreme weather event(s) have you been affected by?' Please note that in response to the question covered in figure 2, participants were able to select more than one option – for example, they could say that they have been affected by both flooding and drought.

When we look at a regional breakdown of how all physical climate events reported have affected respondents in Africa and Asia (figure 3), a similar picture emerges with flooding being the most significant (39 per cent of all physical events in Africa and 45 per cent in Asia).

	Flooding caused by rainfall or river flooding	Flooding (coastal flooding)	Drought/ Water scarcity	Extreme wind	Wildfire	Storm	Extreme heat	Other
Africa	39%	6%	23%	3%	7%	0%	18%	3%
Asia	45%	13%	15%	2%	0%	13%	6%	6%

Figure 3: Participants' responses to the question: 'What extreme weather event(s) have you been affected by?' broken down by region

What areas of the value chain been most affected by climate change?

Respondents were also asked to share what areas of their value chain have been disrupted by physical climate events. They could choose from investments, operations, supply chain and workforce.

Operations were the most frequently disrupted, with 41 per cent of all respondents having experienced physical climate events affecting their operations (figure 4).

Drought is the big threat to crops for us. Capital is required to adapt to climate change to avoid the longer-term financial impact.

Judith Munyurwa, Zebu Investments, pan-Africa

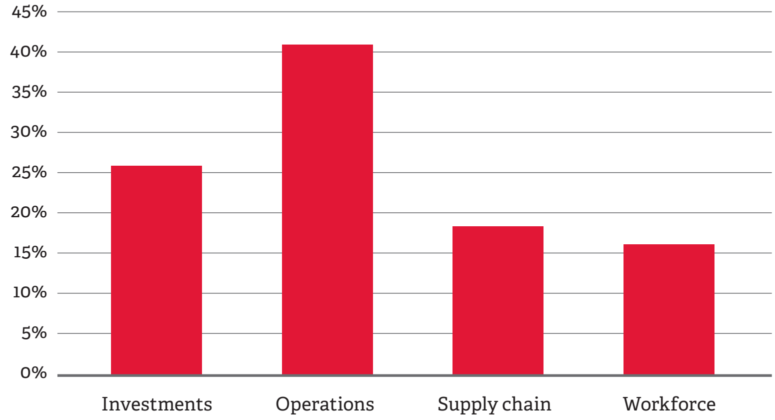


Figure 4: Participants' responses to the question: Which areas of the value chain have been affected by extreme weather events?' Please note that in response to the question covered in figure 4, respondents were able to select more than one option – for example, they could say that an extreme weather event has affected both investments and operations.

In all areas of the value chain, flooding was the most common physical risk stated. However, its financial impact did vary. For example, the financial impact of floods on a business' investments was far greater than on its operations. As shown in figures 5 and 6 the most common cost for investments was greater than $1million in damages but between $10,000 and $50,000 for operations. This implies that most flooding events that affected operations were, in fact, relatively smaller disruptions.

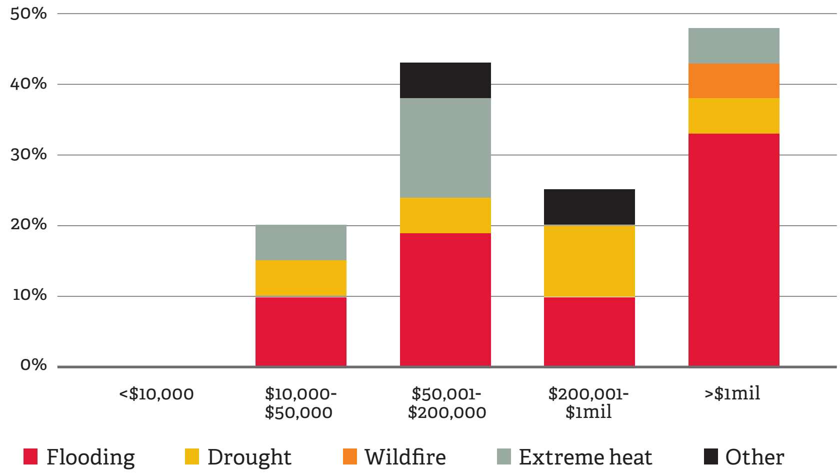


Figure 5: Participants' response to the question: 'What was the financial impact on investments of the extreme weather event(s) you experienced?'

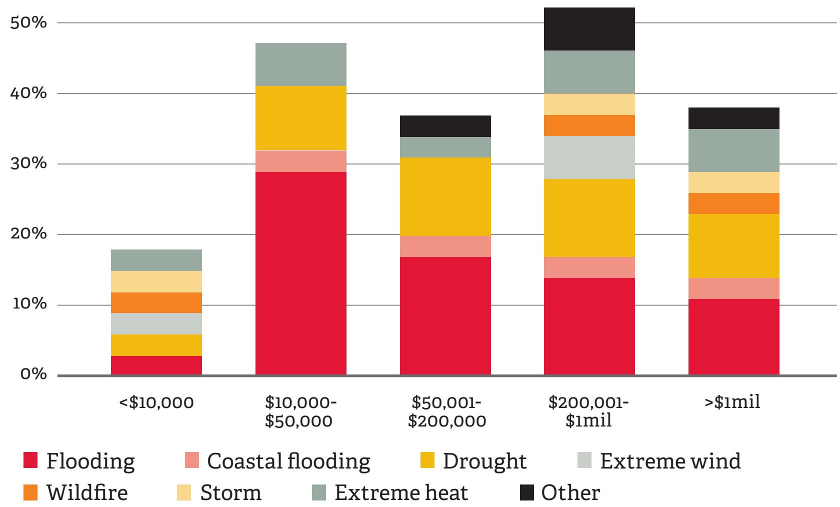


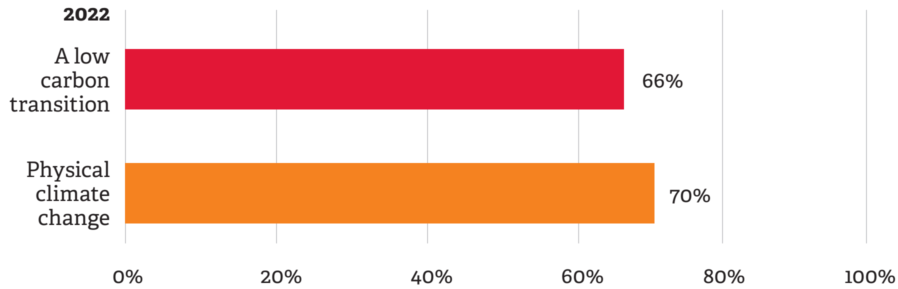
Figure 6: Participants' response to the question: 'What was the financial impact of extreme weather event(s) that have affected operations?'

Concerns about physical and transition risks

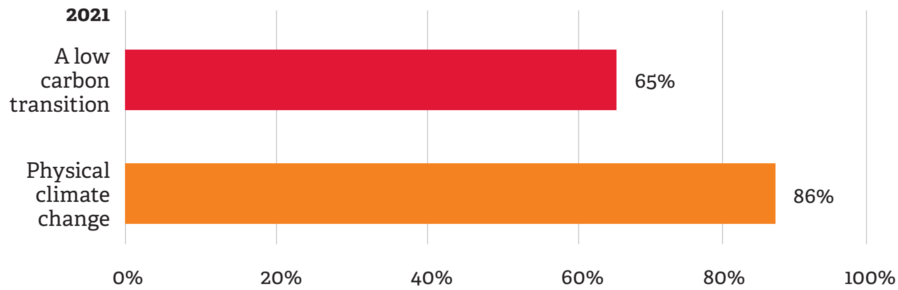
In our 2021 report, 65 per cent of respondents agreed to some extent that they were concerned about the risks associated with a low-carbon transition, and 86 per cent agreed to some extent that they were concerned about the risks associated with physical climate change.

This year, to explore these responses a little deeper, we asked how concerned respondents were about these risks on a scale of 1 to 10. A score of 1 was 'not concerned', 5 was 'somewhat concerned', and 10 was 'extremely concerned'. 70 per cent ranked their concern of physical risks as a 5 or higher, while 66 per cent ranked their concern of transition risks as 5 or higher.

While the change in the wording of the question means we cannot draw comparisons on the absolute change between 2021 and 2022, we can look at concern about physical and transition risks relative to one another (figure 7). While there appeared to be significantly more concern about physical risks in 2021 than transition risks, this has narrowed significantly and now respondents are only slightly more concerned about physical compared to transition risks.



Percentage of participants that ranked their concern of physical and transition risks as a 5 or higher



Percentage of participants that agree that their organisation is concerned with the physical and/or transition risks associated with climate change

Figure 7: Participants' concerns of physical and transition risks in 2021 and 2022

Flooding and drought were ranked joint highest as the physical risks respondents were most concerned about. This is understandable considering these are the two extreme weather events that have affected respondents the most (figure 2).

When it comes to transition risks, respondents were most concerned about market shifts, such as customer demands or preferences changing. When we conducted follow-up interviews with a group of participants, energy security was an additional issue raised. There were concerns among interviewees that problems could come as a result of governments struggling to meet capacity demands, while balancing the need for national determined contribution greenhouse gas reductions under the Paris Agreement.

If we break down concerns about physical risks by region, there is an interesting divergence among respondents based in Africa compared with Asia (figure 8). Over half (52 per cent) of all respondents operating in Asia ranked flooding as the physical risk of most concern. Meanwhile, for respondents in Africa, drought (36 per cent) was ranked highest, with flooding a close second (33 per cent).

70%

said they are at least somewhat concerned about the physical risks related to climate change.

66%

said they are at least somewhat concerned about the risks associated with a transition to a low-carbon economy.

We know that our investments will be hit hard but we are not sure of the direction or financial level of these impacts.

Sandeep Mukherjee, Omnivore Capital, India

While this may be expected for respondents in Asia, it is perhaps surprising for those operating in Africa as their concerns seem to differ from lived experience. When asked how their firms had already been affected by physical climate events (see figure 3), drought only made up 23 per cent of all events on the continent – significantly less than flooding (39 per cent) and only slightly more than extreme heat (18 per cent). It may be the case that the flooding events noted were not seen as impactful, when compared with drought and extreme heat.

	Flooding (from rivers and surface water as a result of more extreme weather events)	Increased drought and water stress	Impact of extreme temperatures on employees and equipment	Extreme wind and storm damage	Increased frequency and severity of wildfires	Sea level rise increasing coastal flooding
Africa	33%	36%	12%	12%	5%	2%
Asia	52%	15%	19%	7%	4%	4%

Figure 8: Participants' responses to the question: 'What do you deem the biggest physical climate risk to your organisation?' broken down by region

The impact of climate change on business growth and viability

For our 2021 report, we asked respondents whether climate change would affect plans to grow their businesses over the next 10 years. 86 per cent agreed, to some extent, that it would.

This year, the scale of the question was expanded to capture just how much participants felt their business' growth would be impacted (figure 9). Overall, 82 per cent ranked their concern above a 5, meaning they are at least somewhat concerned. 21 per cent gave a score between 8 and 10, showing they feel that climate change will substantially impact their businesses growth.

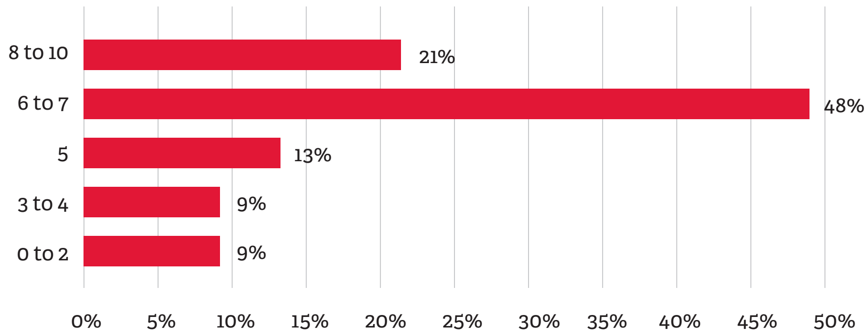


Figure 9: Participants responses to the question: 'On a on a scale of 1 to 10, how much do you think climate change will impact your plans to grow your business (or investment portfolio) over the next 10 years?'

While 82 per cent were concerned about climate change's impact on their plans to grow their businesses, more than half (56 per cent) expressed concern that their firms would be viable at all (figure 10).

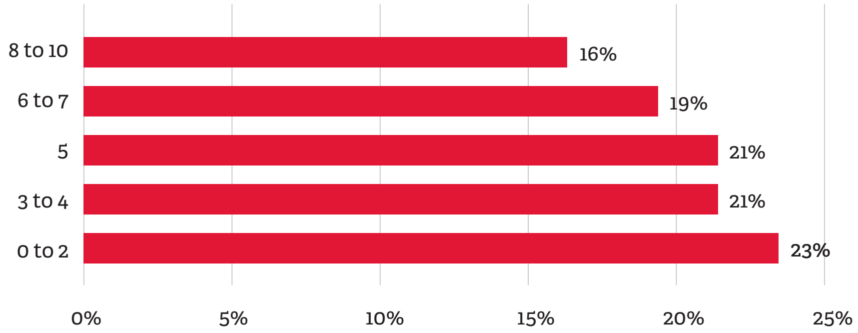


Figure 10: Participants' response to the question: 'On a scale of 1 to 10, how concerned are you that climate change will affect the viability of your business over the next 5 years?'

When we look at the regional breakdown of concerns about business growth and viability, we can see that respondents operating in African countries are generally a little more concerned than those operating in Asian countries.

Nearly three quarters (74 per cent) ranked their concern that it could impact their ability to grow their business greater than 5, indicating that they are more than somewhat concerned. This is compared with 65 per cent for respondents operating in Asia (figure 11).

When it comes to their business' viability, 58 per cent of respondents in Africa said they are more than somewhat concerned (a score of greater than 5) that climate change could impact their organisation's viability, compared with 54 per cent of respondents in Asia (figure 12).

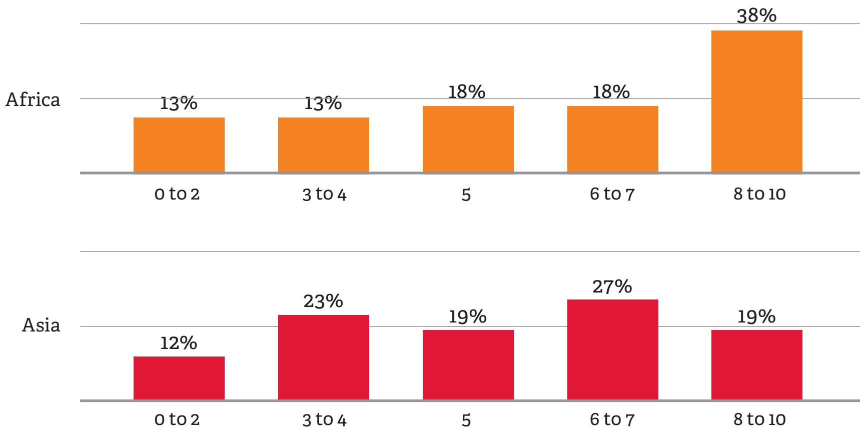


Figure 11: Participants' responses to the question: 'On a scale of 1 to 10, how much do you think climate change will impact your plans to grow your business (or investment portfolio) over the next 10 years? Where 1 is not at all and 10 is substantially'

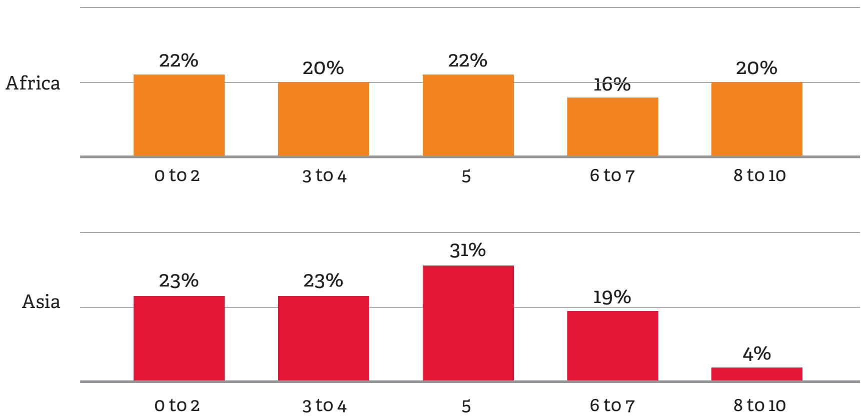


Figure 12: Participants' responses to the question: 'On a scale of 1 to 10, how concerned are you that climate change will affect the viability of your organisation over the next 5 years? Where 1 is not at all and 10 is substantially'

02

How are businesses in emerging economies responding to climate change?

There is clearly a belief among respondents that those who can decarbonise and build resilience to physical climate change are more likely to be successful. 91 per cent agreed to some extent with this statement, up from 82 per cent last year (figure 13).

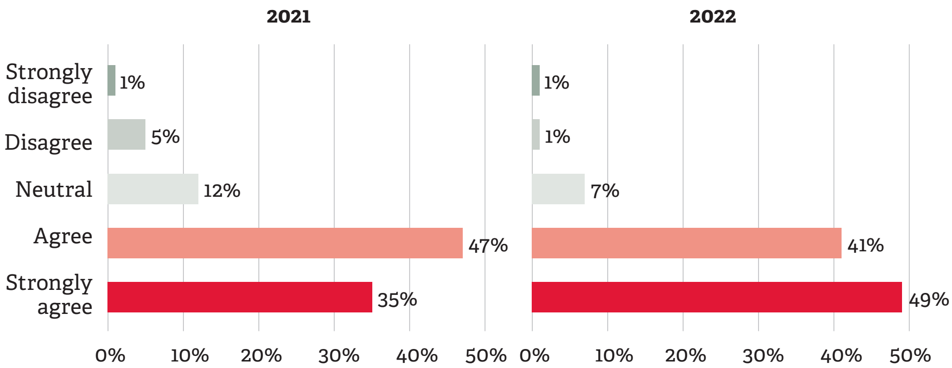


Figure 13: Participants' responses to the question: 'I believe that those organisations that take steps to reduce their carbon emissions and reduce vulnerability to physical climate change risks in the country (or countries) that I work in will be more successful in the long term'

91%

agreed that organisations that reduce their carbon emissions and reduce vulnerability to physical climate change risks will be more successful in the long-term – up from 82 per cent last year.

Impact of climate change on strategy and financial planning

There is also a clear desire to adapt to climate change. In comparison to last year, the number of respondents whose strategy or financial planning was affected by climate change increased from 69 per cent to 73 per cent.

We split up last year's question to ask two separate questions this year and found that climate change was more likely to affect strategy (69 per cent) than financial planning (52 per cent). This is logical, as it is likely that organisations first adopt a strategy before incorporating climate change information into financial metrics.

73%

of respondents said that climate risks and opportunities are influencing their company or fund's strategy and financial planning – up from 69 per cent last year.

Strategy
We found that there are substantial differences in how organisations are adapting their strategies to respond to climate change (figure 14). The most common approach is offering products and services that have less impact on the climate. On the other hand, organisations are also reducing investments in products and services with a greater negative impact on the planet.

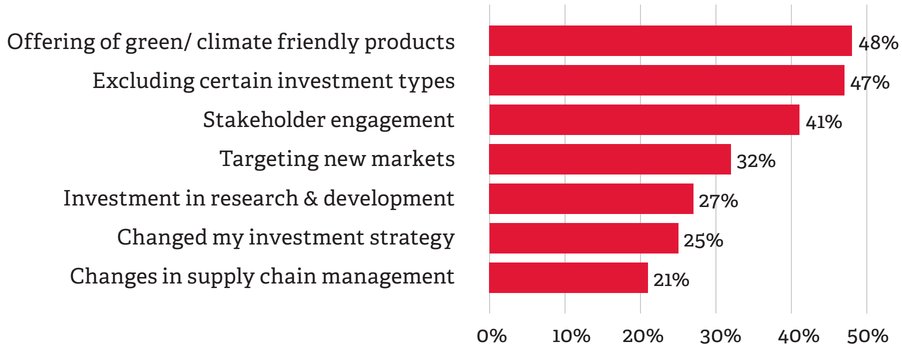


Figure 14: Participants' responses to the question: 'How has climate risk influenced your organisation's strategy?' Please note that in response to the question covered in figure 14, participants were able to select more than one option.

Lok Capital, an investment firm based in India, is launching a new $200 million fund targeting climate investments. Vikram Dileepan, Principal at Lok, said their strategy is focused on adaptation and resilience solutions, as well as emissions reductions: "We are primarily trying to go at it through investing in renewable energy technology enablers, not necessarily infrastructure platforms. So, we are looking at technologies which enable efficiency or productivity of these."

Financial planning
Physical and transition risks are also feeding into businesses' financial planning (figure 15). For example, 36 per cent of respondents said that climate change had affected their access to capital. The survey responses also demonstrated that capital expenditure is key to allowing organisations to adapt and that leading firms are doing this already – with 35 per cent saying climate change had affected their capital expenditure decisions. These organisations are making capital expenditure decisions to improve resilience to physical climate change events, as well as helping to transition to a low-carbon economy.

We are primarily trying to go at it through investing in renewable energy technology enablers, not necessarily infrastructure platforms. So, we are looking at technologies which enable efficiency or productivity of these.

Vikram Dileepan, Lok Capital

35%

of respondents said that climate change had affected their capital expenditure decisions.

As an example, two of the agricultural firms interviewed – Zebu Investments and Sahel Capital – had made capital expenditure investments to adapt to climate change. Zebu Investments has built two dams to allow them to irrigate crops to counter lower maize yields due to worsening drought in Cameroon, and Sahel Capital, a fund manager that operates across sub-Saharan Africa, has invested in a flood defence system to adapt to climate risk. In our survey, we found that other types of firms were more likely to take different action. For example, financial services companies were much more likely to say that climate risk had affected their 'choice of acquisitions and divestments'. Meanwhile, a representative of a bank based in Egypt explained that they are providing financial support and products to help clients manage the physical impacts of climate change on their businesses.

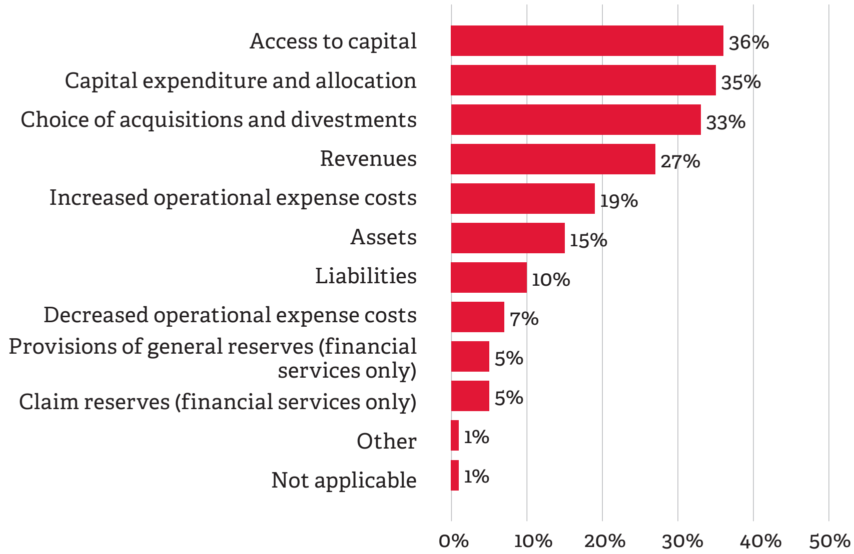


Figure 15: Participants' responses to the question: 'How has climate risk influenced your organisation's planning? Please note that in response to the question covered in figure 15, participants were able to select more than one option.

Asssessing and managing climate risk

There was an increase in those organisations introducing initiatives to make them less vulnerable to the physical risks associated with climate change, with 47 per cent saying they are doing this, up from 39 per cent last year (figure 16).

47%

of respondents said they are actively reducing vulnerability to physical climate risks – up from 39 per cent last year.

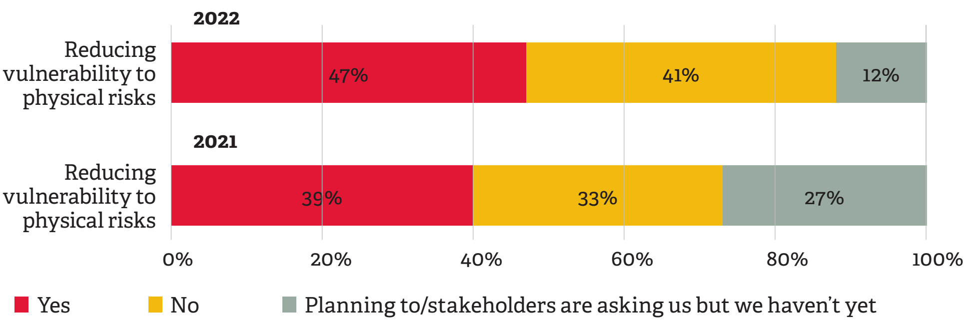


Figure 16: Participants' responses to the question: 'Is your organisation introducing initiatives to your business/portfolio to make it less vulnerable to the physical risks associated with climate change?'

The survey also explored how companies are assessing and managing both physical and transition climate-related risks (figures 17 and 18). In terms of physical risks, primarily companies are integrating climate change into their general risk management process and using this system to assess and manage climate risks. In terms of transition risks, energy security was a significant issue among respondents, and this explains the large percentage of respondents that are investing in renewables (48 per cent) and adopting energy-efficiency measures (41 per cent). We also found that a large proportion, 46 per cent, said that they are reducing the carbon footprint of their products and services.

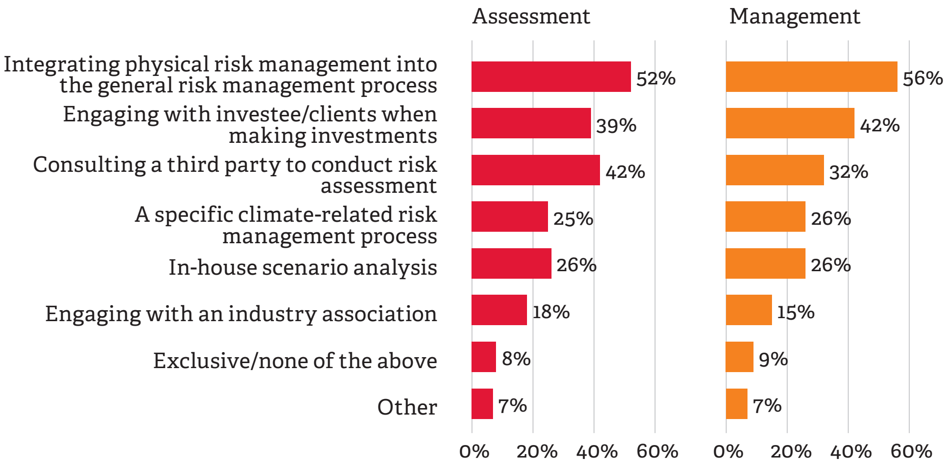


Figure 17: Participants' responses to the question: 'How does your organisation assess and manage physical climate risks?'

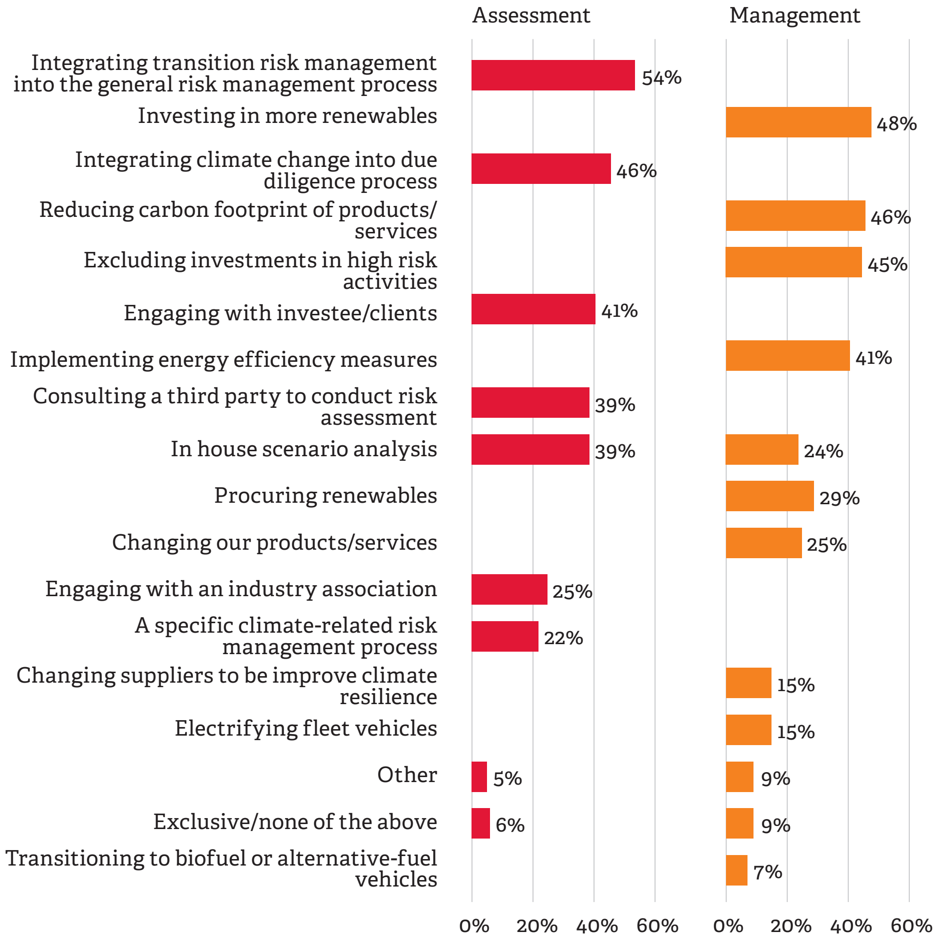


Figure 18: Participants' responses to the question: 'How does your organisation assess and manage transitional climate risks?' Please note, in some instances, participants were able to select both 'assessment' and 'management'

We have seen increases in coastal and river flooding, as well as extreme wind and storm damage. We are integrating risk management to mitigate against these.

Oladele Shekete, Zebu Investments, pan-Africa

Metrics and targets

We also asked respondents about some of the metrics and targets that they have put in place to respond to climate risks (figure 19).

There has been a moderate increase in the number of respondents calculating their carbon footprint (38 per cent this year, up from 33 per cent last year), and a similar increase in respondents planning to do so (34 per cent up from 29 per cent). There has also been a small increase in the number of respondents who have set a greenhouse gas reduction target (13 per cent this year, up from 11 per cent last year).

38%

of respondents said they are calculating their carbon footprint – up from 33 per cent last year.

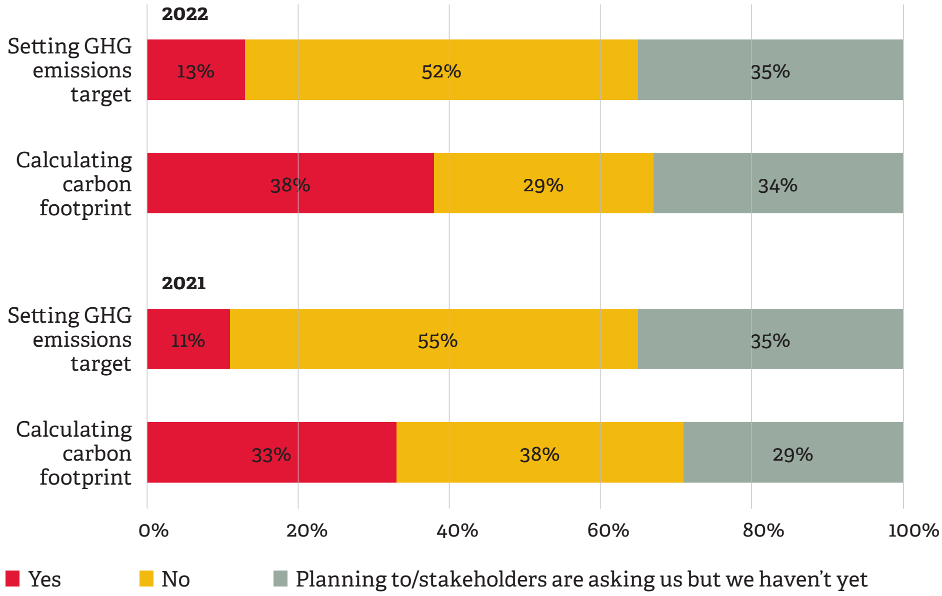


Figure 19: Participants' responses to questions about whether their company/fund is setting a greenhouse gas emissions target or calculating their carbon footprint

03

What do businesses in emerging economies need to effectively tackle climate change?

People living in emerging economies are among the most vulnerable to the effects of climate change but are the least responsible for causing it. And it's clear from our research that respondents want more support in helping address the challenges that the changing climate brings with it.

Respondents overwhelmingly agreed (92 per cent) that better investment is needed to help businesses in emerging economies improve resilience to physical climate change and transition to a low-carbon economy.

Oladele Shekete, Vice President (Investments) at Sahel Capital echoed this sentiment and called for more practical guidance to support it: "British International Investment could help in not just promoting climate actions but in helping implement them in practice, with no 'one-size-fits-all' approach."

On this issue, we asked a similar question in last year's survey, however, there were two notable differences (figure 20). First, we changed the wording to ask whether better investment was needed, as opposed to more. The increased strength of positive sentiment to this question this year may suggest that respondents need more targeted investment. The second change we made was to split the question to compare the support needed to become resilient to physical risks compared to the support needed to transition to net zero. Interestingly, respondents felt the same on average to both physical and transition risks, which has been a theme across the research. For both parts of the question, respondents were asked to rank their answers between 1 (strongly disagree) and 5 (strongly agree).

			1 (strongly disagree) – 5 (strongly agree)
2022	I believe that better investment is needed in the country I work in (or invest in) to help organisations:	become resilient to climate shocks.	4.5
		transition to net-zero carbon emissions	4.5
2021	I believe that more investment is needed in the country I work in (or invest in) to help businesses transition to net-zero carbon emissions and become resilient to climate shocks.		3.7

Figure 20: Participants' responses to questions on the need for climate investment in their countries

92%

agreed that better investment is needed to help businesses in emerging economies improve resilience to physical climate change and transition to a low-carbon economy.

After conducting more in-depth follow-up interviews, we found firms would appreciate more guidance and practical support on moving towards net zero and becoming more resilient to climate risk. Suman Nandy, Operating Partner at Indian investment firm, CX Partners, highlighted this: "I believe there are many ideas that we may not be aware of, which are easy to implement to mitigate climate risks and to go towards net zero. So, I always look forward to getting that knowledge and any best practices from similar industries."

With COP27 taking place in Egypt this year, respondents were asked to rank on a scale of 1 (strongly disagree) to 5 (strongly agree) how optimistic they are about the material impact the conference will have. They were generally optimistic that it could have a positive impact on how the country they operate in responds to climate change, with 58 per cent agreeing or strongly agreeing (figure 21). However, they were less positive that the world could come together to effectively limit its effects – 46 per cent said they were at least somewhat optimistic, down from 49 per cent in 2021 (figure 22). Note that in this year's survey, participants were asked to rank their responses to this question between 1 (very pessimistic) and 10 (very optimistic).

I believe there are many ideas that we may not be aware of, which are easy to implement to mitigate climate risks and to go towards net zero. So, I always look forward to getting that knowledge and any best practices from similar industries.

Suman Nandy, CX Partners, India

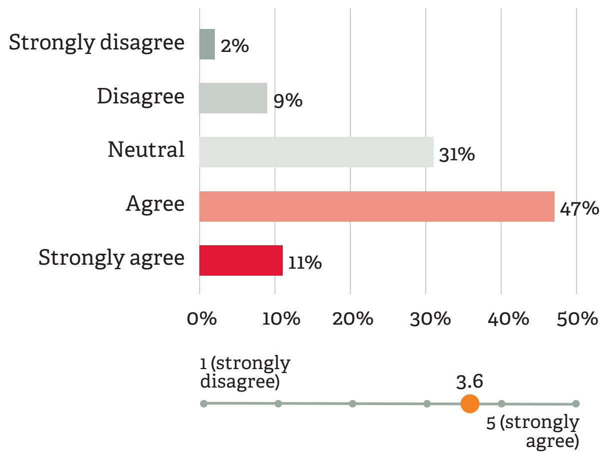


Figure 21: Participants' responses to the statement: 'I believe that decisions taken at COP27 will have a material impact on how the country I work in responds to climate change'

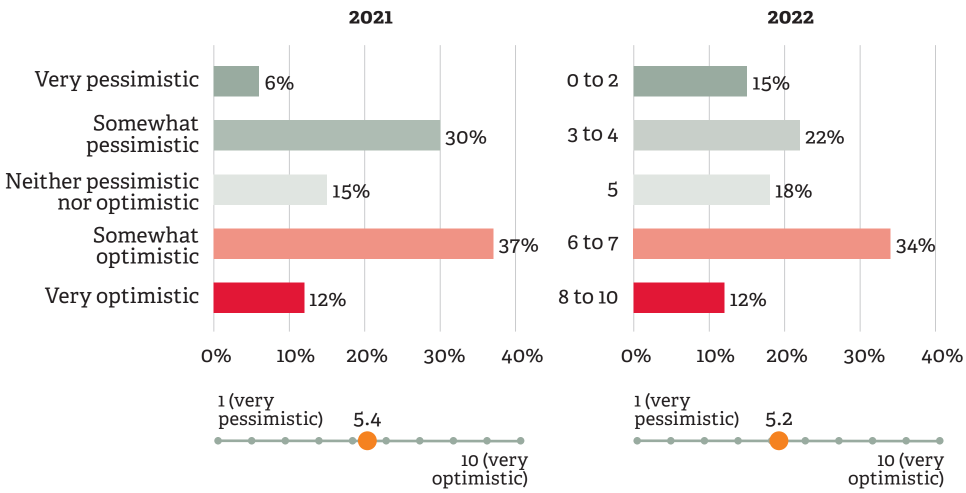


Figure 22: Participants' responses to questions on whether the world will come together effectively to tackle climate change

04

Conclusion

This research, and the comparisons with our findings from last year, demonstrate the significant impact the climate crisis is having on businesses, the ways companies are stepping up their responses and what they need to help them navigate the challenges it brings.

We can see respondents have reported more lived experiences of climate change, reflected in the increase in the underlying number of people who've been affected by extreme weather events, and the increase in concerns about transition risks.

As business leaders gain a clearer picture of the financial risk of the climate crisis, it is resulting in positive action. For example, we saw an increase in the number of companies adapting their financial strategy or planning because of climate change – nearly half of respondents reported that they are offering new climate-friendly products and a similar number are excluding investments that have a negative impact on the planet. We also found increases in the number of businesses taking steps to reduce their vulnerability to the physical effects of climate change, as well as calculating their carbon footprints and setting greenhouse gas emissions targets.

The findings of this research provide guidance on how the positive work already underway can be supported, and how we can accelerate action to meet net-zero by 2050. For investors like us, there are three key takeaways from this research that can inform our climate-focused approach:

- Respondents are looking for capital expenditures to build adaptive capacity and minimise physical climate impacts.
- There is a demand for financial assistance with a transition to low-carbon energy sources, as this also improves energy security.
- Businesses want education and training on the likely impacts of climate change and how they can be mitigated.

We will continue to monitor the views of the companies we invest in, so that our approach supports economic transformation, and a just transition to net-zero and resilient economies, in the best way possible.

About this research

This research was carried out by Anthesis Group on behalf of British International Investment. The questions were designed to compare with our Emerging Economies Climate Report 2021 to gauge sentiment changes from last year. In addition, more detail was asked of respondents relating to specific climate change attributed events in an attempt to capture the lived experience of climate change for business leaders in emerging economies.

We received a total of 85 responses to the survey. 62 of the firms that responded operate in Africa and 31 in Asia. Nine businesses are counted in both of these numbers, as they have operations in both regions.

For further information:

- **British International Investment**

  enquiries@bii.co.uk
  bii.co.uk

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