

Emerging Economies Climate Report 2023



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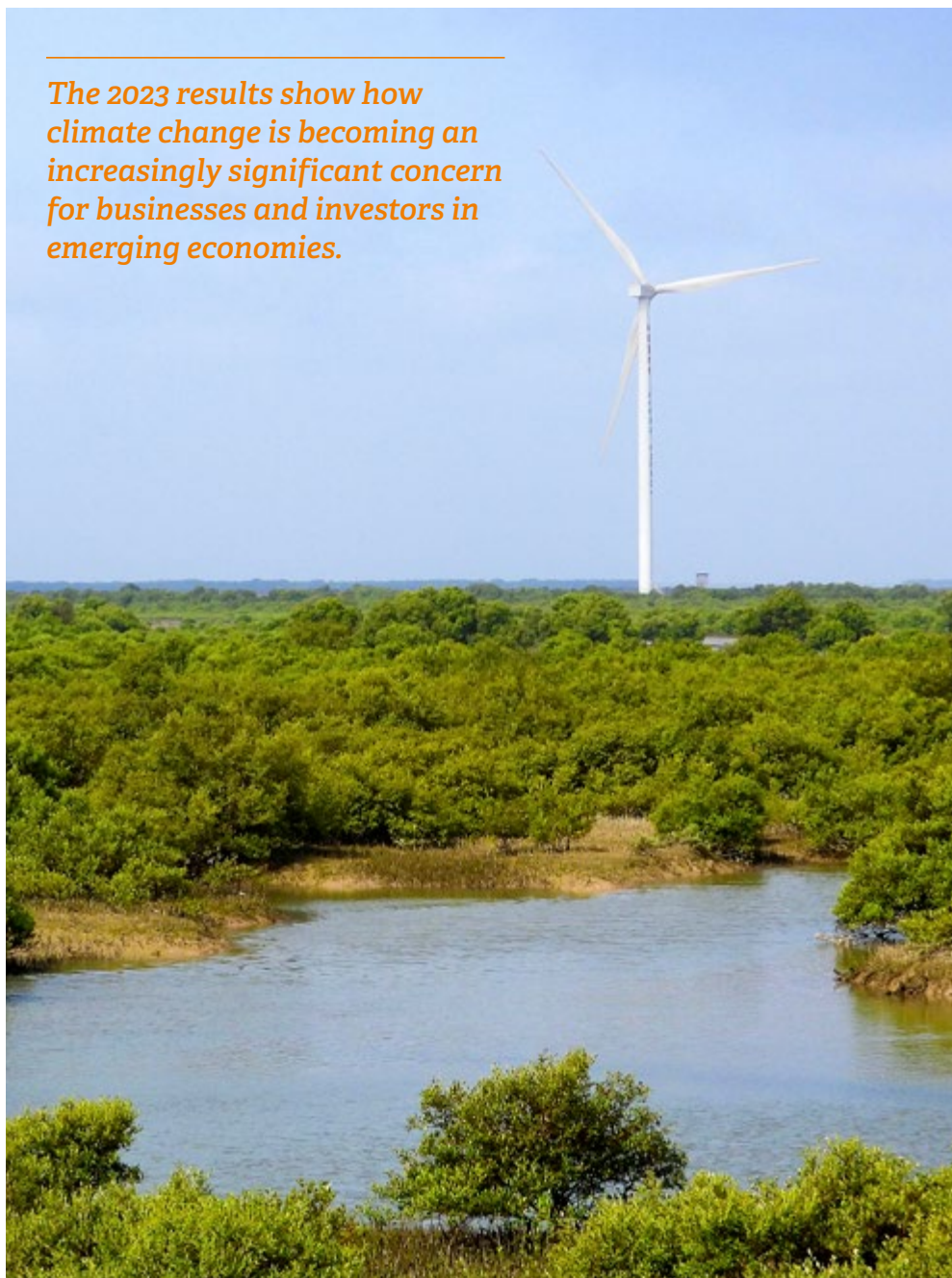
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The 2023 results show how climate change is becoming an increasingly significant concern for businesses and investors in emerging economies.



Introduction

The climate emergency is having a devastating impact on emerging economies. Without decisive action, this will only become more severe as global temperatures rise and as countries transition toward net zero.

At the same time, the technologies and business models driving the net zero and resilient transition are the growth story of the 21st century. The benefits of this green growth have the potential to deliver prosperity to emerging and developed economies alike.

Responding to climate change risks and opportunities requires scale of action. It also requires urgency as global temperatures continue to rise. 2023 was a record-breaking year at 1.48°C above pre-industrial levels.

Emerging economies are among the nations most exposed to and the least prepared for the effects of climate change. This is particularly the case across Africa, South and South-East Asia, and the Caribbean, where we invest.

Our Emerging Economies Climate Report, first published in 2021, aims to show how the climate emergency is affecting companies, how they are responding, and how investors can better support companies as we move together to a greener future.

The report provides an annual source of insights and data for investors. At British International Investment (BII), it helps us work together with our portfolio to address climate-related risks and maximise opportunities in emerging markets.

This year we once again surveyed senior executives working across our portfolio of companies and funds in Africa, Asia, and the Caribbean (further information about the survey can be found in the appendix).

Since we published our 2022 report, the challenges that climate change presents have become clearer, as have the approaches we need to take to meet these challenges. So, 12 months on, what has changed for the companies and funds in our portfolio?

The 2023 results show a broad increase in the impacts of climate change relative to 2022. They show how climate change is becoming an increasingly significant concern for businesses and investors in emerging economies. They also highlight the difficult decisions climate change is presenting firms, as well as what they need to effectively manage climate risks and realise potential opportunities of the transition.

Key insights

- **Climate change is impacting more firms.**

79 per cent of respondents said climate change is impacting their organisation today, an increase from 68 per cent in 2022.

- **A majority of respondents have experienced acute physical risks.**

59 per cent of respondents have experienced an extreme weather event (for respondents specifically from corporates, this figure rose to 72 per cent).

- **Flooding, drought, and heat are the top physical risks.**

- **Concerns about climate-related risks have increased.**

87 per cent of respondents agreed to some extent that they were concerned about physical climate risks – up from 70 per cent in 2022.

73 per cent of respondents agreed to some extent that they were concerned about the risks associated with a low-carbon transition – up from 66 per cent in 2022.

- **More respondents are concerned about climate change affecting business growth and viability.**

61 per cent thought climate change will affect the viability and growth of their business in the next five years. In our 2022 survey, 56 per cent thought climate change would affect the viability of their firm in the next five years.

- **More respondents agree that climate action leads to more long-term business success.**

97 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 91 per cent last year.



79%

of respondents said climate change is impacting their organisation today, an increase from 68 per cent in 2022.

65%

of respondents have adapted their business strategy in response to climate change.

■ Most respondents have adapted their business strategy in response to climate change.

65 per cent have adapted their business strategy and 47 per cent have adapted their financial planning in response to climate change – down slightly from 69 per cent and 52 per cent in 2022, respectively.

The most common strategic approaches are to exclude certain investment types or to offer green or climate-friendly products.

■ And an increasing number plan to adapt their business strategy.

Although there is a slight decrease in those who have actually adapted their business strategy compared with last year, more are planning to do so.

17 per cent have plans to adapt their strategy in response to climate change, up from 2 per cent in 2022.

47%

have adapted their financial planning in response to climate change.

■ More respondents are calculating their carbon footprint.

45 per cent of respondents are calculating their carbon footprint, up from 38 per cent in 2022.

Of these respondents, 23 per cent have set GHG emissions reduction targets.

■ Almost all respondents agree that targeted investment is needed to reduce climate exposure.

98 per cent of respondents think better investment is needed to help transition to net zero or become more climate resilient, up from 92 per cent in 2022.

Our report explores these findings in more detail. Section 1 focuses on how climate change is impacting businesses. Section 2 explores how businesses are responding, and Section 3 provides an update on what businesses need to better manage the risks and seize the opportunities they face.



01

How is climate change impacting businesses in emerging economies?

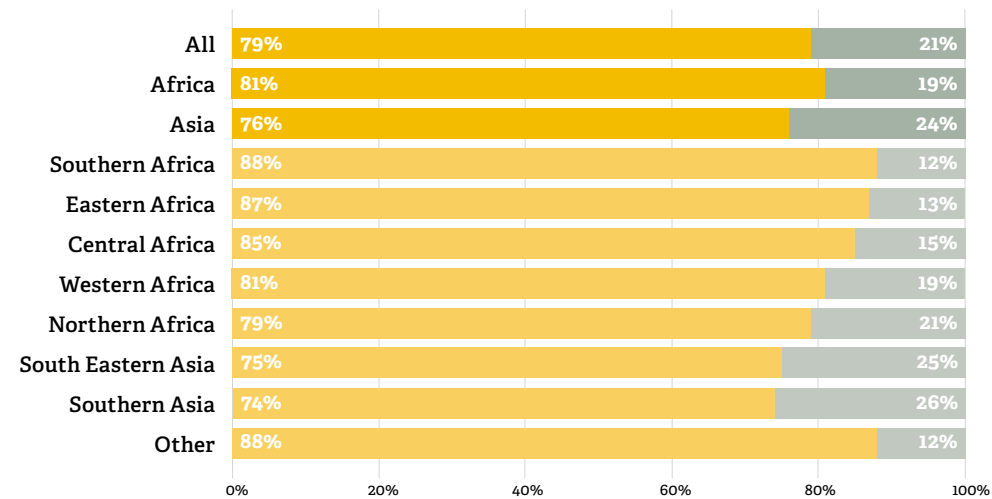


The impacts of climate change are being felt financially, environmentally, and socially across our portfolio. Of our respondents, 79 per cent said that climate change is impacting them today – up from 68 per cent in 2022 (Figure 1).

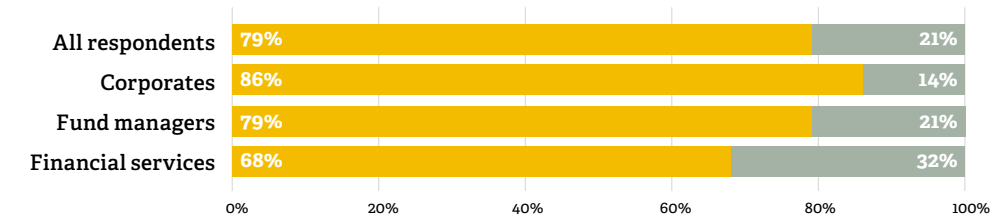
Our results show that physical climate change risks are taking a toll on firms. Flooding and drought were highlighted by respondents as posing the greatest risks (see page 9). The primary transitional risk concerns are market risks, evolving consumer preferences, and policy-related risks (see page 11).

Firms in Africa are being impacted by climate change risks to a slightly greater extent than their counterparts in Asia, as shown by Figure 1.

Survey responses varied across sectors and business types; financial services and fund managers cited fewer climate impacts, while corporates – particularly agricultural businesses – are facing more significant impacts. While 86 per cent of corporates said they are being impacted by physical and transition risks today (Figure 1), 68 per cent of financial services firms said the same. This slightly lower figure may be because financial services are one step removed from experiencing its real economic impacts, or because these impacts are not financially tracked.



"Is climate change impacting your organisation today?" Responses organised by region.



"Is climate change impacting your organisation today?" Responses organised by business type.

■ Yes ■ No

Figure 1: Respondents' answers to: "Considering both physical and transitional risks, is climate change impacting your organisation today?" Note: BII's mandate is to invest across Africa, Asia and the Caribbean. Some of the businesses we partner with also operate in other regions. In Figure 1, 'Other' includes Australia & New Zealand, Northern America, Central Asia, Eastern Asia, Western Asia, Caribbean and LatAm, Japan and South Korea, South America and Middle East, Lebanon, Jordan, and Palestine.

Climate impact: the broader picture



In 2022, there were 81 weather, climate and water-related disasters in Asia, of which over 83 per cent were flood and storm events. According to the United Nations, more than 5,000 people lost their lives, more than 50 million people were directly affected and there were more than \$36 billion in economic damages in 2022 (United Nations, India, 2023).

In Africa, more than 110 million people were directly affected by weather, climate and water-related disasters in 2022, causing more than \$8.5 billion in economic damages. There were also a reported 5,000 fatalities, of which 48 per cent were associated with drought and 43 per cent were associated with flooding, according to the Emergency Event Database. The true toll is likely to be much higher because of under-reporting (United Nations, Ghana, 2023).



These findings were supported by our interviews. Some fund manager interviewees did not consider climate a major immediate concern for their firms, as they had not yet felt climate impacts significantly on their portfolios. One fund manager interviewee explained they have not experienced the direct impacts of climate change, but that these were very much felt within their portfolio; for example, they have a housing fund where a development's retaining wall had to be completely rebuilt due to flooding.

A respondent whose agricultural company has experienced unprecedented flooding, drought, and extreme temperature rises noted that their focus is mostly

on immediate adaptation to ensure the survival of the business against these risks. An interviewee from Coscharis Farms, an agricultural company in Nigeria, said it was “incomprehensible” that these risks could worsen, and painted a picture of great vulnerability in the face of climate impacts.

As global GHG emissions continue to rise, and as physical climate change worsens, the impacts of climate change will be felt by more, whether directly or indirectly.

A total of 59 per cent said extreme climate events have impacted their firm which is similar to 2022, when 58 per cent responded yes to the same question (see Figure 2).

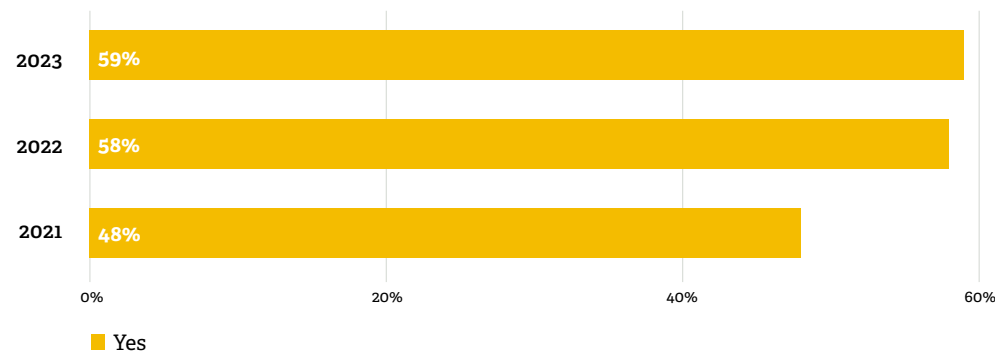


Figure 2: Participants' responses to the question: 'Over the past five years, have extreme weather events impacted your organisation?'



Flooding is biblical... Flooding is huge... if [rice] overflows with too much water, it's a problem.

Okey Nwachukwu, Coscharis Farms

Flooding, drought, and extreme heat are the top physical risks

Flooding and drought continue to be the physical climate events impacting firms the most. When comparing the results to last year (2022), the trend remains consistent, with the same top three physical climate risks identified in the following order of priority: flooding, drought, and extreme heat.

A total of 47 per cent of respondents ranked flood and drought risk in their top three present physical climate risks, while 43 per cent also ranked extreme heat in their top three risks (Table 1).

Respondents identified the same three top physical risks when considering what would impact them in the future (considering time horizons of the next five and ten years): flooding, drought, and extreme heat. There was a shift in the order of these risks when compared to the present, with extreme temperatures and drought emerging as primary concerns, surpassing flooding.

Businesses operating in Africa identified drought as the top physical climate risk at present, followed by flooding and extreme temperatures. This pattern remained consistent for the five-year

outlook. Looking ahead to the ten-year horizon, drought and extreme temperatures became the joint top risks, followed by flooding.

For firms operating in Asia, respondents listed flooding as the top physical risk currently. This perhaps reflects recent experiences with the combination of “record-breaking levels of glacier melt” from the Himalayas exacerbating the 2022 monsoon season and increasing flood damage in India.¹

Firms operating in Asia identified extreme temperature as the second-top physical climate risk at present. In 2023, South-East Asia experienced a ‘once-in-200-year’ heatwave, and the World Weather Attribution found the likelihood of such an event increased “at least by a factor of 30 over India and Bangladesh due to human-induced climate change”.²

Drought was the third most prominent physical risk in Asia, with impacts felt particularly in the agricultural sector. Firms affiliated with agriculture (or firms that have agriculture in their supply chain) face heightened exposure.

1 <https://www.carbonbrief.org/guest-post-how-the-south-asian-monsoon-is-changing-in-a-warming-climate/>

2 World Weather Attribution (2023) <https://www.worldweatherattribution.org/extreme-humid-heat-in-south-asia-in-april-2023-largely-driven-by-climate-change-detrimental-to-vulnerable-and-disadvantaged-communities/>

3 The percentages were calculated by dividing the number of respondents who selected a specific physical risk as one of their top three priorities within each time horizon (present, five years, and ten years) by the total count of responses across all identified risks for that respective timeframe.

	Time horizon		
	Present	In 5 years	In 10 years
Increase in flooding from rivers and surface water, i.e. impacts on assets and access	47%	43%	38%
Increase in extreme temperatures at operations, i.e. impacts on employees and equipment	43%	50%	44%
Increased frequency and severity of wildfires, i.e. impacts on assets and employees	11%	21%	20%
Extreme wind and storm damage, i.e. impacts on assets and downtime	32%	37%	33%
Increased drought and water stress, i.e. impacts on operations	47%	51%	39%
Sea level rise increasing coastal flooding, i.e. impacts on assets	15%	17%	33%
Unsure/ Don't know	14%	6%	12%

Table 1: For each time horizon (present, in 5 years, in 10 years) respondents were asked to choose the top three priority physical risks impacting and expected to impact their firm. Please note they were asked to choose their top three risks.³ Red indicates a relatively higher perception of risk from respondents.

Climate impact in Africa: the broader picture



Multi-year droughts have become more frequent in West Africa, and the 2015–2017 Cape Town drought was three times more likely due to human-caused climate change (IPCC AR6, Chapter 9: Africa). The impacts of heat stress are also being felt in Africa; income losses of 4.1 per cent of GDP were felt due to heatstress, primarily in the agricultural sector, according to *The Lancet* (Lancet Countdown Report, 2023).

Note: Research into attribution of trends to human-caused climate change or climate impacts remains scarce for multiple regions, especially in north and central Africa. This illustrates an ‘attribution gap’ where robust evidence for attributable impacts is twice as prevalent in high- compared to low-income countries globally (Callaghan et al., 2021).

Operations and investments are the most frequently disrupted parts of the value chain

Operations and investments are the parts of the value chain most frequently disrupted by extreme weather events (Figure 3). Corporates see impact in operations more than fund managers and financial services; whereas the latter see impact in investments. The proportion of respondents citing operations in their answer was down by almost half this year, while investments remained the same, suggesting the increased representation of financial services and fund manager respondents was partly behind the drop in those registering an operational impact. Interviews with fund managers, on the other hand, suggested the

primary impacts of physical climate risks on their portfolios would likely be at the operational level.

Only 13 per cent of respondents reported supply chain disruptions. This low percentage is potentially influenced by the challenges of obtaining comprehensive data on climate-related financial impacts. One respondent described how flooding had affected their feedstock supply chain (transportation and logistics), resulting in reduced plant operational performance.

Within operations, the top physical risk was flooding. Half of respondents

who quantified the financial impact to operations had costs of over \$200,000. The questions on financial impact were optional for respondents, but give some insight into the scale of impact weather events have on firms.

Within investments, the top physical risk was also flooding, closely followed by drought. 36 per cent of those who quantified financial impact on investments revealed that the costs totalled more than \$1 million.

Within the workforce, respondents indicated that flooding, drought, and extreme heat were the top physical

risks over the past five years. The financial impacts of extreme weather events affecting the workforce were lower compared to the consequences when investments, supply chains, and operations are affected. This is likely attributed to a workforce's higher adaptive capacity and flexibility compared to other elements of a firm's value chain. Employees can potentially adjust to changing conditions, work remotely, or assume alternative roles, all of which helps mitigate the immediate financial impacts.

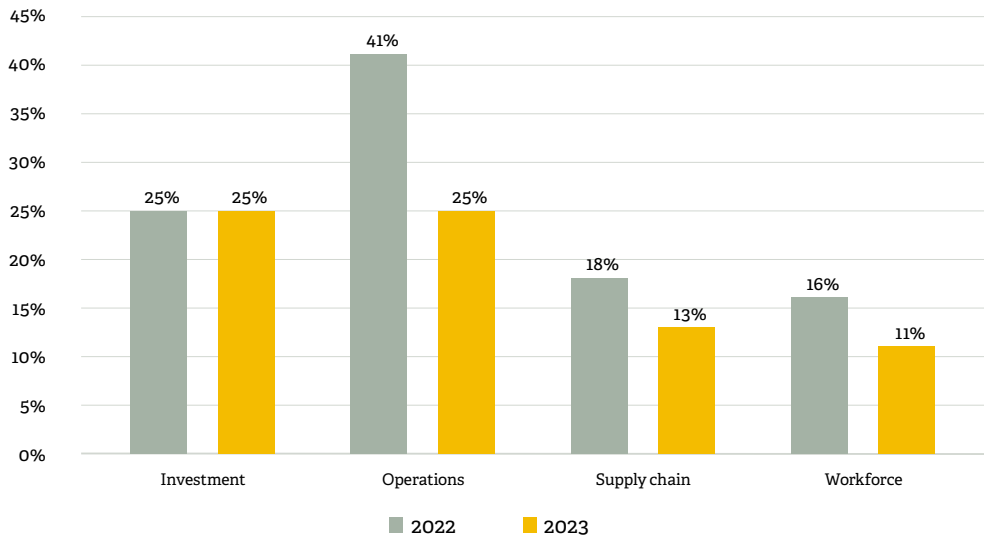


Figure 3: Participant responses to the question: 'Over the past five years, have extreme weather events impacted your organisation?'. Please note that respondents were able to select more than one option – for example, they could say that an extreme weather event has affected both investments and operations.





Market shifts are the transitional risks most impacting firms

Market shifts are the transitional risks impacting firms most today, and they expect the same situation five years from now. Of the respondents, 50 per cent ranked market shifts in their top three transitional risks. These market shifts include changes in energy prices and the ongoing transition towards renewable energy.

When respondents looked ten years ahead, policy-related factors such as carbon taxation emerged as the top transition risk, with market shifts a

close second. Consumer shifts (for example, changes in products or services) were also in the top three transition risks for respondents across all three time horizons.

These top three transition risks (market shifts, policy-related factors, and consumer shifts) were also the top three in our 2022 survey. This indicates a sustained focus on market dynamics, policy developments, and evolving consumer behaviour.

⁴ The percentages were calculated by dividing the number of respondents who selected a specific transitional risk as one of their top three priorities within each time horizon (current, five years, and ten years) by the total count of responses across all identified risks for that respective timeframe.

	Time horizon		
	Present	In 5 years	In 10 years
Consumer shifts (e.g. change in product or services)	34%	43%	32%
Policy (e.g. carbon taxation)	37%	46%	42%
Reputational damage (e.g. greenwashing or lack of climate action)	23%	26%	24%
Market shifts (e.g. energy prices and shift to renewables)	50%	49%	35%
Legal risks (e.g. litigation)	9%	21%	19%
Technology (carbon-intensive assets)	23%	30%	23%
Unsure/ Don't know	16%	8%	14%

Table 2: For each time horizon (present, in 5 years, in 10 years) respondents were asked to choose the top three priority transitional risks impacting and expected to impact their organisation. Please note they were asked to choose their top three risks. Red indicates a relatively higher perception of risk from respondents.*

Concerns about physical and transition risks have increased

In addition to asking respondents how climate change is impacting their firm today, we asked respondents how concerned they are about climate change.

A total of 87 per cent of respondents agreed to some extent that they were concerned about physical climate risks – up from 70 per cent in 2022.

A total of 73 per cent of respondents agreed to some extent that they were concerned about the risks associated with a low-carbon transition – up from 66 per cent in 2022.

Relative to 2022, the gap between concern about physical risks and concern about transition risks has widened (Figure 4). The 10 per cent increase in the gap can be attributed to a surge in awareness or experience of the physical effects of climate change. Recent events, coupled with economic uncertainties and a potential shift in regulatory emphasis, may have collectively increased the perception of the urgency and impact of physical risks over longer-term transition challenges, although that has also increased as an area of concern since last year.

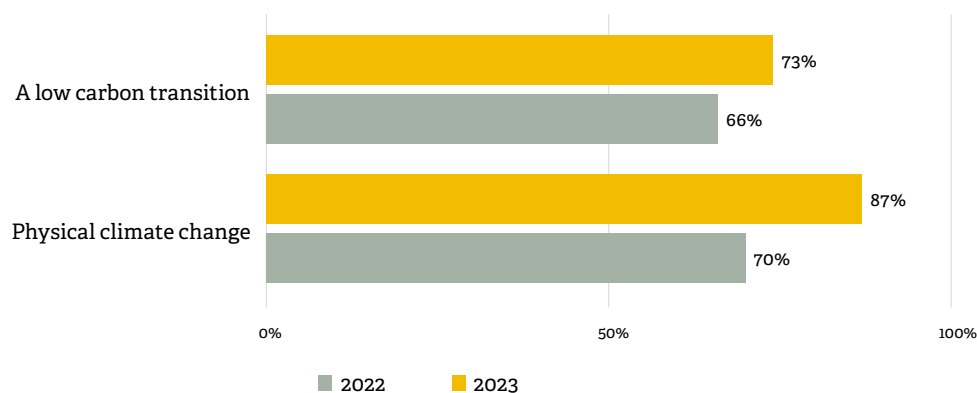


Figure 4: Percentage concerned with physical and transition risks: comparison with last year. Please note that in 2022 a ten-point scale was used, but in 2023 a five-point scale was used (as research indicated five was the optimum (Weng, 2004; Nielsen, Makransky, Vang, & Danmeyer, 2017)). Therefore, in this graph 2022 is shown as the percentage of participants that ranked their concern of physical and transition risks as a five or higher (on a ten-point scale). 2023 is shown as the percentage of participants that ranked their concern of physical and transition risks as a three or higher (on a five-point scale).

Climate-related concerns are affecting business growth and viability

When asked if climate change will affect the viability and growth of respondents' firms over the coming years, 61 per cent agreed it would over the next five years, and 76 per cent agreed it would over the next ten years.

Whereas previous surveys separated these questions about viability and growth, we included both in the same question this year. In previous surveys, we asked respondents whether climate

change would affect the viability of their firm in the next five years (56 per cent agreed in 2022) and plans to grow their businesses over the next ten years (72 per cent agreed in 2022).



02

How are businesses in emerging economies responding to climate change?



Nearly all respondents agreed that long-term success is linked to lowering GHG emissions and reducing vulnerability to physical climate risks. A total of 97 per cent of respondents agreed – up from 91 per cent in 2022 and 82 per cent in 2021.

Our surveys since 2021 show a growing belief that those who can decarbonise and build resilience to physical climate change are more likely to be successful (Figure 5).

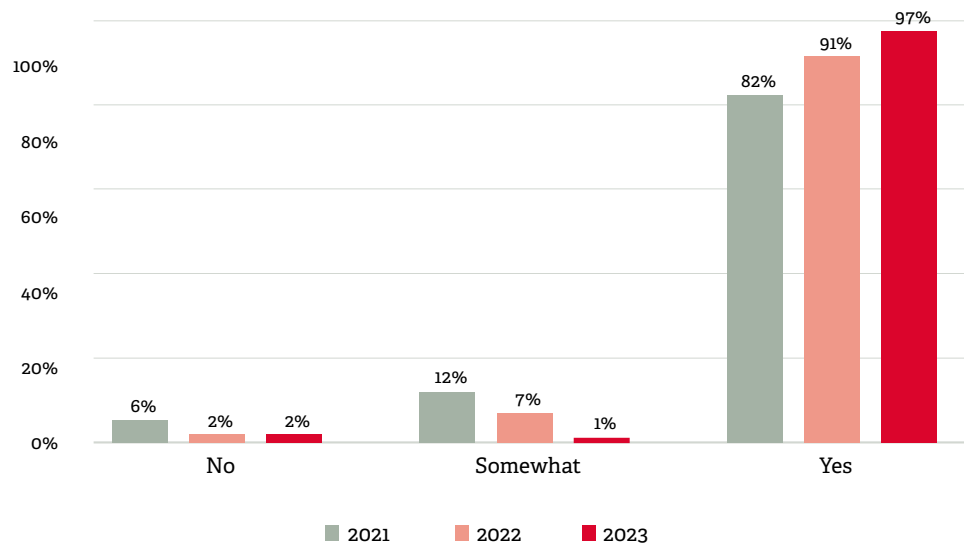


Figure 5: Responses to the question: 'Do you think organisations that take steps to reduce their carbon emissions and overall vulnerability to physical climate risks will be more successful in the long term?'



Most respondents have adapted their business strategy in response to climate change

Climate change continues to affect business strategies and financial planning. A total of 65 per cent have adapted their business strategy and 47 per cent have adapted their financial planning in response to climate change – down slightly from 69 per cent and 52 per cent in 2022, respectively.

It is logical that climate change is more likely to affect strategy than financial planning. This is because it is likely that organisations first adopt a strategy before incorporating climate change information into financial metrics.

Although there is a slight decrease in those who have actually adapted their strategy compared with last year, the number of respondents who are planning to adapt their strategy has increased. 17 per cent have plans to adapt their strategy, up from 2 per cent in 2022. 8 per cent have plans to adapt their financial planning in response to climate change, which represents no change from last year.

Despite many respondents highlighting that acting on climate can be cost-saving and add long-term business value, they also noted they did not know how to respond to climate risk.

Climate change has impacted corporates' business strategies and financial planning more than the overall average of respondents; 79 per cent and 76 per cent, respectively. There was a common sentiment that corporates addressing climate change strategically and through financial planning are also more likely to receive investment. To illustrate, one survey respondent wrote: "Climate is a today and tomorrow risk, with both physical, reputational, legal, commercial impact on businesses and the ones that are already implementing actions will be better placed to receive investment and less at risk from climate impact."

65%

of respondents said that climate change has affected business strategy.

47%

of respondents said that climate change has affected financial planning.

Firms are adapting their strategies in varied ways

The most common strategic approach is to exclude investments in products and services that have a negative impact on the planet. Of those who are adapting their strategies, 62 per cent are excluding these investments, a similar figure to the 66 per cent that responded in this way last year (Figure 6).

Fund managers across Africa are considering new funds in climate

solutions that both improve energy security and reduce carbon emissions across the grid through renewable investments. As one respondent commented, “Already investing in renewables and preparing for the transition will enable the best companies to get an advantage.”

The second most common approach is offering green or climate-friendly

products and services that have less impact on the climate. Of those who are adapting their strategies, 55 per cent are offering these products, a decrease from the 68 per cent that responded in this way last year (Figure 6). This is also the most common strategic approach amongst those who are planning to adapt their strategies in the future.

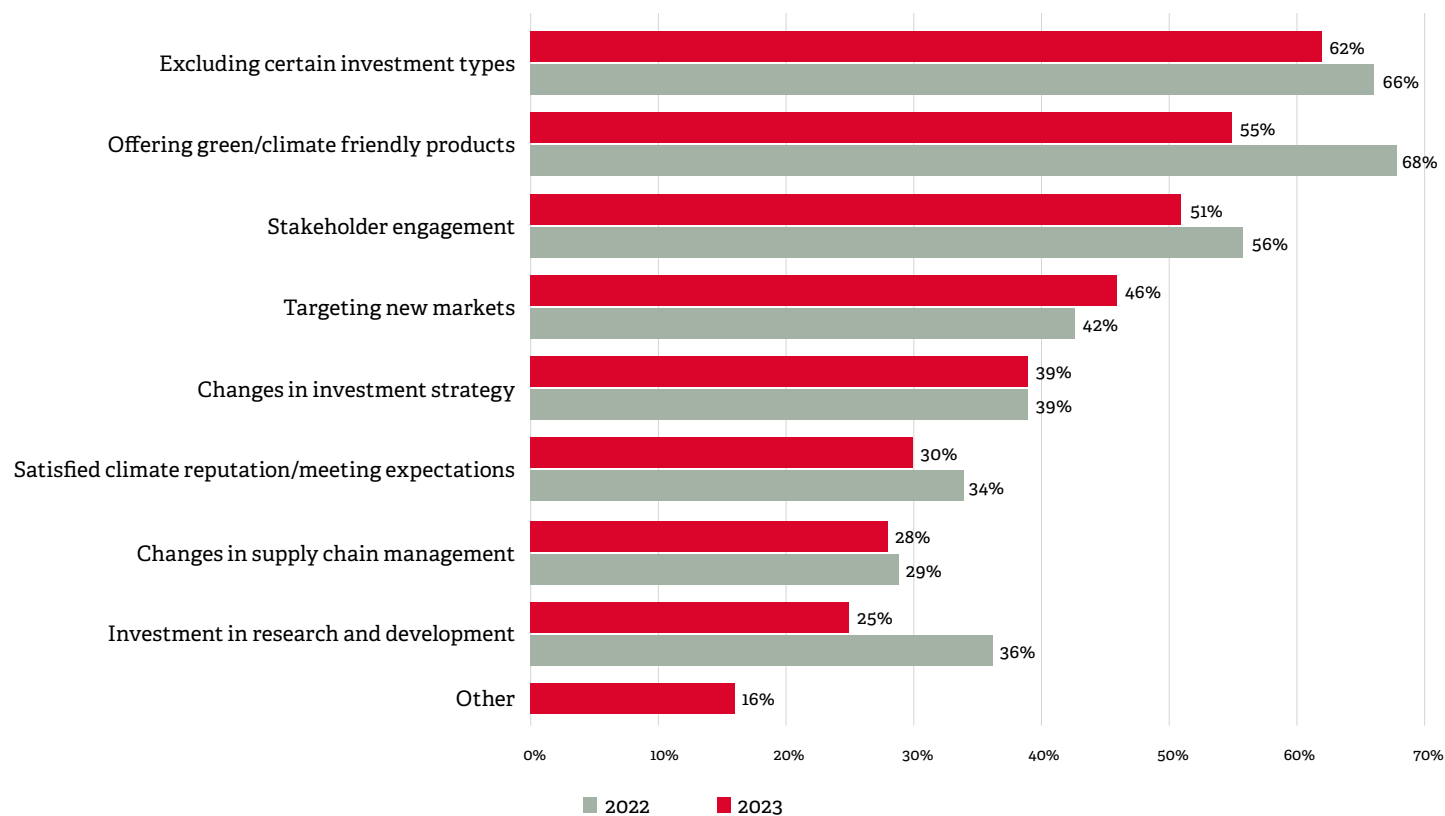


Figure 6: How firms are adapting their strategies to respond to climate change. Please note respondents could choose more than one option. Note: In last year's report, we provided these results based on the number of respondents who completed this survey. This year, we are reporting both 2022 and 2023 figures as percentages based on respondents who answered 'yes' to adapting their business strategy.



Inspired Evolution's investment funds are currently solely focused on renewable and sustainable energy infrastructure, energy access, and resource efficiency. Marike Fourie, Inspired Evolution



Climate change is impacting operational expenses and access to capital

Keeping operational expenditures low is key to maintaining healthy profit margins. 48 per cent of those who responded that climate change was affecting their financial planning said climate change has increased their operational expenditure, up from 30 per cent in 2022 (Figure 7). One respondent commented, “We are planning to allocate more resources to increase more efficiency and reduce costs from high to low carbon energy for manufacturing... [for] enhanced competitiveness.”

Of those who responded that climate change was affecting their financial planning, 46 per cent said climate change had affected their access to capital, down from 59 per cent last year. Financial institutions are providing preferential interest rates to companies that are helping to reduce impacts on the climate, meaning access to affordable capital may decrease if companies do not reduce their impact on the climate.

Capital expenditure is key to allowing firms to adapt, with some firms already investing in climate resilience. 46 per cent of those who responded that climate change was affecting their financial planning said climate change had affected their capital expenditure and allocation decisions, down from 55 per cent last year.

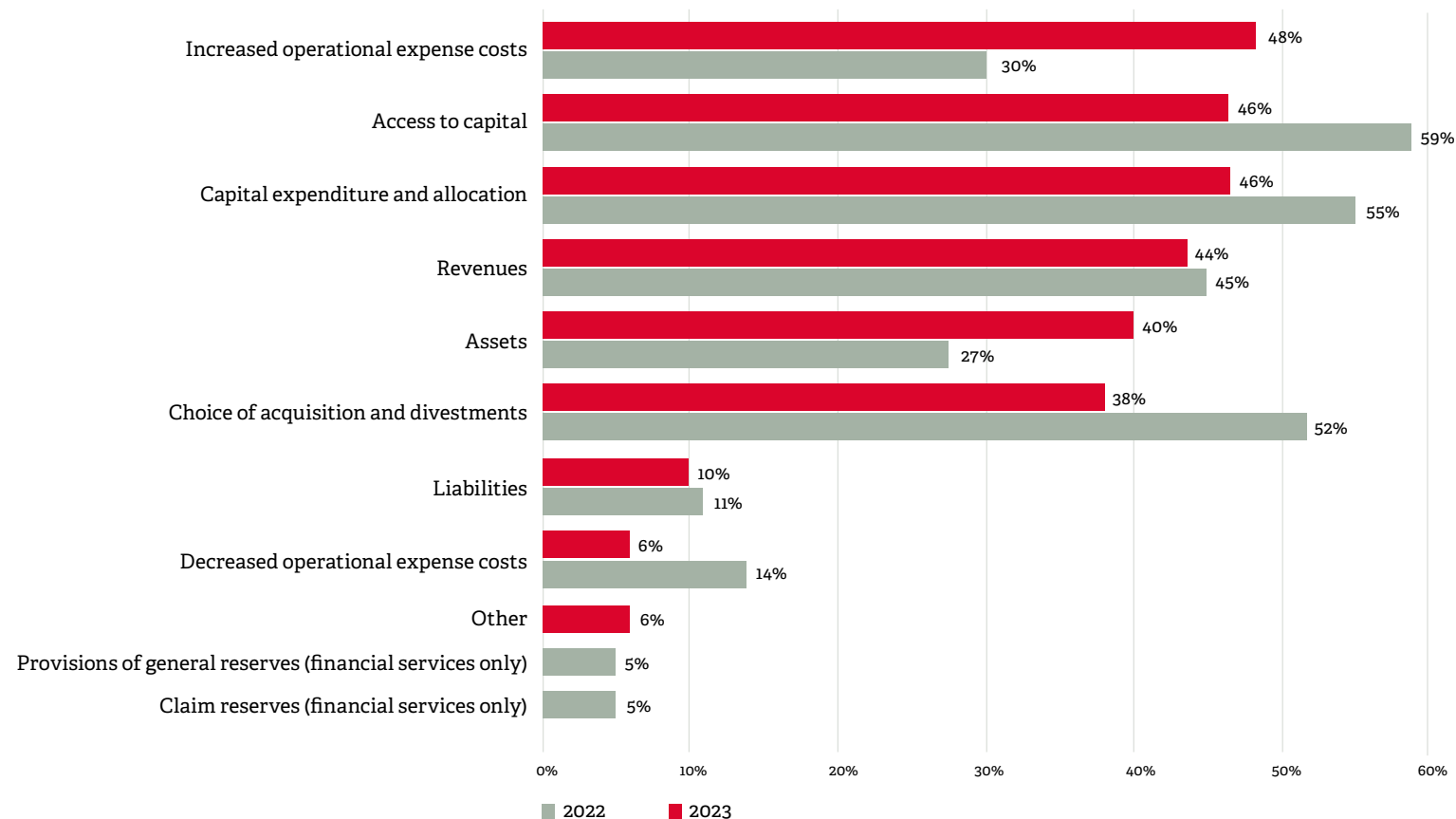
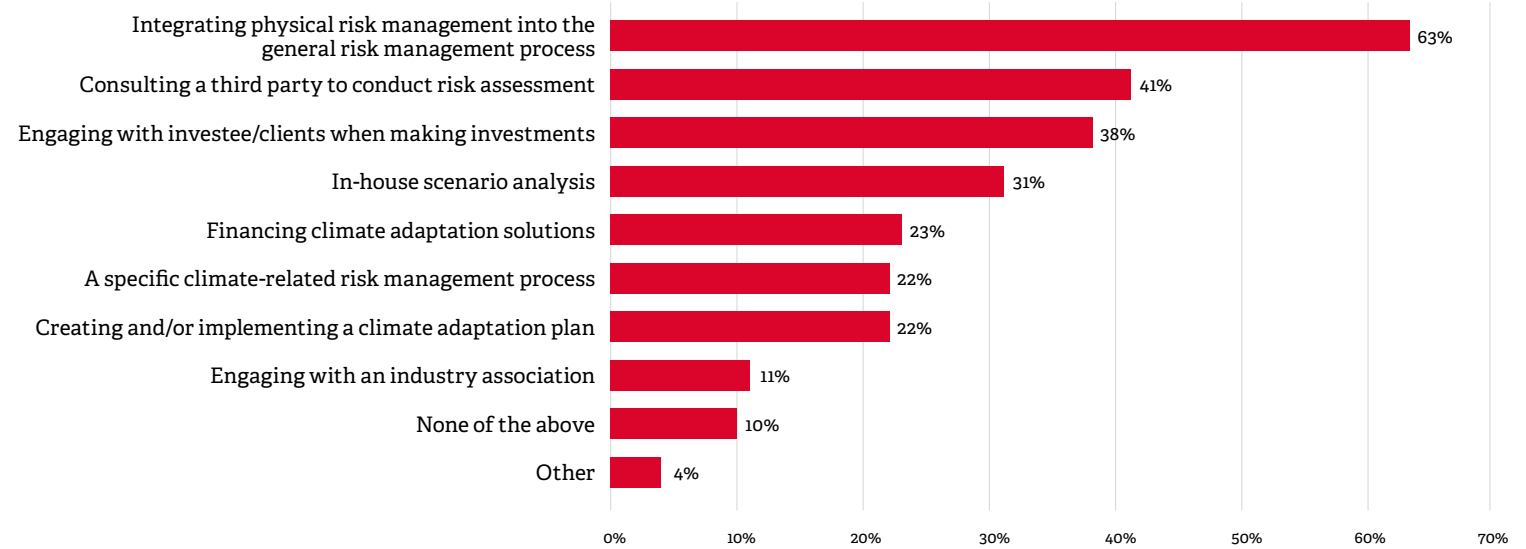


Figure 7: How organisations are adapting their financial planning to respond to climate change. Please note respondents could choose more than one option. Note: In last year's report, we provided these results based on the number of respondents who completed this survey. This year, we are reporting both 2022 and 2023 figures as percentages based on respondents who answered 'yes' to adapting their financial planning.



Most are assessing and managing climate risk

Most respondents (90 per cent) are assessing and managing physical climate risks. However, at the same time, only 63 per cent are integrating physical climate risk into general risk management processes (Figure 8). As one respondent commented, “there is still a general lack of understanding on how to conduct proper physical climate risk assessment, i.e., review ... forward-looking climate scenario analysis.” An IFC survey of financial institutions in emerging markets finds that most will need increased technical, advisory, and risk management support to respond to economic shifts related to climate change.⁵



⁵ Time to Turn Ambitions into Actions (ifc.org)

Figure 8: How firms are assessing and managing physical risks. Please note respondents could choose more than one option.



Survey respondents were also asked how they are managing transition risks. Most respondents (97 per cent) are managing transition climate risks. However, just over half (51 per cent) of respondents are integrating transition risk management into the general risk management process (Figure 9).

Almost half (48 per cent) of respondents are managing transition risks by excluding investments in high-risk activities and 48 per cent are managing transition risks by investing in more renewables. As a condition of respondents receiving development finance institution (DFI) investment, there are fossil fuel exclusions which mean that firms that have responded typically have less exposure to fossil fuels in the first instance.

Respondents were asked a separate question about how they are assessing (as opposed to managing) transition risk. The most common approach is integrating climate change into due diligence processes (66 per cent).

Exactly how well this integration is happening is less clear. One survey respondent commented that there is a need to “provide better resources on screening, and measuring GHG emissions,” suggesting some basic support with GHG accounting is needed first to enable businesses to develop their approach towards managing transition risks.

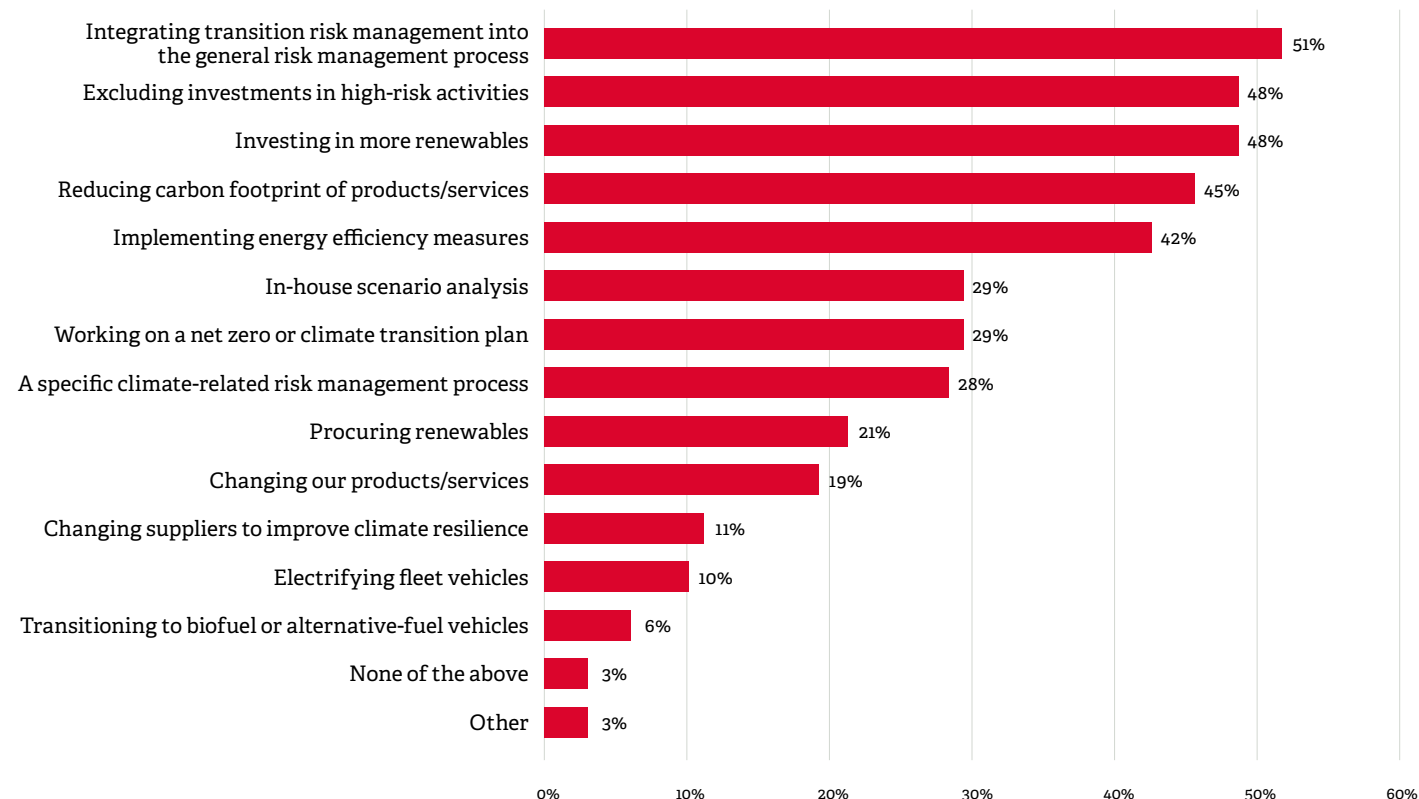


Figure 9: How firms are managing transition risks. Please note respondents could choose more than one option.



More climate-related metrics are being monitored

Many respondents have put in place metrics and targets to drive their response to climate risks, mostly through monitoring GHG emissions (see explainer box on this page for more information). A total of 45 per cent of respondents are calculating their carbon footprint (up from 38 per cent in 2022), with 30 per cent calculating only scope 1 and 2 emissions, and 15 per cent calculating scope 1, 2 and 3 emissions (Figure 10).

Out of those calculating their carbon emissions, 23 per cent have set reduction targets. One respondent who had set targets has had their targets validated by the Science Based Target Initiative (SBTi).⁶

Some firms are keen to monitor GHG emissions but lack the resources to do so: 80 per cent of respondents who do not calculate their carbon footprint would like to start. Interviewees suggested they lacked sufficient expertise and advisory or capacity-building support to measure their GHG emissions.

Our survey focussed on GHG metrics and targets because there are currently no common metrics to measure adaptation and resilience. We're proactively addressing this gap through the Adaptation & Resilience Investors Collaborative (see page 24).

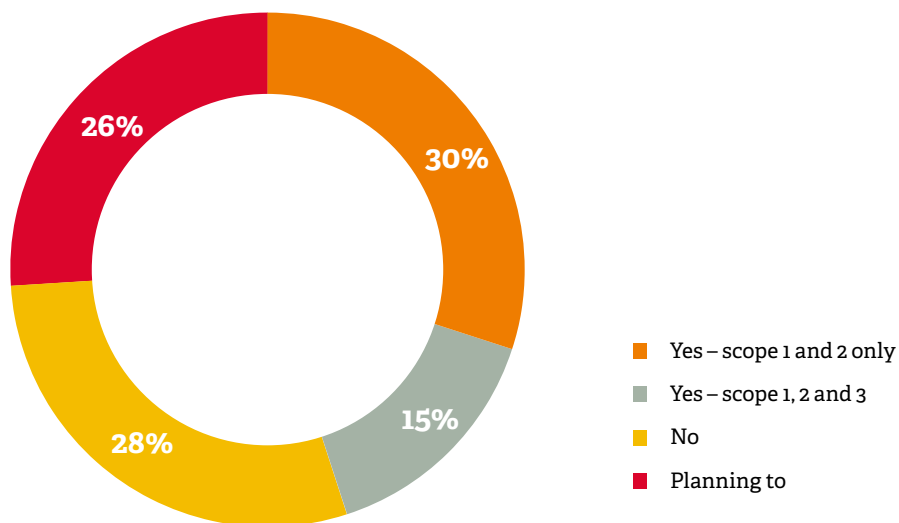


Figure 10: How many respondents are calculating their carbon footprint?

⁶ The targets are a set of goals developed by a business to provide it with a clear route to reduce greenhouse gas emissions. The SBTi allows businesses to demonstrate that their subsequent targets are in line with the Paris Agreement and latest climate science.



GHG emissions explainer



Also known as 'carbon footprinting', GHG emissions inventories are broken down into three scope categories - scope 1, scope 2 and scope 3 - in line with the GHG Protocol.

- Scope 1: emissions that a firm makes directly, e.g. burning fossil fuels such as gas or petrol.
- Scope 2: emissions that a firm makes indirectly, e.g. procuring energy from an energy company that burns fossil fuels to generate electricity.
- Scope 3: everything else that a firm makes indirectly, e.g. upstream or downstream, namely the GHG emissions associated with suppliers and customers.

If every firm reduces their scope 1 and scope 2 emissions, in theory, every firm's scope 3 emissions would also reduce. While firms do not have direct control of their scope 3 emissions, they do have accountability to influence their scope 3 emissions.

03

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



Firms in emerging economies face considerable challenges. To grow, they must navigate a complex and shifting socio-political landscape in a sustainable way, reducing climate impacts and building resilience to climate risk.

Respondents this year converged on a neutral stance on whether the world will combat climate change, with less overall optimism and less pessimism – a much less polarised view than in earlier surveys, as illustrated by Figure 11.

Firms in emerging economies are often confronted by a host of additional pressures associated with the impacts of climate change, despite most of

these economies having done little to contribute to it. That means they need support to improve their climate resilience and ensure their success in the long term.

Our research, primarily from the qualitative views of the respondents and interviewees, uncovered four areas where firms in emerging economies expressed the greatest need for support: capacity building; targeted technical assistance; targeted funding and investment; and policy and regulatory conditions.

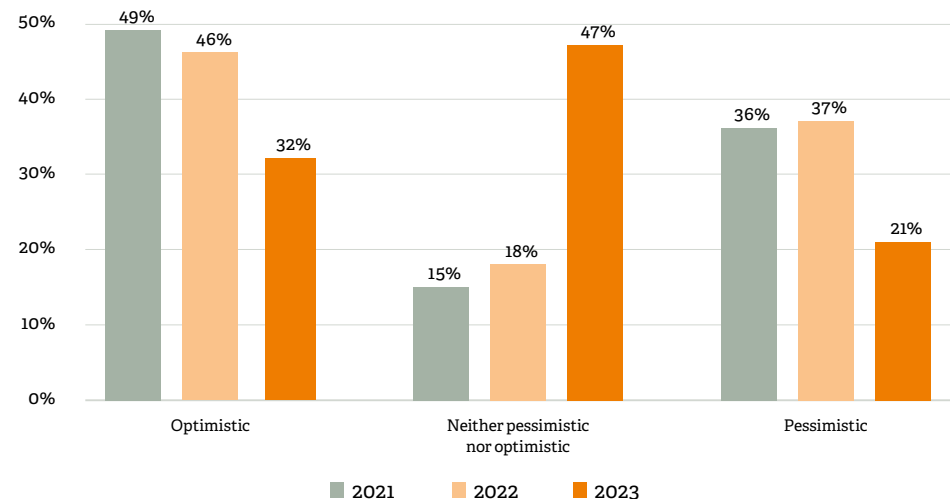


Figure 11: How optimistic are you that the world will come together to effectively combat climate change?





Training is needed to build awareness and capacity to act on climate change

The survey responses and follow-up interviews included a wide range of capacity-building requests. This included peer knowledge sharing and practical sector-specific training, to help build an understanding of climate action costs versus competition objectives.

Facilitating peer knowledge sharing is an effective capacity-building approach. Respondents called for peer-to-peer learning opportunities, webinars, and networking with external experts – such as climate specialists, technology providers, and research institutions – to share best practice, strengthen understanding, and improve access to cutting-edge climate solutions and tools.

There is a need for practical tailored training that builds operational resilience on a case-by-case (or asset-by-asset) basis, in a clearly articulated way. Those that are already extremely exposed to physical climate risks specified that tailored training needs to focus on short-term adaptation methods that can be implemented immediately.

Capacity building must also be sector-specific. Interviewees expressed that it must be based on case studies and a more targeted understanding of firms on the ground and how they operate.

Capacity building is also needed to understand how climate action fits with competing objectives. For many

firms, deciding how much weight to assign to climate in comparison to other competing impact objectives is a hurdle. One interviewee explained the difficulties in driving the strategic priorities of its investments in healthcare and education, while paying adequate consideration to climate.

Buy-in is difficult to achieve in regions where climate change is competing with other challenges, including healthcare, education, and other pressing social issues. Other interviewees, including Phatisa, a sub-Saharan African private equity fund manager, articulated a similar sentiment.

“

Right now, we don't know what to do in the next 2-3 years [...] when you don't know what you're facing.

Okey Nwachukwu, Coscharis Farms

“

There is a cost that can make transitioning challenging. A smaller hospital providing healthcare in a rural area can't afford the upfront cost of solar... The current frameworks and industry papers make it challenging for smaller SMEs to adopt. Yet we all want to contribute, but running a TCFD-grounded process is not always feasible and running a sub-set may not be considered acceptable.

Survey respondent

“

It depends on the type of business, the buy-in and eagerness... [The portfolio companies] going over and above see climate change as a strategic priority themselves. For another company, while they're not saying climate change isn't important, it may not be front of mind for them. But even they have bought into our net zero project – they get it.

Gwendolyn Zorn, Phatisa

Targeted technical assistance will help firms act more accurately in key areas

Targeted technical assistance is an important mechanism for tackling climate change. Across all respondents, there were four areas most commonly requiring targeted technical assistance. These were: strategy development (including in relation to use of climate scenarios, metrics and target setting); GHG and carbon accounting; adaptation planning; and reporting against disclosure frameworks such as TCFD/IFRSS2.⁷

This finding from the survey was backed up in our interviews. For example,

interviewees Kinara Capital (a social impact fintech for last-mile small business entrepreneurs in India) and Inspired Evolution (an energy infrastructure fund manager operating across Africa) shared the view that targeted advisory support is more important than general funding or building overall knowledge capacity, regardless of whether it comes from BII or third-party consultants. Both firms emphasised a particular need for external assistance around measuring and reporting emissions (especially scope 3).

Fund manager Phatisa suggested many portfolio companies lack the implementation know-how to collect the data, despite guidance from fund managers. This is complicated by the fact that country-specific emission factors are not available, and companies need to understand which, more frequently used, European or North American emission factors are most appropriate to use.

Current frameworks are often too complex and costly for smaller firms to implement. Kinara Capital voiced a need

for regional and proportional cost-effective responses to climate action, as many of the businesses it works with are focused on getting their firms up and running.

Targeted support would help firms understand the costs associated with varying levels of climate action – and what firms can do to meet the most essential climate actions without compromising on financial health.

⁷ Taskforce for Climate-related Financial Disclosures/International Financial Reporting Standards S2 – Climate-related Disclosures.



“

Cost sharing is always helpful, but if I were to prioritise, I would say the advisory help would be more important from an environmental standpoint because there are a lot of questions here and a lot of different methodologies.

Khyati Shah, Kinara Capital

Targeted funding and more investment are needed

98 per cent of respondents think better investment is needed to help transition to net zero or become more climate resilient, up from 92 per cent in 2022. Responses commonly referenced capital expenditure support, funding instruments, improved climate finance, articulated in combination with other mechanisms, primarily capacity building, to drive a rounded approach.

98%

of respondents think better investment is needed to help transition to net zero or become more climate resilient – up from 92 per cent in 2022.



Corporates largely requested support with capital expenditure to implement climate mitigation projects. There is a lack of government incentives across emerging economies, such as tax credits, that help make climate-friendly initiatives cost-effective. Costs are otherwise high and hard to justify for measures that are not mandated in most countries. Phatisa explained that many of its portfolio companies have begun requesting support for capital expenditure to allocate towards net zero.

Fund managers also expressed a need for funding to support the capital expenditure requests from their portfolio companies. One respondent (an agricultural investment company) stated: *“There is currently little or no commercial motivation for many of our investees to trade off commercial performance against emissions reduction, or invest in emissions reduction. Without access to sources of blended capital, we cannot subsidise this as we need to meet our shareholder returns.”*

There were also specific funding instrument requests and considerations. For example, Gwendolyn Zorn at Phatisa stated: *“A Malawian company... would rather take a commercial debt in local currency than a concessional debt in pounds. Having the convergence of the two, where you have the concession and the local denomination, is very important.”*

At BII, our £200 million Climate Innovation Facility is one way we’re

helping to address this need. Introduced in 2021, the fund uses concessional capital in different ways to support our partners, providing finance for the most pioneering climate solutions in emerging economies.

Respondents stressed the importance of closing the significant climate finance gap to bolster the economic, political, and social prosperity of emerging economies. One respondent (an off-grid solar power business) highlighted how investments in renewable energy would help address the energy crisis faced in many countries where respondents were based – improving energy access, cost, and infrastructure.

Encouragingly, there has been a year-on-year increase in annual climate finance flows. This reached \$1.3 trillion in 2021/2022, near doubling compared to 2019/2020, driven by significant acceleration in mitigation finance. But much more investment is needed. According to the Climate Policy Initiative, climate finance needs are expected to increase to \$9 trillion each year by 2030 and then jump to over \$10 trillion each year from 2031 to 2050.⁸

The Adaptation & Resilience Investors Collaborative (ARIC) is a partnership of DFIs established to overcome key hurdles to private investment in climate adaptation and resilience in emerging economies, across a broad range of investments and sectors. As a core founding member, BII has developed a shared approach to metrics that enables investors to collect, analyse,

and share information about the positive climate impact of their investments. The aim is that the collective use of comparable data measurements will help to integrate adaptation and resilience impact into investment decision-making. It will also mobilise capital into climate adaptation and resilience solutions.

“

Emerging markets are home to the largest percentage of people that are currently either left off the electric grid or limited to high carbon emissions energy sources, yet collectively receive very little of the world’s climate investment. The imbalance doesn’t bode well for the next five to ten years’ journey towards a lower-carbon transition.

Survey respondent

“

Countries in our region face unique challenges and opportunities: they are rich in natural resources and rapidly growing populations, yet often contend with infrastructure deficits, regulatory hurdles, and vulnerability to climate change impacts.

Strategic investments in renewable energy, sustainable agriculture, and infrastructure modernisation can play a pivotal role. Such investments not only facilitate the transition to lower carbon emissions but also spur economic growth, create jobs, and improve energy access.

Survey respondent

8 <https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Executive-Summary-I-Global-Landscape-of-Climate-Finance-2023.pdf>



Policy and regulatory conditions will drive more effective climate action

Respondents requested top-down policy levers to incentivise climate action among firms. This would foster an environment for climate-friendly innovation and entrepreneurship by encouraging transparency, reporting, emissions disclosure, and more ambitious target setting.

For one interviewee, government incentives to develop renewables

infrastructure, namely solar, would have a double benefit of reducing reliance on South Africa's grid infrastructure and supporting the low-carbon transition.

Investment must be supported by favourable legislation – a key driver, according to respondents. Often, the lack of legislation that incentivises the net-zero, just and resilient transition is a barrier facing many of the emerging

economies respondents operate in. This hinders the allocation of funds to the areas that need it most. Respondents also emphasised the diversity of the economic, social, and environmental landscapes of the regions included in this survey, the value of unique approaches and the importance of avoiding a 'one-size-fits-all' approach.

Greater advocacy is needed through

partnerships between DFIs such as BII, investors, policymakers, regulators, industry bodies, and other stakeholders who can help drive meaningful and lasting change.

04

Conclusion



This research highlights that climate change impacted more firms in emerging economies in 2023 than the already high levels of impact seen in 2022 and 2021. In addition to more respondents actually experiencing physical climate change, concerns about both physical climate risks and transition risks have increased. Respondents are also concerned about how climate change will affect business growth and viability.

However, almost all respondents – 97 per cent – believe that the right climate action will lead to long-term business success.

The urgency of the climate challenge – and the rate of change in sustainability legislation and practices – means that firms, including those in emerging economies, are building skills and approaches to tackle and respond to climate change.

Encouragingly, progress continues to be made in managing climate impacts in certain areas. A majority of respondents have adapted their strategies in response to climate change and a growing number of respondents are planning to follow

suit. There has also been progress in respondents measuring and managing carbon emissions, with 7 per cent more calculating their carbon footprint when compared with 2022.

Yet there's much more work to be done. The findings of this survey show businesses have fundamental concerns about flooding, drought, and heat, but despite this, most are not yet financially planning in response. In many cases this is because they lack the necessary knowledge and resources. This highlights an opportunity for investors of all types to step up their support, not just because of the development impact of climate mitigation and adaptation-focused investing, but because it protects financial return.

Institutions like BII play an important role in supporting businesses in emerging economies as they respond to climate change. We will continue to monitor the views of our partners so that our approach supports economic transformation, a just transition to net zero, and the resilience of our portfolio in the best and most targeted way possible.



97%

Almost all respondents believe that the right climate action will lead to long-term business success.

Appendix: About this research

This research was carried out by Anthesis Group on behalf of BII. We received a total of 106 responses to the survey – 70 respondents operate in Africa, 49 in Asia, and one in the Caribbean. Of these firms, 18 operate in both Africa and Asia.

The number of responses provided a confidence level of approximately 80 per cent, and a margin of error of 5 per cent, based on BII's regional portfolio split. This was a good foundation for making comprehensive conclusions about how climate change is impacting emerging economies.

Respondents were broadly senior executives at businesses that we invest in. The businesses were split between 29 corporates, 19 financial services, and 58 fund managers (Figure 1). BII invests across multiple sectors – spanning infrastructure, agriculture, technology and telecommunications, financial services, and more – and the survey responses reflect this (Figure 2).

We also conducted follow-up interviews with six survey respondents to explore qualitative insights around each of the three core themes of this report. A mix of sectors, regions, and business types were interviewed to help deepen our understanding of the climate-related challenges and opportunities. Quotes from these interviews are used throughout the report.

Survey responses and data have been anonymised to ensure confidentiality. We have gained permission to include any references to firms or individuals.

The survey results may contain implicit bias, as respondents who participated mostly had an ESG responsibility and are likely to be already concerned about climate change. Also, respondents are more likely to be concerned about climate change than those who did not complete the survey, which may also impact the results.

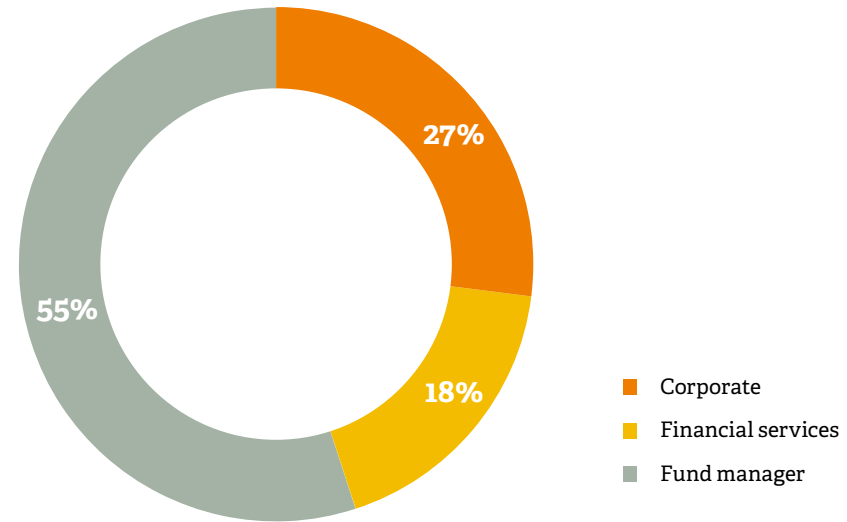


Figure 1: Survey respondents: a breakdown by firm type

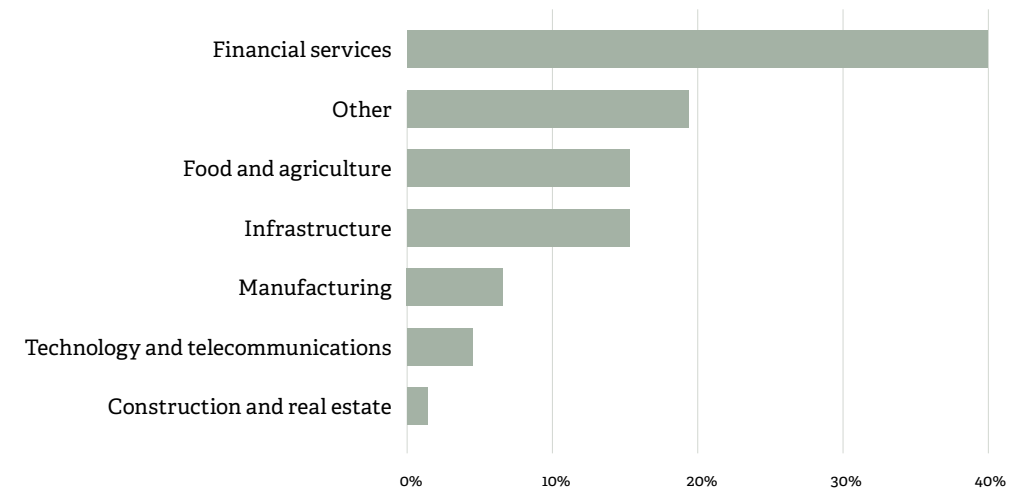


Figure 2: Survey respondents by sector

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