pi ESG CLUB

Supply chains are becoming notorious for human rights abuses, which not only impact financial outcomes but damage reputations, too. The month's ESG Club focuses on how investors can reduce risk of it happening them.

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Members

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PUTTING SOCIAL ISSUES AT THE CENTRE OF SCHEME THINKING

ESG investing is a broad topic, and some of its most important factors can get lost amid worthwhile work on climate change. The PLSA's Karen Hurst explores social themes and how engagement and stewardship can further these aims.

In what seems like a short period, environmental, social and governance (ESG) factors have become a central tenet of pension scheme investment operations.

Responsible investment forms one of the PLSA's top six regulatory policy areas of focus for 2022 and was a key theme at our annual conference in Liverpool in October.

Government regulations are pushing schemes to monitor and manage their portfolios in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and asset managers are innovating to offer new investment opportunities in line with ESG goals.

In addition, it's clear from our research that pension schemes of all kinds are taking the initiative and playing a leading role in advancing ESG causes for the benefit of their investment portfolios and their members.

Socially responsible investing

But it isn't all about climate change. Social factors such as modern slavery, health and safety, working conditions and remuneration are all important issues cited by pension schemes, as detailed in our June 2021 paper on social investment risks and opportunities.

One of the most important ways that schemes can achieve their ESG goals is through ensuring their voices are heard.

At the PLSA's ESG Conference earlier this year, Thérèse Coffey – then the Secretary of State for Work and Pensions – declared it was "not enough for schemes just to passively report on their climate risks", while panellists predicted a new and demanding minimum standard for stewardship.

Social factors are becoming a much higher priority for schemes of all kinds when it comes to their engagement and stewardship activities. However, these issues are often more difficult to measure and monitor, as they do not always lend themselves to a quantitative approach.

To have a meaningful impact, investors need a narrative as well as data to understand how social factors are being addressed and supported at company and manager levels.

Climate and biodiversity

Of course, the major regulatory focus remains on climate change.

Most schemes that responded to our most recent survey have net-zero plans in place or will have within the next two years. Many have also started working on TCFD reports, with more than half (55%) telling us they plan to publish one this year – and more than a quarter having already done so.

Setting up these reports is not a 'set and forget' process. It will require regular reviews of data sources to ensure schemes have the best possible information about their portfolios, and it will require trustees to keep abreast of developments in data and regulations.

Just as schemes are beginning to get to grips with TCFD reporting, there is another environmental theme emerging: biodiversity. This reflects the financial and investment impacts of a loss of biodiversity. Habitat destruction and extinctions can wreak havoc on food chains, the viability of land for agriculture, and give rise to new health risks – all of which have a knock-on economic effect.

The recently launched Taskforce on Nature-related Financial Disclosures (TNFD) aims to broadly replicate the TCFD's work but with a focus on biodiversity and related issues such as deforestation. This chimes with the UN Sustainable Development Goals, in particular SDGs 14 and 15.

Familiarising ourselves with these issues and how to measure, monitor, and manage them will help trustees engage effectively with asset managers and portfolio companies.

Ultimately, we are all seeking to secure a healthy and sustainable retirement for scheme members, financially and in the wider world. At the PLSA, we strongly -believe these two aims can go hand in hand for the benefit of current and future pensioners.

INVESTORS NEED TO ADDRESS THE TRANSITION CHALLENGE

Decarbonising portfolios often fails to address real world climate problems, with asset owners possibly being part of the problem, finds *Andrew Holt*.

The investment world has expanded ESG investment strategies at a rapid rate, with such assets globally expected to rise to a massive $41trn (£36trn) this year, almost twice the $22.8trn (£20trn) recorded in 2016 and surpassing $50trn (£44.8trn) by 2025, and comprising one-third of global assets under management.

Yet there is an accusation that many assets branded as ESG do not encourage change from brown to green in the real economy. A case in point being that in 2021, more CO_2 was released than any other year to date, with coal the main factor behind the rise.

The criticism is that ESG assets are often designed to have lower carbon footprints, but this sometimes means they are not addressing real-world decarbonisation, with asset owners being at the heart of this dilemma.

"Portfolios are created that avoid the problem [of decarbonisation], instead of solving it – often, by simply limiting an investment universe to only the cleanest industries. Portfolio purity does not work to solve the climate crisis. It exacerbates the crisis," said Nazmeera Moola, chief sustainability officer at investment manager Ninety One, which has studied the topic.

Confronting transition

These are strong words. But they are shared by leading asset owners in the need to confront transition finance in a better, more constructive way. "We know that the amount of money being deployed for transition finance is about 10% to 20% of what it needs to be if we're going to achieve the Paris Agreement targets," said Faith Ward, chief responsible investment officer at Brunel Pension Partnership.

It does raise a big question: why aren't asset owners more constructively invested in transition finance? The study asserts that one of the most important is it requires them to make a shift in their approach or culture.

"Portfolio managers at these asset owners are not driven by top-down sustainability principles," it notes.

This is quite an assertion, as the interviews *portfolio institutional* undertakes frequently include a real commitment to climate and transition finance from top asset owners.

Investor demands

But sometimes, what is holding asset owners back on the transition journey are the companies in which they wish to invest in may not have the appropriate ESG framework, said Alison Loat, managing director of sustainable investing and innovation at OPTrust, a CA$25bn (£16.3bn) Canadian pension plan.

"There is an aspiration to invest more in transition finance, and we have to ensure funds and companies that we invest in have the governance procedures in place to adhere to what we require as an institutional investor," she said.

So given that this is a complex problem, how can asset owners move to a more fully-fledged transition? "I would probably start with the policy framework. What do I actually need in the real economy? What are the specific outcomes we want?" Ward said.

And she added there is a broader sector challenge. "We need some certainty. One of the common questions is: what is the plan for this sector? One of the examples we keep going back to – and which we want more of – is the announcements that have been made around the internal combustion engine and the shift to electric vehicles."

Many markets

In the same way, a framework for asset owners and investors as a whole is needed, Ward said. "That has set some clear timelines that policymakers, regulators, car manufacturers and investors can all get behind, because we know there are set deadlines within different markets for different parts of this, and a clear transition plan for the shift to electric vehicles. We need similar types of long-term, well-thought-through strategies for each of our sectors."

And the study revealed that more than half of asset owners believe that without greater investment in transition-finance assets, the world will not be able to meet the Paris Agreement climate-change goals.

On this, Ward added: "There is an opening for blended finance and more collaboration between development banks and investors.

"Everybody needs to come together, recognising that there will be different solutions in different markets as well," she said.

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SUPPLY CHAINS: RIGHTING THE WRONGS

Supply chain scandals are putting reputations at risk. Is it time for investors to take control? *Mark Dunne* reports.

Forced overtime, low pay, restricted movement, physical and psychological injuries as well as exposure to hazardous conditions – it's all, allegedly, in a day's work making vacuum cleaners for Dyson.

These are the reported conditions that some workers have endured while working at ATA Industrial in Malaysia, which makes products for the company that gave the world bagless vacuum cleaners.

Dyson denies any claim of "negligence" and is no longer working with ATA but is one of many corporates facing allegations of human rights abuses in its supply chain. They are being held responsible for the actions and working culture of companies they do not own.

Suppliers are no longer invisible, no longer just in the background. They are now on the radar of ESG-focused consumers and stakeholders.

This means that companies have to choose who they do business with more carefully. Picking the wrong partner could be expensive and cost more than money.

"The risk in supply chains is increasing. If there is an incident, the damage to your brand could be significant," says Fred Isleib, global head of ESG integration at Manulife Investment Management

"These could be related to human trafficking, child labour, unfair wages – there are numerous issues that happen within a supply chain that elevates risk.

"Where it resides inside ESG policies is in the social pillar," he adds.

There have long been cultural practices in some parts of the world that many in the western world do not agree with, so why are institutional investors pushing their portfolio companies for greater transparency now? For one, consumers and other stakeholders have become much more socially aware.

"Then we have social media," Isleib says. "Once these issues arise, they are quickly disseminated throughout the world. Then your customers move somewhere else. That's what is driving the risk within supply chains."

The main outcomes of these risks are reputational damage and disruption to operations. And they do not only stem from human rights abuses. They could be the result of pollution, mis-using natural resources, damage to local communities and corruption.

Supply chains are not typically front and centre of a corporate's ESG policy. Yet they account for up to 40% of corporate ESG impacts, according to the ESG Working Group white paper that analysed 1,600 MSCI World Index companies.

Big problem

Dyson is not the only household name to be hit by such allegations. In 2016, retail giant Marks & Spencer was found to have children as young as seven-years-old making clothes in Turkey to be sold in its stores on Britain's high streets. The manufacturer, which also made products for online retailer ASOS, was also found to have unsafe workplaces.

There have also been allegations of human rights abuses at overseas companies supplying sportswear behemoth Nike, which has been accused of employing suppliers in China that use slave labour, while a facility in Vietnam was deemed unsafe for its workers. Nike faced a small protest at Charlestown University in Washington DC, which refused to renew its sportswear contract unless the company signed a compliance agreement.

These are just two instances of the supply chain issues that have impacted big name brands. Such scandals, true or not, can prove costly. Indeed, it can hit a company financially through loss of productivity, increased legal and public relations spend and the costs of adapting the business to ease any fears of the scandal happening again.

Professor Sabine Benoit from Surrey Business School, who has studied this issue, said in a release: "Customers will blame major firms for supply chain scandals – and this inherited blame will affect whether they buy from the firm in the future.

"Our research has found that taking one action – either monitoring and supporting suppliers to do better or moving on from them – will help to build trust and confidence in the major firm but purchasing intention only returns to 75% of what it was before the scandal hit.

"The best option, if a scandal does hit, is for companies to double-down on their response by sacking the supplier who caused the scandal and work to support their remaining suppliers, then consumer trust will start to rebuild, resulting in the best outcome possible – with purchasing intention rising to 85% of what it was before the scandal hit.

"What this means for major companies is that consumers expect their brands to be doing good in the world – and there's a right way and a wrong way to handle supply chain scandal with a direct impact on the company's bottom line," she added.

New thinking

Yet supply chains are changing. When China became the "workshop of the world" every company you passed on the high street seemed to have some connection to a factory in the world's second largest economy. This was a big economic game-changer which helped keep costs low. However, Covid has changed this.

The world is getting smaller as deglobalisation is becoming the new strategy with supply chains starting to retreat from the

The risk in supply chains is increasing. If there is an incident, the damage to your brand could be significant.

Fred Isleib, Manulife Investment Management

developing world. The impact that the lockdowns ordered in response to Covid had on the world is one driver behind such a change in thinking. Indeed, six in 10 chief executives surveyed by KPMG last October said their supply chains are under increased stress. They were working to build a resilient chain to prepare for any further lockdowns or disruptions to global supply lines.

Isleib says the importance of supply chain visibility has grown during the past five years. "It has gone into hyperdrive thanks to Covid," he adds.

Political tensions between the West and East are also strained, something Isleib is seeing reflected in the corporate world. "Companies are reconstructing their supply chains; they are making them shorter. We are seeing nearshoring and onshoring of suppliers where appropriate," he says.

But investors must not get complacent if companies have suppliers closer to home. Remember Boohoo? In 2020, the online clothing retailer saw £1bn wiped off its value the day after The Sunday Times alleged that staff at a factory in Leicester, which made garments for the company, were paid £3.50 an hour – less than half of the £8.72 minimum wage for those aged over 25.

It was also claimed that there was little evidence of action being taken to stop the possible spread of Covid.

Eyes on the ground

The developing world has a ready and abundant supply of workers, but if there is not the will from the authorities in

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those countries to enforce higher standards of working practices, then corporates will have to manage such risks themselves. “When you incorporate suppliers within developing countries, it elevates certain risks as regulation in many emerging nations is lacking or not robust enough,” Isleib says.

“In addition, many third-party providers don’t necessarily have insights into companies within emerging markets, making it even more critical that the company holds its own independent audit reviews with feet on the ground.

“One of the reasons why we have regulation is to make companies within a country more competitive,” he adds. “Regulation will come through over time, but we should not rely on it.

“Some companies will put a representative directly into a supplier. That gives good visibility on what is happening,” Isleib says.

Data dilemma

Another option is using data and reports from companies that specialise in supplying such information. An alternative is for corporates to constantly monitor the operations of the companies in their supply chain themselves. Isleib has heard mixed reviews about third-party ESG data, but this does not put him off. “It is a good first step to get that initial third-party review,” he says. “I like to understand if companies are conducting audits, do they have teams that are going out to their suppliers to visually understand what’s going on, speaking to the employees on the factory floor, that type of stuff? It’s what I like to see.

“The number of audits that can be completed on an annual basis is somewhat limited, but those who do that have a better visibility into their supply chain.

“Visibility can be difficult, especially if suppliers are small or are not a public company,” Isleib adds.

“Companies need to understand that announcing when they are going to turn up is a potential risk. If you feel that’s happening, then perhaps it does not make sense to use that supplier.

For Investors to assess supply chain operations, they need to be aware of a corporate’s value chain. “If you map out the supply chain from the virgin suppliers all the way to the retailer, you can get a good idea of what’s happening by speaking to the companies involved and understanding what their processes are for managing human capital development challenges. What are their practices around quality control? And then if you do that, through each of the steps of the supply chain, you can get a pretty good idea of what is happening.

“Now, that is typically tier-one suppliers,” he adds. “When you get to tier two and three suppliers, it is difficult to understand what is happening, and you need to rely on the larger company.”

> **Customers will blame major firms for supply chain scandals – and this inherited blame will affect whether they buy from the firm in the future.**
>
> Professor Sabine Benoit, Surrey Business School

Bad move

Perhaps investors encouraging corporates to demand higher social and environmental standards is preferable to moving to suppliers closer to home. It could push people in the emerging world into poverty. ESG should not be a guide to move money out of developing nations, it should be a guide to raise environmental and social standards.

To help make this happen, size matters. When it comes to making the world a better place. “As an organisation, the larger you are, the more influence you have over your suppliers,” Isleib says. “The ability to influence suppliers to be more sustainable can be a powerful force.”

Isleib points to an undisclosed large US retailer as an example. “It was the first company that I saw driving changes to make suppliers more sustainable,” he adds. “This large company had made commitments to the public about what they were going to do, the result of which was to push that requirement down on its suppliers.

“Their suppliers had a choice: they could say that they do not have the resources to do it, and risk losing the business, or find a way to do it and retain that retailer as a customer.

“We see this playing out in carbon disclosures and de-carbonisation pathways,” Isleib says. “Companies realise that they cannot achieve their net-zero commitments if their suppliers provide carbon intensive products.”

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CLARITY FOR INVESTORS AND SEAFOOD RETAILERS ON SUSTAINABILITY & PROFITABILITY

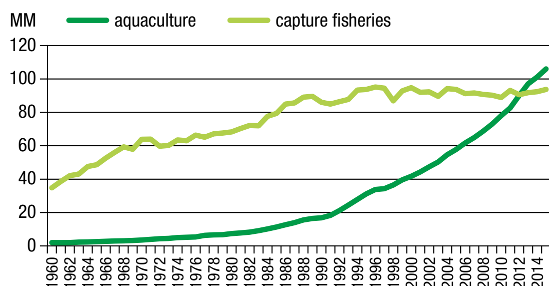
Robert-Alexandre Poujade is an ESG analyst and biodiversity lead at BNP Paribas Asset Management

Investors assessing the risk to seafood retailers of marine biodiversity loss – a major threat – need reliable, transparent and traceable data. BNP Paribas Asset Management has partnered with Planet Tracker on a case study that showed how improving the sustainability of seafood sourcing could improve financial returns.

Many large investors – including BNP Paribas Asset Management – are exposed to the seafood value chain. Their investments typically target downstream players, such as food retailers, rather than upstream companies, such as fisheries or food processors.

Such investments expose them to the risk of marine biodiversity loss – through overfishing, for example. The implications can be hard for investors to understand, largely because the available data is patchy, at best.

The world now produces more seafood from fish farms than wild catch (metric tonnes)[1]



1) Aquaculture is the farming of aquatic organisms, including fish, molluscs, crustaceans and aquatic plants. Capture fishery production is the volume of wild fish catches landed for all commercial, industrial, recreational and subsistence purposes.

Source: UN Food and Agriculture Organization (FAO) via Our World in data

Improving the bottom line

To address that data gap, BNP Paribas AM teamed up with Planet Tracker – a non-profit financial think tank that seeks to better align capital markets with sustainability issues. Both parties worked on a study of one of the world's largest food retailers to assess the sustainability of seafood (sourcing) and see whether making practices more sustainable would also yield financial benefits.

Investors are increasingly adopting planetary boundaries as the lens through which to judge the good – or poor – sustainable extra-financial performance of candidate investee companies.

Planet Tracker helps financial professionals in their decision-making by providing data-driven, financially grounded research which assesses how industry sectors can become greener.

Its open-source Seafood Sustainability Protocol can help retailers, processors and distributors improve the sustainability of ocean ecosystems by changing their sourcing.

Four million new data points

In *How retailers can be sustainable and profitable in seafood*, Planet Tracker details a case study exemplifying how the tool can be used. The study focuses on Carrefour, one of the world's 10 largest food retailers, using millions of non-public data points on Carrefour's seafood purchasing.

The research shows that Carrefour has made significant progress in sourcing seafood sustainably and locally, or in fighting illegal fishing. Of the 13 indicators provided by the protocol, Carrefour did well or is moving in the right direction on 11.

Better financial returns

Encouragingly – and potentially applicable to all seafood retailers – improving the overall sustainability of Carrefour's seafood sourcing can improve financial returns. For example, the study suggested that the retailer earns some of its lowest seafood margins on the most overfished species.

Disclosing details of its seafood supply chain (e.g., on the Ocean Disclosure Project) would generate net financial benefits equal to 3% of estimated gross profit on seafood in France. Supporting initiatives on seafood traceability (e.g., GDST) could also be monetised, according to the study.

New perspectives

The study has provided Carrefour with greater clarity on the path to improved sustainability and financial performance in its seafood business. Highlighting 'line-caught' fish on product packaging has already prompted a positive reaction from consumers.

Investors and lenders can reduce risks and improve returns by engaging with the food retailers they fund on ways to align revenue, profit and cashflow growth strategies with ocean sustainability.

This can include:

- Greater disclosure on seafood supply chains
- A change in seafood sourcing towards more sustainable choices
- Time-bound targets on seafood traceability
- Supporting initiatives aimed at providing financial incentives to suppliers that implement traceability solutions.

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WHY WE NEED A ROADMAP FOR THE GLOBAL AGRICULTURE AND LAND-USE SECTOR

Alexander Burr is ESG policy lead at Legal & General Investment Management. Helena Wright is policy director at the FAIRR Initiative

Existing pathways don't capture the full complexity of issues facing the agriculture and land-use sector. As COP27 approaches, we are calling on policymakers and multilaterals, specifically the UN Food and Agriculture Organisation (FAO), to develop a comprehensive, science-based roadmap.

As COP27 draws near, we believe global leaders have an opportunity to build on the IEA's pioneering roadmap for the energy sector by creating a parallel document covering another vitally important sector for the transition to net zero: agriculture.

Food systems contribute around a third of global greenhouse gas emissions[1], yet efforts to decarbonise the sector have plateaued.

A call for action

Recognising the urgency of this issue, global leaders including former secretary general of the United Nations Ban Ki-Moon and former president of Ireland Mary Robinson have now backed calls by a group of investors managing $17trn (£15.2trn) in assets under management for policymakers and multilaterals (namely the United Nations FAO), to develop a science-based roadmap[2] for the global agriculture and land-use sector.

This effort has been co-ordinated by FAIRR, a collaborative investor network that LGIM is a member of focusing on ESG risks and opportunities caused by intensive animal production.

The IEA's roadmap touches on agricultural emissions, but it does not provide a detailed pathway to a Paris-aligned agriculture and land use sector.

While other initiatives like the Glasgow Breakthrough on agriculture and the science-based targets guidance for forest, land and agriculture[3] are clearly a step forward, there are some major gaps (e.g., methane emissions) and the focus on climate action needs to be expanded to include other important risk areas, such as waste and pollution, biodiversity and AMR (antimicrobial resistance).

Food security

The holistic nature of the challenge facing the agriculture sector has been brought home by the global food crisis, which has demonstrated that climate, nature and nutrition are closely interconnected. Moreover, food production relies on climate stability and protection of the ecosystem.

The need to develop a sustainable food system is making its way onto the plates of policymakers. President Biden has hosted a special White House conference on nutrition and hunger, the first of its kind for 50 years, and sustainable food was on the agenda at New York Climate Action Week in September.

It's also clear the Egyptian presidency understands the impact climate change is having on the food system, with three separate pavilions dedicated to food and agriculture at COP27.

Antimicrobial resistance

The intensification of the agriculture and land use sector also contributes to the growing threat posed by AMR, which has been identified as a 'silent pandemic' by the G7. Livestock today accounts for around 80% of the total use of antibiotics[4], significantly contributing to the AMR crisis.

More than half of meat producers do not disclose information[5] on their antibiotic use. Early studies also show that releasing antibiotics into the soil through antibiotic-containing cattle manure impacts the soil's micronutrients[6] and ability to capture carbon.

Biodiversity

Another important issue, absent from the IEA's analysis and other 1.5 degree-aligned scenarios laid out by the Intergovernmental Panel on Climate Change (IPCC), is the impact of agricultural NZ pathways on biodiversity loss. It is understood that agricultural land expansion drives deforestation, resulting in consequences for biodiversity and contributes to the emissions-intensity of the sector.

More acutely, biodiversity risk is also associated with the expansion of land used to grow the bioenergy crops needed to support the transition. The climate and nature crises are inextricably linked, and we cannot afford to address climate change, deforestation and biodiversity loss in isolation.

The summary above of just a few of the biggest issues faced by the agriculture and land use sector illustrates why we believe a detailed, science-based roadmap is essential to achieve a sustainable and resilient food system for the future.

1) Source: https://www.nature.com/articles/s43016-021-00225-9
2) Source: https://www.fairr.org/article/roadmap-to-2050/
3) Source: https://sciencebasedtargets.org/resources/files/SBTiFLAGGuidance.pdf
4) Source: https://www.journals.uchicago.edu/doi/10.1086/721078#rf685.
5) Source: https://www.fairr.org/index/key-findings/risk-opportunity-factors/antibiotics/
6) Source: https://www.sciencedaily.com/releases/2021/11/211108161433.htm

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Ben Constable-Maxwell is head of impact investing at M&G Investments

THE LIFELINE OF CONNECTIVITY

In the digital age almost half the world's population – 3.7 billion people – are offline. The UN has warned that without decisive action, "the digital divide will become the new face of inequality."[1] But we believe investing with an impact lens can help provide a pathway to social inclusion through services for millions of people, address the Sustainable Development Goals (SDGs) and embrace "double materiality" along the way.

In the heart of Africa lies the Democratic Republic of Congo (DRC), a country two-thirds the size of Western Europe and home to vast swathes of the Congo Basin – the world's second-largest rainforest and a critical lung for the planet, as well as Africa's most biodiverse protected area – the Virunga National Park whose famous inhabitants include the mountain gorillas.

> **One avenue is to invest in companies which enable access to mobile communication services in underserved regions where penetration is low.**

However, the size of the DRC means that its people are separated by two time zones and huge distances, which makes digital connectivity all the more vital for a population of close to 90 million people where infrastructure is lagging. According to data from the World Bank, as of 2020 14%[2] of the DRC's population use the internet while 46%[3] have mobile subscriptions versus 98% and 80% in high-income countries, respectively.

So, how can investors target SDG 9[4] (Innovation, Industry & Infrastructure) and generate impact by fostering social inclusion for a growing young population who want to play a part in the country's economic future?

Empowering participation

We believe one avenue is to invest in companies which enable access to mobile communication services in underserved regions where penetration is low. M&G's Positive Impact team invests in Helios Towers, which owns and operates telecommunications towers in high-growth African markets, including the DRC, Tanzania and Congo Brazzaville.

"Helios Towers has a high-quality business model and socially beneficial objectives, linked to growing mobile access in Africa," says Ben Constable-Maxwell, head of impact investing at M&G Investments. "These regions have Africa's fastest-growing populations but also areas where mobile and other infrastructure is limited; that combination of a growing population who want to participate in the benefits of the digital economy versus a lack of opportunity is an anomaly the company is explicitly looking to address."

With an abundance of natural resources – from cobalt to copper, and cassiterite to timber – the DRC's traditional economic model has been largely extractive, societally unequal and environmentally problematic. In a region beset by these challenges, we believe there is an opportunity to drive a more participatory development model based on access to information rather than resource extraction, one that seeks to help to close the digital divide by increasing access to critical services.

According to a joint report on Africa's internet economy by Google and the IFC[5], a 10% increase in mobile internet penetration in Africa increases GDP per capita by 2.5% versus 2% globally. Consequently, improved digital connectivity also provides fertile ground for innovative solutions.

"The African internet opportunity is driven by the talent of young digital entrepreneurs," the report notes. "Start-ups are solving some of Africa's most challenging issues, such as access to healthcare for remote populations, employment opportunities for women, and the ability to securely send and receive money. Advanced technologies – tailored to data-driven, scalable, and pan-African approaches – are providing new ways for Africans to conduct business and earn income."

Bringing in a 'double materiality' perspective

We believe double materiality enables investors to take an 'outside in' perspective, focusing on how the company is managing those external factors that may affect its prospects, as well as an 'inside out' viewpoint which addresses the real-

world impact the company is having on people and the planet. "Helios Towers has a co-location business model where the mobile tower is not just used by one mobile operator, it can be used by up to four operators. This de-risks the use of that tower from an investment perspective, but it also lowers the cost for the customers and reduces the carbon footprint," explains Constable-Maxwell. "The structure of their business model is inherently lower risk because of that co-location, mobile mast sharing model which reduces costs and increases the likelihood of success."

Helios Towers is aiming to expand its towers by more than 10,000 across the eight markets it operates in by 2025 as well as increasing the number of sites in rural and underserved regions by about 1,500. As the company grows, how can a 'double materiality' perspective help investors gain a more holistic picture of its prospects, encompassing financially material ESG risks and also the company's real-world impact on people and planet?

For Helios Towers, financially material ESG issues would include employee retention, customer satisfaction and risk management around issues like bribery and corruption, all factors that are likely to affect the company's growth prospects and long-term financial success. But addressing double materiality seeks to combine what is financially material to a company with what is material to people and the planet. "Helios is an excellent illustration of this concept," says Constable-Maxwell, "demonstrating robust management of those financially material ESG issues ('outside in'), but also a business model that is inherently driving economic empowerment and financial inclusion ('inside out')."

Impact at scale

Mobile technologies and services contributed to more than $130bn (£115bn) in economic value in sub-Saharan Africa in 2020[6] – and this is projected to exceed $155bn (£138bn) by 2025, but with more than a fifth of the region's people offline the coverage gap is significant. With its population set to triple by 2100[7], mobile and internet connectivity must play a significant role in supporting social and economic development.

> **"...people can save, invest and build for a better future, while creating the right environment to help entrepreneurs grow their businesses sustainably."**

"For people and groups with limited economic opportunities the question is: how can impact investors support their economic empowerment via improved access to information and communication, enabling them to access life-enhancing services like mobile health, education and banking, even in a rural community without traditional infrastructure. In this way, people can save, invest and build for a better future, while creating the right environment to help entrepreneurs grow their businesses sustainably," says Constable-Maxwell.

1) UN, "With almost half the world's population still offline, digital divide risks becoming 'new face of inequality', deputy secretary-general warns general assembly", (press.un.org), 27 April 2021.
2) World Bank, Democratic Republic of Congo, (data.worldbank.org).
3) World Bank, Democratic Republic of Congo, (data.worldbank.org).
4) SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
5) Google & IFC, "e-Conomy Africa 2020, Africa's $180 billion internet economy future".
6) GSMA, "The mobile economy, sub-Saharan Africa 2021".
7) The Lancet, "Why sub-Saharan Africa might exceed its projected population size by 2100", (thelancet.com), 17 October 2020.

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