



# Supporting a just and inclusive transition

Prudential plc

October 2022

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# Executive summary

**The transition towards a low-carbon economy is a global challenge, requiring global solutions. There is broad recognition of the need to manage this transition in a just and inclusive way, yet there is limited emphasis in mainstream discussions on exactly how difficult this process may be with regard to emerging markets.**

Currently, global progress towards limiting warming in line with 1.5°C has been insufficient – and this is even more so the case within emerging markets. There are good reasons why this is the case, as emerging markets face significant challenges – higher dependence on fossil fuels combined with increased economic growth, insufficient reasons to finance the transition through clean energy and other climate solutions, as well as other unfinanced basic development needs. If, as a society, we are going to meet global climate goals and ultimately reach net zero, it is critical to ensure emerging markets are able to make this transition towards a low-carbon economy, alongside more mature or established markets. It is equally critical to ensure that this transition is managed in a just and inclusive way, leaving no one behind.

Prudential firmly believes in the need for a just and inclusive transition, in a way that actively places the considerations of emerging markets at the forefront of discussions. We are focusing our support on accelerating the clean energy transition through engagement and opportunities for financing, rather than divestment. We recognise our investments may initially be more carbon-intensive than our peers in developed

markets, which may mean our pace of decarbonisation differs. Despite this, we have committed to being a net zero asset owner by 2050 and are confident we can reach this target and support a just and inclusive transition in the process.

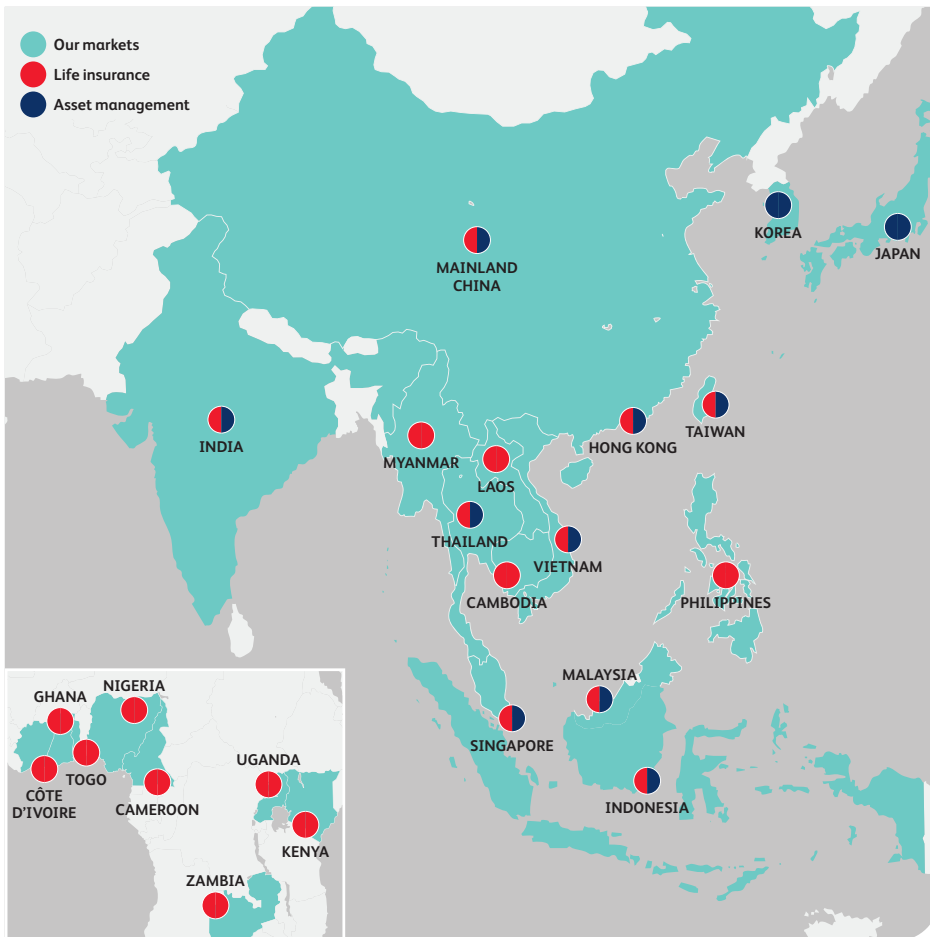
The purpose of this paper is threefold:

- 1 To define the case for a just and inclusive transition, and its place in meeting the Paris Agreement;
- 2 Highlight the importance that Prudential places on ensuring the transition to a low-carbon economy is a just and inclusive one; and
- 3 Explore case studies and further actions required, both from Prudential and the wider market.

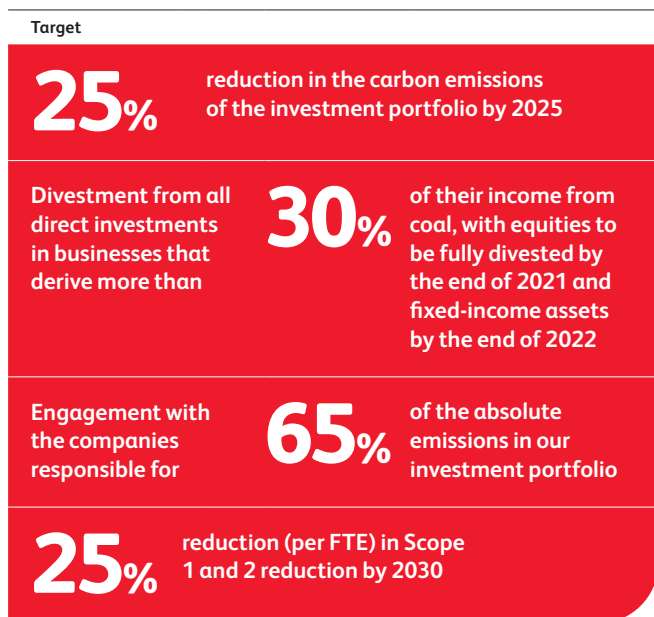
As a significant investor and asset owner with long-term investment horizons and liabilities, Prudential is in a position to support the just transition within emerging markets. This paper sets forward our position largely from the asset owner perspective, acknowledging that the execution must be managed in partnership with our asset managers. We recognise that this is a process of continuous improvement. We expect both our position and execution approach to evolve whilst maintaining our objective to influence real-world impact in a just and inclusive way.

# 1 Introduction

We help people get the most out of life, by making healthcare affordable and accessible and by promoting financial inclusion. We protect people's wealth, help them grow their assets, and empower them to save for their goals. In Asia, we provide savings and protection in markets challenged by low insurance penetration and a pension funding gap. In Africa, we are building businesses in some of the world's most under-penetrated markets. In these markets we seek, through discussions with governments, regulators, partners and customers, to address the social requirements for insurance and asset management solutions.



**Prudential has set multiple targets regarding climate change:**



There is broad recognition of need for the world to decarbonise with extreme speed to avoid the worst physical impacts of climate change. The UN Secretary-General António Guterres described the report of the Intergovernmental Panel on Climate Change (IPCC) published in 2021 as ‘a code red for humanity’, reiterating that ‘we are at imminent risk of hitting 1.5°C in the near term’. Significant global effort is required to limit warming in line with the globally agreed 1.5°C target: global carbon emissions must peak by 2025, halve by 2030 and be net zero by 2050. As it stands, government policies and actions are estimated to lead to 2.7°C<sup>1</sup> warming by 2100 (which is an improvement from 2017 when the world was on track for 3.4°C<sup>2</sup>). The physical impacts of climate change are becoming increasingly apparent with more cases of flooding, heatwaves and other extreme weather becoming more frequent and severe. This is particularly apparent for emerging markets.

Prudential fully supports the urgent need to reduce global greenhouse gas (GHG) emissions to net zero to limit climate change in line with the Paris Agreement. We are particularly conscious of what the potentially catastrophic impacts of climate change may mean for the communities in which we operate – and millions of our customers – across Asia and Africa. The Environmental Risk Outlook 2021, which ranks the world’s 576 largest urban centres on their exposure to a range of environmental and climate-related threats, indicates that 99 of the world’s 100 riskiest cities are in Asia<sup>3</sup>.

The breadth of markets which Prudential operates in across Asia and Africa requires a considered and dynamic approach to the low-carbon transition. The climate-related risks and opportunities present in highly developed markets with diversified and mature economies varies greatly to those in emerging markets that are more dependent on primary and energy-intensive industries. Critically, these emerging markets have a greater reliance on fossil fuels in their energy generation mix than developed economies and have other pressing social and development needs to meet at the same time. This is evidenced in the large divergence between countries and regions in their efforts and ability to act on climate change, and ultimately in reducing their carbon footprint. We therefore need a differentiated approach towards our markets, recognising that Singapore and Hong Kong can and are leading the way in Asia, while more emerging markets will take a longer time to transition.

Prudential believes that by using our influence to limit the impact of climate change, our policyholders will benefit; both through reduced impact on their daily lives and through limiting financial impact on the portfolios we manage for them. Managing climate risk in our portfolios is part of our fiduciary responsibility as the financial and health risks of climate are significant, especially if the world does not meet the Paris Agreement goals. In the short term, this presents both us and others in our position with challenges to navigate from both a business and sustainability perspective. More information on how we balance these challenges, including our efforts to identify and manage climate-related risks and opportunities can be found in our climate-related disclosures within our latest 2021 ESG Report. These disclosures are aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), of which we have been a supporter since 2018.

**The purpose of this paper is threefold:**

- 1 To define the case for a just and inclusive transition, and its place in meeting the Paris Agreement;**
- 2 Highlight the importance that Prudential places on ensuring the transition to a low-carbon economy is a just and inclusive one; and**
- 3 Explore case studies and further actions required, both from Prudential and the wider market.**

We are aware that the transition towards a low-carbon economy in a just and inclusive way is a global challenge, of which we play a small part. We recognise we have the potential to have a positive impact, but that it will not be without significant commitment and engagement across our business and markets. Importantly, we are aware that we still have a lot to learn, and that this transition will be a process of continuous improvement. Therefore, it is our ambition that this document will be continually updated as our thinking and actions evolve over time.

**Notes**

1 [The CAT Thermometer | Climate Action Tracker](#). Copyright © 2009-2022 by Climate Analytics and NewClimate Institute.  
 2 [Improvement in warming outlook as India and China move ahead, but Paris Agreement gap still looms large | Climate Action Tracker](#). Copyright © 2009-2022 by Climate Analytics and NewClimate Institute.  
 3 [www.maplecroft.com/insights/analysis/environmental-risk-outlook-2021-executive-summary/#report\\_form\\_container](http://www.maplecroft.com/insights/analysis/environmental-risk-outlook-2021-executive-summary/#report_form_container)

## 2 What is a just and inclusive transition?

The International Labour Organization defines the just and inclusive transition as ‘greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind’<sup>4</sup>.

Prudential’s view on ‘leaving no one behind when we green the economy’ is that a just and inclusive transition is relevant on two levels:

- > All countries need to transition, and countries should not be left behind in this global transition, especially the most vulnerable ones; and
- > Within countries, workers’ rights and livelihoods should be secured during the transition, for example securing jobs for coal workers in coal-dependent regions.

Both of these perspectives are addressed in the World Economic Forum’s (WEF) [The Principles for Financing a Just and Urgent Energy Transition](#) (‘JUET Principles’), which helps safeguard the interests and wellbeing of affected workers and communities and help ensure that climate action in developing countries is managed inclusively and equitably. Prudential worked with the WEF’s Sustainable Development Investment Partnership (SDIP) to draft these principles and became one of the first signatories.

Solutions for addressing both levels of a just and inclusive transition will have to come from many different actors in society, including governments, companies and financial institutions. Several initiatives in the financial sector are raising awareness for this issue, by asking investors to assess how companies in high-emitting sectors are addressing social challenges alongside their transition to a low-carbon business model (for example the World Benchmark Alliance approach on assessing a just transition, the investing in a just transition initiative by the Grantham Research Institute on Climate Change and the Environment, and the guidelines for a just transition by the International Labour Organization).

### Can we meet the Paris Agreement goals and have a just and inclusive transition?

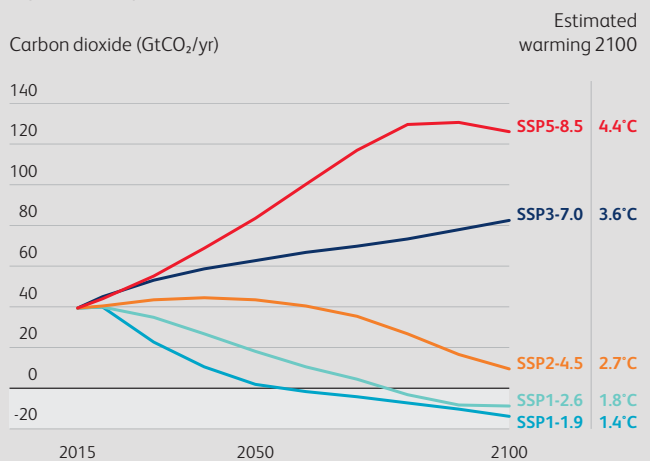
The IPCC’s Shared Socioeconomic Pathways (SSP) show the best way to limit temperature increase to well below 2°C, in line with the Paris Agreement, is through a just and inclusive transition. These pathways are scenarios of projected socioeconomic global changes in relation to climate change used for their assessment reports. The only SSP scenario meeting the 1.5°C target is the Sustainability – Taking the Green Road scenario (SSP1) which ‘emphasises more inclusive development that respects perceived environmental boundaries’. This scenario includes both aspects of the just and inclusive transition as inequality is reduced both across and within countries.

#### SSP1: Sustainability – Taking the Green Road

The SSP1 scenario is described as: the world shifts gradually, but pervasively, toward a more sustainable path, emphasising more inclusive development that respects perceived environmental boundaries. Management of the global commons slowly improves, educational and health investments accelerate the demographic transition, and the emphasis on economic growth shifts toward a broader emphasis on human wellbeing. Driven by an increasing commitment to achieving development goals, inequality is reduced both across and within countries. Consumption is oriented toward low material growth and lower resource and energy intensity.

Two of the five main scenarios of the IPCC use SSP1 as their baseline. These scenarios are the best outcome on expected warming:

**Figure 1: The five main scenarios of IPCC showing that only the scenario emphasising more inclusive development, ie a just and inclusive transition (SSP1), will meet the Paris Agreement goals.**



Source: Sixth Assessment Report of IPCC Working Group I, 2021.

Note

<sup>4</sup> [Climate change and financing a just and inclusive transition \(ilo.org\)](#)

# 3 The case for a just and inclusive transition

## A just and inclusive transition is necessary for emerging markets.

They:

- > Have historically contributed less to the cumulative greenhouse gas (GHG) emissions present in our atmosphere today;
- > Are typically the most vulnerable to the physical impacts of climate change;
- > Are more dependent on fossil fuels for ongoing development;
- > Have fewer resources to fund the transition to a low-carbon economy and manage the physical impact of climate change; and
- > Have the greatest unfinanced basic development needs as reflected by the Sustainable Development Goals.

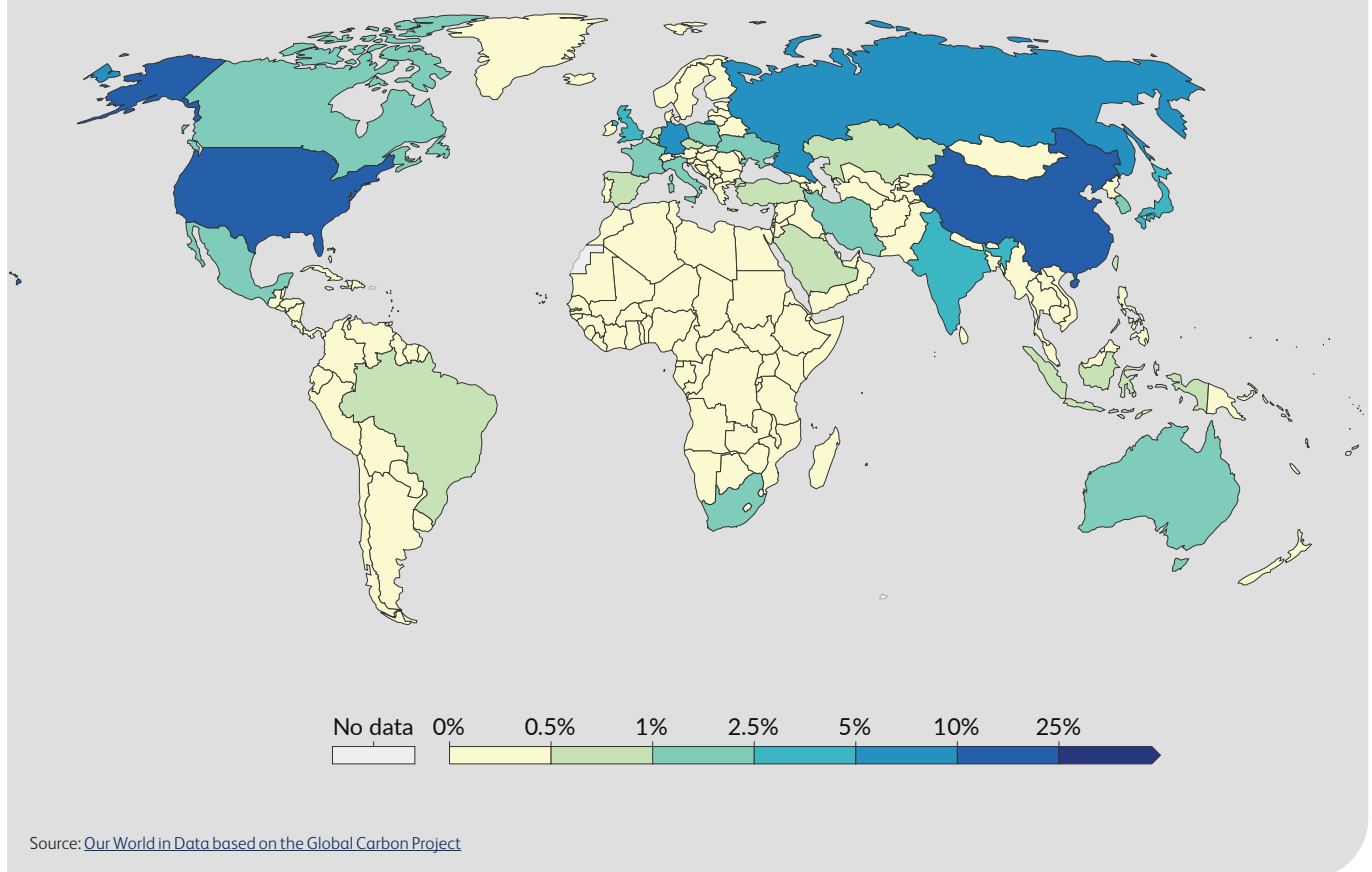
Reducing carbon emissions while meeting rising energy needs will require significant investment—some estimates top \$1 trillion annually<sup>5</sup>.

However, emerging markets are less able to finance the investment needed to achieve a net-zero transition<sup>6</sup>. Emerging markets (excluding China) comprise two-thirds of the global population but hold only 10 per cent of financial wealth<sup>7</sup> and, to date, emerging markets have accounted for only 10 per cent of the global issuance of sustainable debt of which only 53 per cent is by corporates<sup>8</sup>. Their governments will also struggle to raise finance as sovereign borrowing capacity has been reduced by the economic impacts of Covid-19. To meet the targets of the Paris Agreement, this financing gap needs to be closed by private and public investment.

**Figure 2: Emerging markets contributed less to the cumulative GHGs emitted today.**

### Share of global cumulative CO<sub>2</sub> emissions, 2020

Each country or region's share of cumulative global carbon dioxide (CO<sub>2</sub>) emissions. Cumulative emissions are calculated as the sum of annual emissions from 1750 to a given year.



#### Notes

5 International Energy Agency. Financing Clean Energy Transitions in Emerging and Developing Economies. June 2021. p. 14

6 [BlackRock Investment Institute, October 2021](#). Page 1

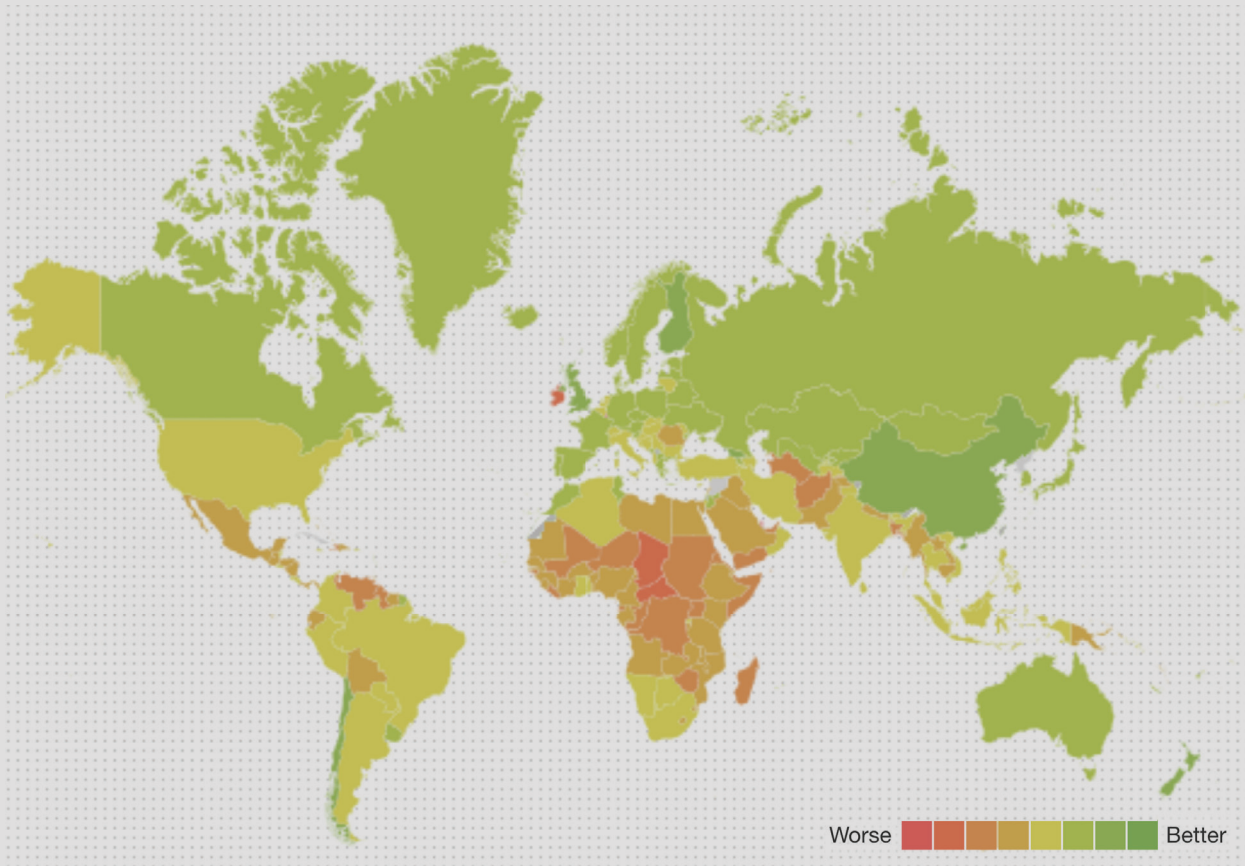
7 IEA, Financing Clean Energy Transitions in Emerging and Developing Economies, June 2021. Page 43

8 IEA, Financing Clean Energy Transitions in Emerging and Developing Economies, June 2021, page 46

### 3.1 The impact of climate change on emerging markets and their role in the transition

The US, Europe, Australia, and Japan have together contributed 67 per cent of total CO<sub>2</sub> emissions. On the other hand, emerging markets have contributed significantly less to cumulative carbon emissions compared to developed economies (Figure 2). Despite this historical imbalance, the physical impact of climate change will be more keenly felt amongst more vulnerable economies (Figure 3). In addition, emerging markets are now faced with the same expectations on decarbonising their economies as developed markets. Many decarbonisation standards and initiatives do not account for differences in economic development. Companies and countries are often judged on their alignment to one global decarbonisation pathway which often only differentiates between sectors.

Figure 3: Emerging markets are the most vulnerable to the physical impact of climate change.



Source: Notre Dame Global Adaptation Initiative (ND-GAIN) index which summarises a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience.



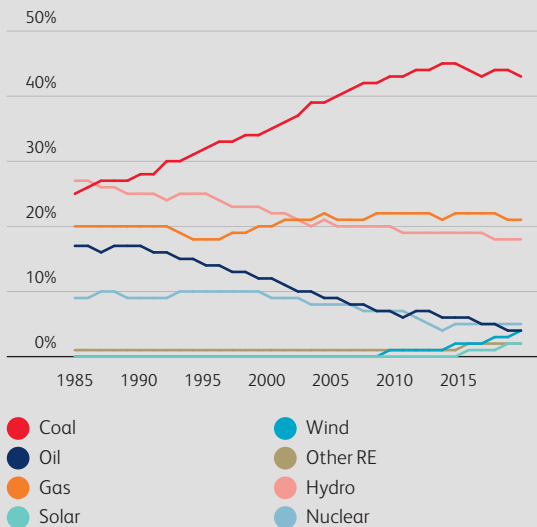
### 3.2 Progress of energy transition in emerging markets

Coal is the largest contributor to global CO<sub>2</sub> emissions, representing 44 per cent of the global CO<sub>2</sub> emissions, of which 67 per cent is from electricity and heat generation<sup>9</sup>. Emerging markets are highly dependent on coal for electricity generation (Figure 4). Helping emerging markets to move away from coal as a source of electricity will be critical to their decarbonisation.

The slower pace of emerging markets in the energy transition is not just apparent through their reliance on coal, but also in their emissions and their commitments to the Paris Agreement through their Nationally Defined Contributions (NDCs). For many emerging markets, the unconditional decarbonisation targets are set either on intensity or relative to business as usual, meaning that their absolute emissions are forecasted to go up (Figure 5). This reflects a lack of opportunities to decarbonise while at the same time meeting the acute challenges facing those countries.

**Figure 4: Emerging markets are more dependent on fossil fuels and their dependence on coal is not decreasing.**

#### Electricity generation mix (World excluding US and Europe)

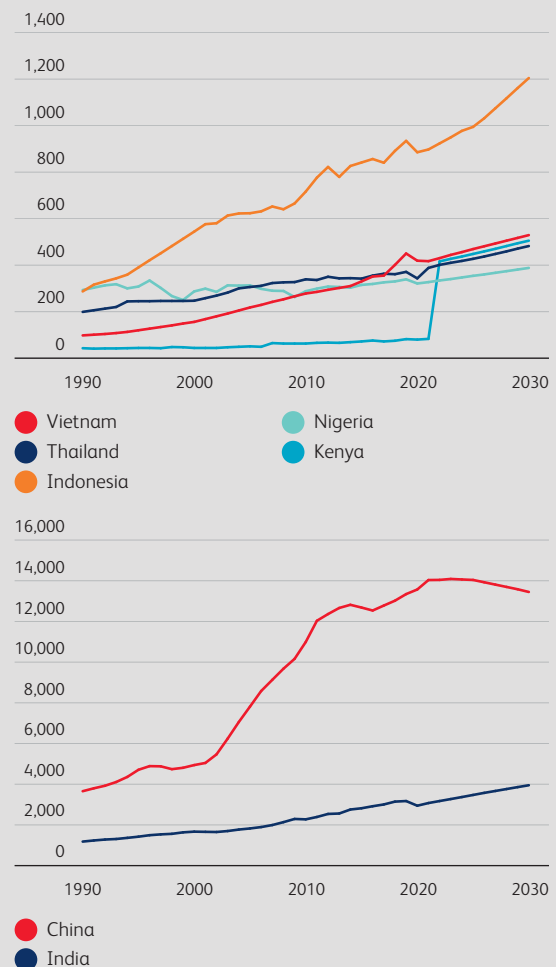


Source: BP statistical review 2021 and Ember Global Electricity Review 2021.

One of those challenges is that the energy demand will be rising substantially in the coming years as a result of economic growth. This makes it particularly challenging to transition away from coal as those countries need to simultaneously meet the rising energy demand. Additionally, government actions and policies are not yet in line with the Paris Agreement and thus not providing the right incentives for companies to move away for carbon-intensive activities, like coal. The Net Zero Asset Owner Alliance (NZAOA) discussed in their 'Future of Investor Engagement' paper that companies cannot move outcomes beyond the boundaries of the 'playing field' (ie the policies and regulations set by the government): 'the systemic change required to achieve net-zero targets will not materialise if there are no plausible pathways, business cases or incentives to allow it under existing economic frameworks'.

**Figure 5: This dependence and the fewer resources to finance the transition is reflected in their NDCs.**

#### Historical and forecasted emissions MtCO<sub>2</sub>e/year



Source: Climate Action Tracker. Used data points: 'historical emissions' and 'policies and actions'. Copyright © 2009-2022 by Climate Analytics and NewClimate Institute.

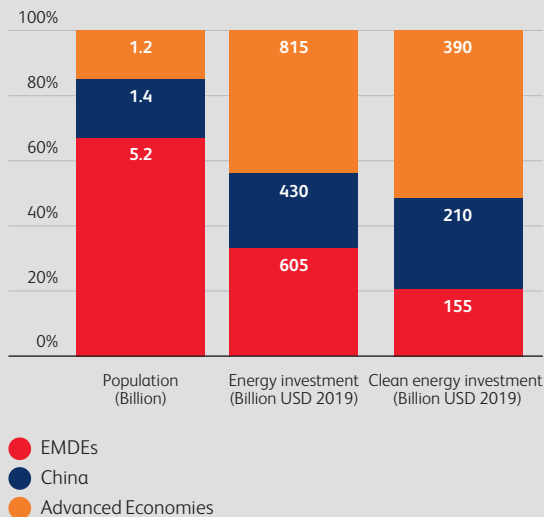
**Note**

9 Source: IEA: World CO<sub>2</sub> emissions from fuel combustion by fuel, 1971-2019 – Charts – Data & Statistics – IEA

### 3.3 Financing gap in emerging markets

To bring the warming potential further down, massive investments in the energy transition are needed across the globe, especially in emerging markets. According to the International Energy Agency, emerging markets 'currently account for around two-thirds of global carbon emissions and would represent the largest source of future emissions growth if insufficient action were taken to transform their energy systems' (Figure 6).

**Figure 6: In 2021, emerging markets (excluding China) account for two-thirds of the world's population, but only one-third of total energy investment and 20 per cent of global investment in clean energy technologies.**



Source: IEA, Financing Clean Energy Transitions in Emerging and Developing Economies, June 2021.

At the same time, the financing gap for these companies is large and increasing: 'Clean energy investment in emerging and developing economies declined by 8 per cent to less than US\$150 billion in 2020 [...] By the end of the 2020s, annual capital spending on clean energy in these economies needs to expand by more than seven times, to above US\$1 trillion, in order to put the world on track to reach net-zero emissions by 2050'<sup>10</sup>. BlackRock believes the required investment could be even higher<sup>11</sup>. The current crisis also has a negative impact on emerging markets' ability to raise funds: the Financial Times reported end of May that 'nearly \$36bn has flowed out of emerging market mutual and exchange traded bond funds since the start of the year [2022]'<sup>12</sup>.

This financing gap focuses only on the energy transition. The physical impact of climate change will have a negative impact on companies in emerging markets and their governments. Research from the International Monetary Fund (IMF) shows that 'non-financial firms operating in countries with greater vulnerability to climate change tend to experience difficulty in access to debt financing even at higher interest rates'<sup>13</sup>. They also show that climate change vulnerability already has a statistically and economically significant impact on the cost of sovereign borrowing<sup>14</sup>, credit ratings<sup>15</sup>, and the risk of debt default<sup>16</sup>, especially in emerging markets.

#### 3.3.1 Lack of financial solutions for emerging markets

The IEA reports that emerging markets (excluding China) have accounted for only 10 per cent of the global issuance of sustainable debt<sup>17</sup>. There are many different reasons cited for this lag:

- Lack of localised frameworks:** Whilst net zero frameworks and even transition standards exist globally, there is an overall lack of local frameworks for green issuance within emerging markets, as well as a lack of credible plans to meet the Paris Agreement within those markets<sup>18</sup>.
- Need for more flexible sources of capital:** The green bond framework is typically not suited to many emerging markets issuers. Investors of green bonds within these markets need to be more flexible, and adopt a longer-term mindset, to support managers within emerging markets to engage issuers<sup>19</sup>.
- Lack of robust data:** Data requirements can be another hurdle to issuing green bonds. The reporting and monitoring of sustainability indicators leads to additional costs, especially in an environment which is less developed on sustainability data, which might be offsetting the financial incentives to an issuer in the form of lower capital costs<sup>20</sup>.

#### Notes

- Source: [Executive summary – Financing clean energy transitions in emerging and developing economies – Analysis – IEA](#)
- [BlackRock Investment Institute, October 2021, Page 5](#)
- [Emerging markets hit by worst sell-off in decades | Financial Times \(ft.com\)](#)
- [Rogue Waves: Climate Change and Firm Performance \(imf.org\)](#)
- [This Changes Everything: Climate Shocks and Sovereign Bonds \(imf.org\)](#)
- [Feeling the Heat: Climate Shocks and Credit Ratings \(imf.org\)](#)
- Cevik, Serhan and Jalles, João Tovar, An Apocalypse Foretold: Climate Shocks and Sovereign Defaults (November 2020). IMF Working Paper No. 20/231, Available at SSRN: <https://ssrn.com/abstract=3758064>
- IEA, Financing Clean Energy Transitions in Emerging and Developing Economies, June 2021, page 46
- Source: Amacker, J., Donovan, C., March 2021, Marathon or Sprint? The Race for Green Capital in Emerging markets, Imperial College Business School, Centre for Climate and Finance & Investment
- Source: Amacker, J., Donovan, C., March 2021, Marathon or Sprint? The Race for Green Capital in Emerging markets, Imperial College Business School, Centre for Climate and Finance & Investment
- Asian Development Bank, Detailed Guidance for Issuing Green Bonds in Developing Countries, December 2021

### 3.3.2 Current Responsible Investment frameworks and the consequences for emerging markets

An additional, inherent challenge for emerging markets is that current ESG investment frameworks can create biases against investing in these markets. While often being an unintentional consequence of the way in which these frameworks have been structured, the impact is nonetheless worrying:

- > ESG ratings of sovereigns and companies are backwards looking and often highly correlated with GDP of the country, leading to capital outflow from emerging markets in favour of developed markets if an ESG overlay based on ESG ratings is applied on a global investment strategy. Additionally, it has been suggested that the improvement in ESG scores in EMs has been primarily driven by improvements in governance and secondarily by social progress, not environmental factors<sup>21</sup>.
- > Companies and countries are often judged on their alignment to one global decarbonisation pathway which often only differentiates between sectors, but not between countries or the state of economic development. These science-based standards are based on technological feasibility and therefore typically favour countries with more technology and financial resources. However, the Paris Agreement contains principles of 'shared but differentiated responsibility'. Science-based standards consistent with the principle of 'differentiated responsibilities' should have both an aggregate global trajectory for transition and differentiated regional or national trajectories.
- > Additionally, many investors have set decarbonisation targets for their investment portfolios. Investing actively in the transition of carbon-intensive companies will increase the carbon footprint of an investor's portfolio even if that investment is used to finance the energy transition. This is also the case for green bonds as the carbon footprint of a green bond is the same as the carbon footprint of a conventional bond of the same company, even though the proceeds of the green bonds are solely used for transition projects. As many carbon-intensive companies operate in emerging markets, this short-term increase in the carbon footprint of the portfolio might create an incentive not to invest in the transition of these economies.

These biases in Responsible Investment frameworks need to be considered by investors operating and/or investing in these markets and when they decarbonise their portfolios.

**Policy Brief**  
**Implementation of the Just Energy Transition Partnership in South Africa**  
 Lessons Learnt for Civil Society Organisations  
 VER. 08.08.2022 | COLLECTIVE RESEARCH

**Just Energy Transition Partnership**

At COP26, the EU, UK, US, France and Germany announced a Just Energy Transition Partnership (JETP) with South Africa. Under the JETP, the partner governments pledged an initial amount of \$8.5 billion as a contribution towards financing South Africa's long-term just transition process to reduce the carbon intensity of South Africa's electricity system, while also developing new sectors such as green hydrogen and electric vehicles. The objective is to ensure a just transition for workers and communities that have historically relied on South Africa's coal-based value chains for their livelihoods<sup>22</sup>.

**Notes**

21 Source: Amacker, J., Donovan, C., March 2021, Marathon or Sprint? The Race for Green Capital in Emerging markets, Imperial College Business School, Centre for Climate and Finance & Investment

22 [Joint Statement of the Government of the Republic of South Africa and the African Development Bank in relation to South Africa's Just Energy Transition process | African Development Bank – Building today, a better Africa tomorrow \(afdb.org\)](https://www.afdb.org/en/news-and-events/story/joint-statement-of-the-government-of-the-republic-of-south-africa-and-the-african-development-bank-in-relation-to-south-africa-s-just-energy-transition-process)



### Other unfinanced basic development needs

In addition to the financing needed for the energy transition, emerging markets also face the greatest unfinanced basic development needs. The Sustainable Development Goals of the United Nations reflect these needs. The SDGs are a collection of 17 global goals designed to be a 'blueprint to achieve a better and more sustainable future for all'. The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030.

The SDGs have been developed with emerging markets in mind. Many of the SDGs are interlinked and the concept of just and inclusive transition is clearly articulated in this framework, as all goals are integrated: action in one area will affect outcomes in others.

The OECD has calculated that the total annual financing on the Sustainable Development Goals was US\$2.5 trillion pre-Covid, while the estimated Covid recovery spending gap is US\$1 trillion. At the same time, private financing in developing countries has decreased due to more uncertainty around economic growth related to the Covid-19 pandemic, increasing these funding gaps even further<sup>23</sup>.

Climate change and the energy transition are linked to many other Sustainable Development Goals, which warrants a holistic approach regarding the energy transition. Examples of important links are:

> **Climate change and good health:** The World Health Organisation states that climate change 'threatens the essential ingredients of good health – clean air, safe drinking water,

nutritious food supply, and safe shelter – and has the potential to undermine decades of progress in global health. Between 2030 and 2050, climate change is expected to cause approximately 250,000 additional deaths per year, from malnutrition, malaria, diarrhoea and heat stress alone. The direct damage costs to health are estimated to be between US\$2 to 4 billion per year by 2030<sup>24</sup>.

- > **Climate change and the need for climate adaptation:** The funding gap on the SDGs includes the funding gap on climate adaptation which is also significant. The United Nations Environment Programme reports that for 2021, 'estimated adaptation costs in developing countries are five to 10 times greater than current public adaptation finance flows, and the adaptation finance gap is widening'. This gap is expected to increase further if the world does not manage to fulfil the commitment made in the Paris Agreement, the probability of which is growing as the current decarbonisation pathway is not on track.
- > **Climate change and gender equality:** the Women in Finance Climate Action Group<sup>25</sup> reports that 'in many parts of the world, women and girls are disproportionately impacted by the effects of climate change. Disasters and the impacts of climate change often intensify existing inequalities, vulnerabilities, poverty and unequal power relations between men and women. As women make up the largest part of the world's poor and are already structurally marginalised, they risk being further marginalised by the effects of climate change; reinforcing and widening the disparity between men and women'.

Note

<sup>23</sup> Source: [Overview | Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet | OECD iLibrary \(oecd-ilibrary.org\)](#)

<sup>24</sup> [Climate change and health \(who.int\)](#)

<sup>25</sup> [Women in Finance – Aviva plc](#)

# 4 Prudential's approach to a just and inclusive transition

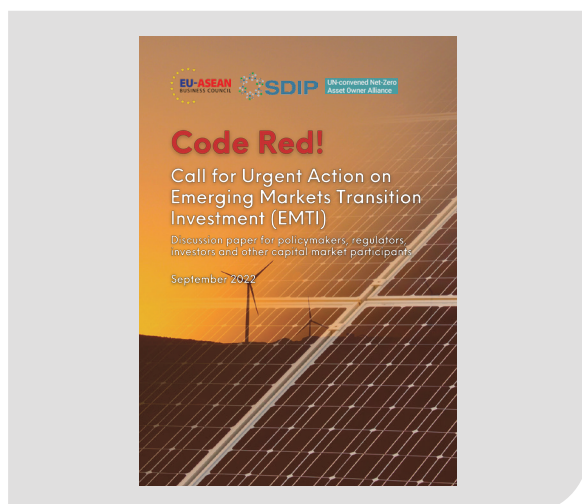
Prudential has pledged to become a net zero asset owner and, recognising that our responsibilities go beyond finance and into supporting the communities in which we operate, have chosen to do so in a way that gives consideration to a just and inclusive transition. We are continuously mindful of the need to implement our decarbonisation strategy in a way that acknowledges the nature of the markets in which we operate and promotes sustainable development for all stakeholders.

Prudential contributes to a just and inclusive transition in emerging markets through our influence as an insurance company and (local) asset owner operating in emerging markets. As an insurance company and a long-term investor in local markets, we are interested in sustainable long-term development of our markets and our approach to the just and inclusive transition focuses on making sure emerging markets are not left behind in the global energy transition. We do this by:

- > Raising awareness on the challenges for emerging markets in the energy transition and seeking to contribute towards solutions;
- > Actively considering the impact on emerging markets in all activities on climate change that we undertake, most importantly on Responsible Investment; and
- > Taking a holistic approach to the challenges of emerging markets.

We recognise that we are on a journey of continuous improvement and the above approach outlines the direction in which Prudential will evolve.

The next sections summarise the most relevant examples of how we are contributing to a just and inclusive transition through our investments, advocacy activities and thought leadership. In addition to the examples set out below, we discussed our approach to a just and inclusive transition in our [2021 ESG report](#) (pages 32 to 34).



**Note**

26 [3 actions to accelerate emerging market climate transition | World Economic Forum \(weforum.org\)](#)

## 4.1 Raising awareness on the challenges for emerging markets in the energy transition and contributing to solutions

One important action we can take is to use our influence as an asset owner to raise the challenges on the energy transition with governments and regulators and advocate for options to accelerate the energy transition. We engage constructively with trade associations, policymakers, academics and NGOs to shape the evolution of regulation and standards relating to climate risk and transition.

### 4.1.1 Raising awareness on emerging market challenges

We actively support the need for a just and inclusive transition by bringing an emerging market perspective to the decarbonisation discussions, such as through our involvement in bodies such as the NZAOA. We also used our participation in COP26 to reinforce this.

Within the NZAOA we have initiated and are leading an initiative on financing the transition, focused on emerging markets. This 'Emerging Markets Transition Investment' project is a one-year project aiming to identify the barriers and actionable solutions to closing the sustainable investment gap in emerging markets. The initiative is jointly organised by the NZAOA, Sustainable Development Investment Partnership (SDIP) and the EU-ASEAN Business Council (EU ABC). It will have three main streams of work:

- > Regional webinars to raise awareness of the need for net zero transition with an emerging market audience;
- > A series of small group online roundtables with practitioners to discuss in depth the barriers and potential solutions to emerging market transition investing; and
- > From the webinars and roundtables, the development of viable proposals that public and private sectors can implement in the short and medium term to materially increase emerging market sustainable financing.

Invited participants will include investors, policymakers, standard setters, development financial institutions and other experts from developed, emerging and frontier markets. The first roundtable focused on key enablers of increased debt financing for the net-zero transition in emerging markets, which resulted in a discussion paper available [here](#).

Additionally, we support the position made on the World Economic Forum website which argues that 'three practical, scalable short-term actions could unlock more of capital sooner for EMDEs: accelerating mandatory climate disclosures; scaling national transition investment facilities; and reviewing metrics to eliminate disincentives in EMDE transition investing. Support from donor countries, multilateral banks and the private sector will be key to all three actions'<sup>26</sup>.

#### 4.1.2 Energy Transition Mechanism

Coal-fired power plants represent a quarter of total global carbon emissions, and nearly three-quarters of emissions from the electricity sector. Given the global reliance on coal, the private and public sectors must work together to support the transition to a low-carbon economy.

The Energy Transition Mechanism (ETM) is a scalable public-private partnership that can be used to acquire and then retire coal-fired power plants well before the end of their useful life, in an orderly and just way. The ETM proposes to establish an investment fund in collaboration with national authorities, in order to purchase and retire coal-fired power plants older than 10 to 15 years. This is consistent with climate commitments and would cut expected remaining lifetimes from 30 to 40 years by 15 years or more<sup>27</sup>. A complementary facility would channel proceeds into renewable power, grid upgrades and support for workers and communities. In this way, the ETM would tangibly help developing countries to finance an orderly transition by reducing reliance on coal in the total energy mix and increasing access to affordable renewable power.

In February 2020, the Asian Development Bank (ADB) commissioned a study to validate and refine the ETM concept in Indonesia, the Philippines and Vietnam. After the first study was completed, the ADB launched an ETM partnership with the governments of Indonesia and the Philippines to establish an ETM in Indonesia and the Philippines. The partnership was endorsed by senior cabinet-level officials from Denmark, the United Kingdom, and the United States, as well as leading global financial institutions and philanthropies. Japan's Ministry of Finance has committed a grant of US\$25 million to ETM, the first seed financing for the mechanism<sup>28</sup>. A video of the ETM partnership is available [here](#).

We continue to support the ETM as an example of the practical private-public solutions needed to progress the energy transition and we look forward to seeing the outcome of the detailed feasibility study in Indonesia and the Philippines.

#### 4.1.3 Policy engagement

With operations in Asia and Africa, we are well placed to bring an emerging markets perspective to stakeholder discussions to help ensure the need for a just and inclusive transition in developing markets is considered in policy and regulation. We regularly engage with policymakers and regulators and monitor evolving climate risk-related initiatives that could develop into new regulation in the markets in which we operate. Policy engagement is essential to accelerate the energy transition. As the NZAOA points out: 'policymakers need to address the technological and regulatory hurdles preventing decarbonisation at sufficient speed. Society should not rely solely on corporate engagement to deliver outcomes that meet 1.5°C investor ambitions, while companies are incentivised otherwise'<sup>29</sup>.

Those groups we have engaged with include the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO), and through Monetary Authority of Singapore's International Advisory Panel (IAP), Singapore's Green Finance Industry Task Force, Institute of International Finance's Sustainable Finance Policy Experts and Disclosure Working Groups, Confederation of British Industry Sustainable Finance Working Group and the Sustainable Development

Investment Partnership (SDIP) of the World Economic Forum. A fuller description can be found within our 2021 [ESG report](#). We have also supported the Global Investor Statement to Governments on the Climate Crisis which urges governments around the world to rapidly implement priority policy actions that will enable them to invest the trillions of dollars needed to respond to the climate crisis.



#### Prudential and COP26

A major focus of policymakers, regulators and business in 2021 was the preparation for and meeting of the UNFCCC's Conference of Parties (COP26), under the UK and Italian Presidency, with the meeting from 31 October to 13 November 2021.

Through 2021, Prudential worked with the UK government's COP Unit and UK embassies in our markets on key themes ahead of COP26. We participated in local Energy Transition Councils facilitated by the UK government in a number of ASEAN markets. We also participated in green finance workshops organised by the UK government or other partners in collaboration with domestic policymakers.

At COP26, across a range of activities, the Chair, Group CFO and COO and senior Prudential representatives highlighted the importance of an inclusive transition in Asia and Africa; the challenges of addressing coal retirement and investment in renewables in developing markets; and the framework for financial market participants to achieve net-zero goals – for example, the creation of an International Sustainability Standards Board (ISSB) to deliver a global baseline for sustainability-related disclosure standards. Prudential partnered with the GHS@COP26 conference, which took place during COP26, led by the City of London Corporation and the Green Finance Institute, to amplify these messages and initiatives.

Prudential supported the publication during COP26 by the World Economic Forum (WEF) of a set of principles to ensure a 'Just and Urgent Energy Transition', while Don Kanak, chairman of Prudential Insurance Growth Markets, took part in the Asian Development Bank's partnership launch for the development of an Energy Transition Mechanism, alongside the Indonesian and Philippine governments.

#### Notes

<sup>27</sup> [How to accelerate the energy transition in developing countries | World Economic Forum \(weforum.org\) & Energy Transition Mechanism \(ETM\) | Asian Development Bank \(adb.org\)](#)

<sup>28</sup> [ADB, Indonesia, the Philippines Launch Partnership to Set Up Energy Transition Mechanism | Asian Development Bank](#)

<sup>29</sup> [The Future of Investor Engagement: A Call for Systematic Stewardship to Address Systemic Climate Risk – United Nations Environment – Finance Initiative \(unepfi.org\)](#)

## 4.2 Just and inclusive transition within Responsible Investment activities

We unveiled a pledge to become a net-zero asset owner by 2050, committing to specific short-term targets, including to engage with the companies responsible for 65 per cent of the absolute emissions in our investment portfolio. We are aware that a target of net zero by 2050 will be challenging as an asset owner operating in emerging markets and for the companies in those markets. However, by committing to the short-term decarbonisation targets and the net zero target we are reiterating our serious commitment to tackling climate change and increasing the resilience of our business, now and in the future.

### 4.2.1 Engagement target

Prudential's approach to decarbonisation focuses on engagement: actively working with our investee companies to transition to a net zero business model. As such, we have committed to engage with companies responsible for 65 per cent of the carbon emissions related to our investment portfolio. We engage with these companies on disclosure, setting net zero targets and intermediate decarbonisation targets, adapting their business models, ways to finance green projects, and other key topics. Research<sup>30</sup> indicates that engagement is more likely to be successful if the lead engager is local as they speak the language and share the culture. As a local asset owner and asset manager in many of our markets, we can use this to our advantage.

For engagement relating to decarbonisation, the requests included in the engagement are aligned with the expectations of the Net Zero Asset Owner Alliance for companies to:

- > Commit to net-zero greenhouse gas (GHG) emissions across their value chains by no later than 2050 and be supportive of the transition to a net-zero greenhouse gas emission world by 2050;
- > Define interim GHG reduction targets that are in line with reaching net-zero emissions by 2050;
- > Develop and implement plans for their businesses to remain viable in a climate-neutral economy, with meaningful consideration of associated social impacts;
- > Support adoption and implementation of governmental policies facilitating the transition to net-zero emissions;
- > Prepare for and not disrupt price mechanisms on GHG emissions;
- > Take action and make progress on efforts to lower GHG emission intensity of their operations and products, and to disclose in line with the four core elements of TCFD recommendations: governance, strategy, risk management, and metrics and targets; and
- > Enter direct time-bound engagement dialogue with Alliance members and/or other investor initiatives to discuss efforts to decarbonise their business by 2050.

### Prudential's six implementation strategies

Prudential's Group Responsible Investment Policy is structured across six different implementation strategies as shown in the diagram below. Our activities and responsibilities regarding the just and inclusive transition referenced in this paper can be linked back to these implementation strategies.



**Note**

30 Dimson, Elroy and Karakaş, Oğuzhan and Li, Xi, 2018, Coordinated Engagements, European Corporate Governance Institute – Finance Working Paper No. 721/2021

#### 4.2.2 Financing the transition

A critical aspect of supporting the transition towards a low-carbon economy is the investment of sustainable finance mechanisms. Due to a limited number of established sustainable finance instruments within emerging markets, to date this has presented a few challenges and our total investments contributing to the energy transition in emerging markets remain modest. Despite these challenges, Prudential seeks to invest actively in the energy transition, with labelled bonds being an important tool for this. Currently, Prudential has invested US\$1.2 billion in green bonds<sup>31</sup>. This number has increased significantly over the last years, showing that labelled bonds and sustainable finance has become more mainstream over time. In addition, Prudential seeks to actively source and support the



#### The 'divestment vs engagement' dilemma

The societal impact of divestment is a highly debated topic. Proponents of divestment believe it will encourage change by increasing the cost of capital of companies with negative social impact, which will make it harder for them to operate, or force them to adjust their business models. Opponents of divestment argue that this is naïve, that single investors or groups of investors cannot have a meaningful impact on the cost of capital and that those who divest lose all influence with the company.

Research by Bergman (2018)<sup>32</sup> argues that 'while the direct impacts of divestment are small, the indirect impacts, in terms of public discourse shift, are significant'. In the case of fossil fuels, 'divestment has put questions of finance and climate change on the agenda and played a part in changing discourse around the legitimacy, reputation and viability of the fossil fuel industry'.

On the other hand, practice shows that the divestment and decarbonisation trend within the financial industries is incentivising listed companies to sell their assets to private investors, resulting in less transparency and is therefore harder for stakeholders to monitor<sup>33</sup>.

development of such investable green bonds in the emerging markets we operate. For example, in Vietnam we work closely with the Credit Guarantee and Investment Facility to make specific projects investable through the use of guarantees. Through this construction, Prudential has financed the first renewable (solar) energy project financing bond in Vietnam and refinanced an existing solar power plant. Even though these bonds are contributing to the energy transition, they are not labelled as green bonds, because the necessary frameworks have not been designed with emerging market challenges in mind. Prudential Vietnam has also financed partially guaranteed bonds issued by EVN Finance who had obtained pre-issuance verification in accordance with the Green Bond Principles of the International Capital Market Association (ICMA). This is the first bond issued in the Vietnam market based on the ICMA green bond principles.

Financing the transition requires a large-scale and cohesive input from asset owners and managers alike. Recognising we cannot do this alone, we remain optimistic that opportunities to invest in the transition will only become more prominent, and are seeking to explore opportunities in collaboration both with our asset manager and through our efforts in the NZAOA.

#### 4.2.3 Divestment policy

An important element of our commitment to net zero by 2050 is how we approach divestment from high carbon emitting companies, such as coal companies. In setting a threshold for divestment, we take great care in balancing our stewardship duties in developing markets, with our dedication to the low-carbon transition. We firmly believe that the foundation for a truly just and inclusive transition lies in the dedication to work with companies to phase coal out more quickly and effectively, as opposed to strict divestment that diverts necessary financing for the transition.

Prudential has committed to divesting from companies generating more than 30 per cent of their revenues from coal mining and/or electricity generated from coal, with equities to be fully divested by the end of 2021 and fixed-income assets by the end of 2022<sup>34</sup>. Electricity generation through coal is the single largest contributor to global carbon emissions, and companies with a large reliance on coal carry therefore a significant stranded asset risk to our portfolio. On the other hand, we are cognisant of the reliance of our markets on coal and the challenges for switching to renewable sources while energy demand is rising as many of our markets show significant economic growth. We believe that the 30 per cent revenue threshold appropriately balances these two perspectives and are continually monitoring this decision. Acknowledging all of the barriers for companies to move away from coal, we prefer engagement with both companies and governments to actively replace coal with affordable and reliable sustainable energy sources on a pathway consistent with Paris Agreement commitments in line with the JUET principles.

#### Notes

31 Investments identified using the Refinitiv green bond flag, per 29/4/2022

32 Bergman, N. 2018. Impacts of the fossil fuel divestment movement: Effects on finance, policy and public discourse. *Sustainability*, 10(7), 2529

33 [Who buys the dirty energy assets public companies no longer want? | The Economist](#)

34 This policy excludes unit-linked funds, assets held by joint venture businesses and certain externally-managed collective investment scheme balances



As a result of the coal divestment policy, we have divested from some utility companies. Rather than abandoning these companies after we have divested, we have continued to engage and influence some of them to develop credible transition plans and improve disclosures, for example through Eastspring's active participation in the Asian Utilities Engagement Programme by the Asian Investor Group on Climate Change. This programme targets companies producing substantial greenhouse gas emissions, having large coal-fired power capacity or having a strategic role in driving the net-zero emissions transition. Therefore, despite having an exclusion policy, we seek a just and equitable transition by continuing our dialogue with some of these companies – which are critical to supporting the energy needs of vulnerable countries. Expansion plans for coal (with regards to both coal mining and electricity generation) are an important topic within these conversations. In addition, when a company demonstrates that they are transitioning we are able to invest in them again, an outcome we are all aiming for.

### 4.3 A holistic approach to the challenges of emerging markets

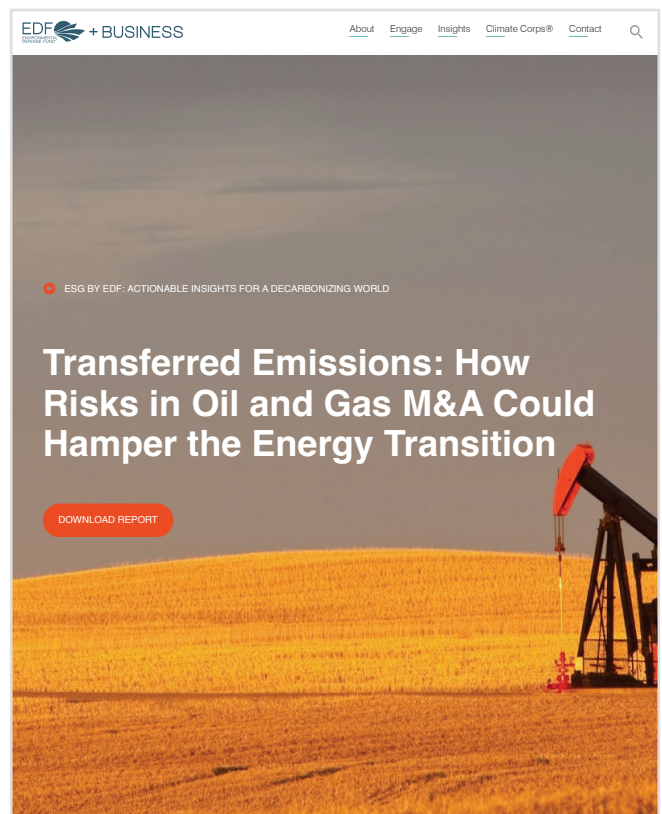
We recognise that our responsibilities as an insurance company go beyond finance, and we want to support communities, companies and governments during this transition. We therefore take a holistic approach and consider how other parts of the business can contribute to a just and inclusive transition.

#### 4.3.1 Climate change adaptation

We contribute to climate resilience through the SAFE STEPS programme and the Safe Schools Programme. SAFE STEPS was established by Prudence Foundation (Prudential's community investment arm in Asia and Africa) in partnership with the International Federation of Red Cross and Red Crescent Societies and the Federation Internationale de l'Automobile as its key partners. At its core SAFE STEPS is a multi-platform educational and awareness building programme providing life-saving tips on climate and disaster risk preparedness, road safety, first aid and Covid-19 to millions of people on a daily basis. Prudence Foundation also developed and hosts the SAFE STEPS Disaster Tech Awards every two years which recognises and promotes global disaster risk reduction technologies that can help minimise the impact of disasters and save lives.



The Safe Schools Programme is a partnership with Save the Children and Plan International across Asia to support children and school resilience in the advent of increasing risks related to climate change and other hazards. This has led to a nationwide initiative in the Philippines in partnership with the Department of Education and Save the Children to develop a technology platform for all 47,500 schools, as well as the central and regional governments, to access quality data, analysis, and resources, as well as engage children and communities for better and improved School Safety planning, implementation and disaster response decision making.



### 🔍 Divestment in the real economy: Merger and Acquisition by oil and gas companies

Divestment can possibly have an adverse impact on carbon emissions. The impact of divestment in the real economy – ie moving assets between oil and gas companies through merger and acquisition – is becoming more apparent. A study from the Environment Defence Funds shows that 'over the last five years, a significant number of upstream oil and gas deals moved assets from companies with climate commitments to companies that lack such commitments. [...] Reduced-environmental-commitment deals surpassed their counterparts, with 62 deals worth \$51.6 billion moving assets away from companies with flaring commitments, and 50 deals worth \$26.2 billion moving assets away from companies with methane goals'<sup>35</sup>.

**Note**

35 [Transferred Emissions: How Oil & Gas M&A Hamper the Energy Transition \(edf.org\)](https://www.edf.org/insights/transferred-emissions)

#### 4.3.2 Climate change and health

Our business in the Philippines, Pru Life UK, commissioned an independent study (which can be found [here](#)) to better understand the impact of climate change on Filipino families. The pioneering study explores the health impacts of climate change and their potential pressures on financial security and wellbeing. The paper concludes that:

- > There is no disease group that is immune to the effects of climate change, and the incidence of some conditions is expected to increase as a result of climate change;
- > Multiple responses will be needed for the variety of physical and mental health issues that are likely to arise;
- > Climate change must be viewed as a public health issue;
- > Rapid decarbonisation to stabilise the climate will be good not just for the planet but for people's health too;
- > Financial security at all levels is a climate adaptation measure;
- > Climate and health knowledge needs to be communicated to raise awareness and equip people with tools to contribute to both mitigation and adaptation; and
- > Building societal resilience to climate change and its health effects is also an urgent priority since climate change is already happening.

Prudential is committed to continuing to explore the impacts of climate change and health, specially within its markets. We have recently entered partnerships to fund research projects with Nanyang Technological University (NTU) in Singapore, which will focus on how climate change coupled with air quality will impact human health across 10 markets in Asia and Africa; and, with IFRC Climate Centre to explore the interactions between air pollution, extreme heat and humidity on human health to identify who is most at risk.

#### 4.3.3 Climate change and gender equality

Prudential recognises that those populations who have traditionally been underserved by protection providers are also those who are more heavily impacted by the effects of climate change, particularly women and girls. As we strive to make health and financial security accessible, we are developing and re-designing our products and services, across our multi-distribution channels, in a way that is inclusive, and which meets the needs of vulnerable communities. This includes products that recognise the evolution and needs of families, women, religious minorities, small and medium-sized enterprises and lower-income groups.

#### 4.3.4 Social impact of the energy transition

Commodities and their producers will be at the centre of the energy transition as electrification of the global economy will require lots of metals and minerals to build the renewable energy infrastructure and electric vehicles. 'In contrast to coal- or gas-fired power plants, solar panels and wind parks require no fuel to operate but need significantly more materials: replacing a coal-fired power plant with offshore wind power generation requires six times the amount of mineral commodities (copper, zinc, nickel, chromium and rare earths); for a gas plant it's 13 times more. Building solar capacity is less resource intensive, but it still consumes three times more minerals than building coal plants. In addition, building new gridlines to connect the world's electricity supply and demand will require significant amounts of copper and aluminium. While replacing fossil-fuelled power generation with clean energy will reduce demand for coal and gas, it fundamentally changes our power generation from a fuel-intensive to a materials-intensive system. The transition from combustion engines to battery driven vehicles shows a similar pattern. Compared to a conventional vehicle, an EV requires six times as many minerals, namely lithium, nickel, cobalt, manganese and graphite, which are critical commodities for battery production<sup>36</sup>.





**How will climate change affect the health of Filipinos in the next decade?**

A PRU LIFE UK COMMISSIONED STUDY  
NOVEMBER 2021

Note

<sup>36</sup> [A new supercycle – the clean tech transition and implications for global commodities](#) | J.P. Morgan Asset Management ([jpmorgan.com](#))

**4.3.5 Climate change and palm oil**

Palm oil is the world's most produced vegetable oil and is used in food manufacturing, in beauty products, and as biofuel. Palm oil is a very efficient crop and contributes to rural poverty alleviation and rural development in many regions. The irresponsible production of palm oil has caused widespread rainforest destruction and wildlife (biodiversity) loss, exacerbated climate change, and impacted the rights of local communities. Palm oil production does not have to be destructive and can be produced responsibly as a part of sustainable development<sup>37</sup>. The Roundtable on Sustainable Palm Oil (RSPO) has developed a set of environmental and social criteria which companies must comply with in order to produce Certified Sustainable Palm Oil (CSPO). When they are properly applied, these criteria can help to minimise the negative impact of palm oil cultivation on the environment and communities in palm oil-producing regions<sup>38</sup>.

Palm oil is relevant for Prudential, as around 90 per cent of the world's oil palm trees are grown in Malaysia and Indonesia, two countries in which Prudential operates.

Our approach on palm oil focuses on engagement. We categorise palm oil producers on their share of RSPO certified palm oil and engage with the 'worst performers' and the companies that 'need improvement':

% of RSPO certification	Categorisation
0% to 20%	Worst performers
20% to 80%	Improvement needed
80% to 100%	Best in class

As an asset owner operating in Malaysia and Indonesia, we are engaging palm oil producers to adopt sustainable production practices. However, unsustainable palm oil practices continue to exist, partly because palm oil buyers are not requesting sustainable palm oil and are not willing to pay for sustainable palm oil. Therefore, we also require our asset manager to engage with other actors in the palm oil supply chain. Eastspring will be engaging with the four largest purchasers and RSPO to discuss potential improvements to their certification process.

**4.3.6 Climate change and our operations**

**Scope 1 and 2 emissions**

We have set a carbon neutrality target for our operations. Approximately 95 per cent of Prudential's Scope 1 and 2 emissions are from indirect sources associated with the electricity consumed in office operations. As shown above, many of Prudential's markets' energy grids are not benefiting from large-scale investment in renewables yet. Additionally, in most of our markets Prudential cannot select a different energy provider, as the market is controlled by one player per location. As a result, absolute emission reductions, through the procurement of green energy supplies, are difficult to achieve for Prudential.

As a result of a lack of clean energy options, a focus has been placed on absolute reduction via energy efficiency measures, however as an occupier of a building, implementation of measures can be limited. We can only change what is within our control as energy supply is controlled by landlords. An additional target of 25 per cent carbon reduction per full-time employee from 2016 baseline has been committed to, and each location is being supported via energy reduction roadmaps. The largest share of operational emissions is from Malaysia, which is also Prudential's largest property portfolio.

Recently, our Malaysian office has secured green energy via the Green Electricity Tariff scheme for a percentage of its offices, leading to Scope 2 emission reductions in subsequent reporting years. Despite Malaysia being the largest share of operational emissions, Prudential is a small player in this carbon credits market, which presented a challenge during acquisition that Prudential may also face in other markets.

Each market also has a different fuel mix and ability to invest in or generate clean energy. Most African countries in Prudential's portfolio have much lower consumption and accessibility to electricity along with clean energy options which is representative of the level of development and stage of energy transition rather than the potential growth for these locations.

Our challenges in setting and reaching a net zero target within our own operations is reflective of the struggles within emerging markets to decarbonise. The lack of options to procure renewable energy or establish landlord/tenant partnerships to do so is currently prohibitive, and further highlights the need for increased focus on larger scale solutions across the emerging markets in which we operate.

**Supply chain**

Given the nature of our business, Prudential's supply chain is mainly made up of businesses that provide and maintain our IT network and systems, businesses that provide specialist professional and advisory services, and businesses that support our staff and their work environment (such as facilities management and office services). Although our supply chain is not our most material source of Scope 3 emissions, we recognise its importance and we will continue to monitor this area. Information on our Scope 3 emissions (excluding our investment portfolio) are available in the [2021 ESG report](#).

**Notes**

37 Source: [Palm Oil | WWF \(panda.org\)](#)

38 Source: [About | RSPO – Roundtable on Sustainable Palm Oil](#)

## 5 Further actions

Making sure emerging markets do not fall behind in the energy transition is not only the fairest approach to climate mitigation but will also be the only way the world can achieve net zero. This will require both public and private investments, and the mainstreaming of investing in the energy transition. This paper is therefore a call to action to asset owners, asset managers, companies and governments to actively integrate the needs and specific circumstances for emerging markets into their approach regarding climate change.

Prudential will continue to work with other like-minded organisations to raise awareness about the unique challenges faced by emerging and developing economies in meeting their needs for climate transition and other sustainable investments. The collaboration mentioned above on the NZAOA's subtrack on Financing the Transition for emerging markets, SDIP and EU-ASEAN Business Council is intended to produce viable proposals that public and private sectors can implement in the short and medium term to materially increase emerging market sustainable financing. At the same time Prudential will work to be an advocate for responsible investment practices and climate aware regulation of the insurance industry and capital markets. We will continue to learn from the experience of others and look for constructive ways to share best practice to address barriers faced by emerging markets to finance the transition.

Prudential believes that additional work is required to draft policies and transition protocols to support positive investments in the energy transition, especially for emerging markets.

These include:

- > **A review of metrics for portfolio reporting** so that climate-oriented metrics do not act to disincentivise investors from investing in transition in order to decrease the carbon footprint of their portfolios in the short term. The ASEAN Taxonomy for Sustainable Finance is an example of a protocol trying to incorporate specific economic circumstances for investing in the energy transition. The ASEAN Taxonomy will be an overarching guide for ASEAN member states that caters to the different ASEAN economies, financial systems and transition paths<sup>39</sup>.
- > The need for **emerging market-appropriate harmonised taxonomies and protocols** for investing in responsible retirement facilities for fossil fuel utilities or investing in carbon-intensive companies' transition toward carbon neutral practices.
- > **Jurisdictional involvement in international standard setting** to enable more disclosure, such as that which is encouraged within the latest draft sustainability and climate standards proposed by the International Sustainability Standards Board (ISSB).

### Note

<sup>39</sup> Source: [ASEAN Taxonomy for Sustainable Finance – ASEAN](#)

## 6 Conclusion

We believe a just and inclusive transition is essential to transition to a low-carbon world. Countries across the world will need to overcome their own specific challenges and may not be able to decarbonise at the same pace, or via the same methods, consistent with the principles of the Paris Agreement. Only when we take these country-specific challenges into account and aim for a holistic approach towards the energy transition, can the goals of the Paris Agreement be met in a sustainable way. Climate change cannot be solved in isolation as it is a complex problem with many different aspects having an impact on the transition to low-carbon economies, from the biodiversity crisis to rising social inequality within and across countries.

At Prudential, we are currently focusing our support on an accelerated energy transition through engagement and opportunities for financing the transition, rather than divestment, wherever possible. We recognise our investments may initially be more carbon-intensive than our peers in developed markets, which may mean our pace of decarbonisation differs. Despite this, we have committed to being a net zero asset owner by 2050 and if we keep setting intermediate targets combined with concrete actions, we are confident we can reach our net zero target and support a just and inclusive transition in the process.

We recognise that we are on a journey of continuous improvement, and welcome further engagement and collaboration with our peers and industry associations on our collective challenges. Although we are still learning and improving, we pledge to use our influence and our assets in a way in which we think that we contribute the most to real-world impact, and ultimately absolute GHG emission reductions, in a just and inclusive way.

Where third-party information has been used in this paper, the source of such information has been identified. While industry surveys, publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, the accuracy and completeness of such information is not guaranteed. Prudential has not independently verified any of the data obtained from third-party sources (whether identified in this paper by source or used as a basis for any beliefs and estimates stated herein), or any of the assumptions underlying such data. Similarly, internal surveys, industry forecasts and market research, which Prudential believes to be reliable, have not been independently verified.

**Prudential public limited company**

Incorporated and registered  
in England and Wales  
with limited liability

**Registered office**

1 Angel Court  
London  
EC2R 7AG

Registered number 1397169

[www.prudentialplc.com](http://www.prudentialplc.com)

**Principal place of business  
in Hong Kong**

13th Floor  
One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

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