BUSINESS INSIGHTS ON EMERGING MARKETS 2021
OECD DEVELOPMENT CENTRE

The Development Centre of the Organisation for Economic Co-operation and Development was established in 1962 and comprises 27 member countries of the OECD. In addition, 28 non-OECD countries are full members of the Development Centre. The European Union also takes part in the work of the Centre.

The Development Centre occupies a unique place within the OECD and in the international community. It provides a platform where developing and emerging economies interact on an equal footing with OECD members to promote knowledge sharing and peer learning on sustainable and inclusive development. The Centre combines multidisciplinary analysis with policy dialogue activities to help governments formulate innovative policy solutions to the global challenges of development. Hence, the Centre plays a key role in the OECD’s engagement efforts with non-member countries.

To increase the impact and legitimacy of its work, the Centre adopts an inclusive approach and engages with a variety of governmental and non-governmental stakeholders. It works closely with experts and institutions from its member countries, has established partnerships with key international and regional organisations and hosts networks of private-sector enterprises, think tanks and foundations working for development. The results of its work are discussed in experts’ meetings as well as in policy dialogues and high-level meetings, and are published in a range of high-quality publications and papers for the research and policy communities. For more information on the Centre, please see www.oecd.org/dev.

OECD EMERGING MARKETS NETWORK

Emerging Markets Network (EMnet) is an OECD-sponsored initiative dedicated to the private sector. Managed by the OECD Development Centre, EMnet fosters dialogue and analysis on emerging economies and their impact on global economic and social issues.

EMnet gathers top executives (chief executive officers, vice-presidents, managing directors, chief financial officers, heads of strategy, chief economists) of multinational companies from diverse sectors who are willing to engage in debates with high-level policy makers, including heads of state and ministers, and OECD experts.

EMnet events are closed to the public and media and operate under Chatham House Rule to encourage open and dynamic discussions on doing business in Africa, Asia and Latin America and the Caribbean. To learn more about EMnet, please consult www.oecd.org/dev/oecdemnet.htm.
EDITORIAL

COVID-19 has had an unprecedented impact on a world already affected by major imbalances, exacerbating pre-existing inequalities and socio-economic challenges across Africa, Asia and Latin America and the Caribbean (LAC). More than a year into the COVID-19 pandemic, plunging economic growth means that many developing countries could be forced into long-term financial or debt crises, while they try to fight the ongoing public health crisis.

In Africa, average public debt ratios rose to 70% of gross domestic product (GDP) in 2020, with at least seven African countries hitting levels over 100%. In Asia, the rise in unemployment and underemployment risks leading to a significant income loss, affecting informal workers in particular. In LAC, the number of people living below the poverty line increased by 22 million, now comprising 33.7% of the population, while public debt ratios reached 79.0% of GDP in 2021.

The world is in urgent need of a New Deal for Development, with investment in resilience and inclusion at its core. A real recovery has to be global and the international community must step up to provide a more ambitious response. This New Deal should be based on co-responsibility for key priorities, the first being stronger health and social protection systems, especially for informal workers. The critical role of women in our societies and economies should also be urgently recognised and leveraged.

The New Deal for Development cannot exist without collaboration between the public and private sector. Companies around the world have played an important part in the fight against COVID-19. From the outset, they rapidly adapted their production cycles to provide ventilators, sanitisers and other key medical equipment. Advanced technological firms provided the digital platforms and tools to work, study, socialise and even to access remote medical help during these difficult times. Businesses will continue to play a critical role in enabling both the public and private sector to leverage new technologies for an inclusive recovery, as envisaged for example by the Platform on Investment and Productive Transformation in Africa, a multi-stakeholder initiative jointly managed by the OECD Development Centre and the African Union Commission. Private sector investment, together with technological innovation and cross-sector collaborations, are also key elements of a green recovery across emerging markets.

The exogenous and global nature of the COVID-19 crisis requires all actors, both public and private, to sit around the table and discuss common solutions to the current social and economic emergencies. Devising policies for job creation through production diversification, transition to a low-carbon economy, mainstreaming gender and women’s empowerment throughout sectors, industrialisation and the development of quality infrastructure will need to be part of these discussions. In addition, governments should rethink their national development strategies, forge a new social pact with citizens and channel resources to where they are needed most.
The OECD Development Centre provides a space for countries at all levels of development and for key stakeholders, to identify solutions to these pressing challenges. In this context, our business platform the Emerging Markets Network, or what we call EMnet, remains an excellent instrument for engaging companies in our policy discussions. With just a decade left to deliver on the United Nations Sustainable Development Goals, and so much left to do, involving the private sector in building a more inclusive, sustainable, green and digital post-COVID world will be fundamental.

Mario Pezzini
Director, OECD Development Centre, and
Special Advisor to the OECD Secretary-General on Development
ACKNOWLEDGEMENTS

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The opening chapter, “Recent trends in emerging markets”, was prepared by Lorenzo Pavone Robbert van Eerd and Lamia Mounavaraly. It received contributions from Arthur Minsat, Head of the Europe, Middle East and Africa Desk; Kensuke Tanaka, Head of the Asia Desk; and Sebastián Nieto-Parra, Head of the Latin America and the Caribbean Desk; and from Melanie Vilarasau Slade.

Chapter 2, “Business in a post-COVID world”, was drafted by Lorenzo Pavone, Robbert van Eerd and Lamia Mounavaraly. The chapter captures insights from the EMnet virtual meetings held in 2020, including the Working Group on Business and Sustainability (12 March and 21 July), the Working Group on Digitalisation (25 June), the Working Group on Green Economy in Emerging Markets (17 September), and the EMnet global meeting Business in a Post-COVID World (15-16 December). The events featured the participation of high-level policy makers, senior business executives and OECD experts. Further insights originate from desk research and bilateral conversations with EMnet members and other multinational companies operating in emerging markets. AT&T, Enel Group, Eni, Google, Kinross, and Siemens contributed additional comments to sharpen the analysis.

Chapter 3, “Paths to progress for business and sustainability in emerging markets”, was prepared by Melanie Vilarasau Slade, EMnet Co-ordinator; and Grace Dunphy, Project Co-ordinator. It also received support from Robbert van Eerd and Kartikey Sharma. The chapter received further input from colleagues at the OECD Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE) and the Centre for Responsible Business Conduct (RBC). Insights from the EMnet membership helped to shape this chapter, which also benefitted from comments by AT&T, CNH Industrial, Danone, Economics of Mutuality, Enel Group, Eni, Essilor, Grupo Energía Bogotá, Huawei Technologies, Mahindra & Mahindra, MSD, Schneider Electric, SUEZ, Syngenta, Telefónica, The Adecco Group and the Global Reporting Initiative.

Chapter 4, “A year after: Governments to the rescue in emerging markets and beyond”, was written by Lourdes S. Casanova, Senior Lecturer and Gail and Roberto Cañizares Director of the Emerging Markets Institute, and Anne Miroux, Faculty Fellow, of the Emerging Markets Institute of the Samuel Curtis Johnson College of Business at Cornell University.

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The opinions expressed and arguments employed here are the sole responsibility of the authors and do not necessarily reflect the official views of the member countries of the OECD or its Development Centre, or of EMnet members.

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Abbreviations and Acronyms

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<tbody>
<tr>
<td>ACET</td>
<td>African Center for Economic Transformation</td>
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<td>AfCFTA</td>
<td>African Continental Free Trade Area</td>
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<td>AI</td>
<td>artificial intelligence</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>AU</td>
<td>African Union</td>
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<td>AUC</td>
<td>African Union Commission</td>
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<tr>
<td>BRICS</td>
<td>Brazil, Russian Federation, India, China, South Africa</td>
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<tr>
<td>CAF</td>
<td>Corporación Andina de Fomento (Development Bank of Latin America)</td>
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<tr>
<td>CEPAL</td>
<td>Comisión Económica para América Latina y el Caribe (see ECLAC)</td>
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<tr>
<td>CO₂</td>
<td>carbon dioxide</td>
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<td>COVID-19</td>
<td>2019 Coronavirus disease</td>
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<td>CPLC</td>
<td>Carbon Pricing Leadership Coalition</td>
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<td>CSV</td>
<td>Creating Shared Value</td>
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<td>DFI</td>
<td>development finance institution</td>
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<td>ECLAC</td>
<td>Economic Commission for Latin America and the Caribbean</td>
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<td>EGX</td>
<td>The Egyptian Exchange</td>
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<td>EMnet</td>
<td>Emerging Markets Network</td>
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<td>ESG</td>
<td>Environmental, Social and Governance</td>
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<td>EUR</td>
<td>Euros</td>
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<td>FDI</td>
<td>foreign direct investment</td>
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<td>Fintech</td>
<td>financial technology</td>
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<td>FWF</td>
<td>Fonds zur Förderung der wissenschaftlichen Forschung (Austrian Science Fund)</td>
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<td>G20</td>
<td>Group of Twenty</td>
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<tr>
<td>GB</td>
<td>Gigabyte</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>GDPR</td>
<td>General Data Protection Regulation</td>
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<td>GEB</td>
<td>Grupo Energía Bogotá</td>
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<td>GFC</td>
<td>global financial crisis</td>
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<td>GICA</td>
<td>Global Infrastructure Connectivity Alliance</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<td>GPP</td>
<td>green public procurement</td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<td>GSMA</td>
<td>Global System for Mobile Communications Association</td>
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<td>GW</td>
<td>Gigawatt</td>
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<td>GWh</td>
<td>gigawatt hours</td>
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<tr>
<td>ICA</td>
<td>Infrastructure Consortium for Africa</td>
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<td>ICC</td>
<td>International Chamber of Commerce</td>
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<td>ICT</td>
<td>information and communications technology</td>
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<td>IEA</td>
<td>International Energy Agency</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IKI</td>
<td>Internationale Klimaschutzinitiative (International Climate Initiative)</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IP</td>
<td>intellectual property</td>
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<td>IRENA</td>
<td>International Renewable Energy Agency</td>
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<td>IT</td>
<td>information technology</td>
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<tr>
<td>ITU</td>
<td>International Telecommunication Union</td>
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<tr>
<td>Km</td>
<td>Kilometre</td>
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<tr>
<td>LAC</td>
<td>Latin America and the Caribbean</td>
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<tr>
<td>MRA</td>
<td>Mutual Recognition Agreement</td>
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<tr>
<td>MSE</td>
<td>micro and small-sized enterprise</td>
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<tr>
<td>MSME</td>
<td>micro, small and medium-sized enterprise</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OTT</td>
<td>over the top</td>
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<tr>
<td>PPE</td>
<td>personal protective equipment</td>
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<td>PPP</td>
<td>public-private partnership</td>
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<td>R&amp;D</td>
<td>research and development</td>
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<td>RBC</td>
<td>responsible business conduct</td>
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<td>RES</td>
<td>renewable energy sources</td>
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<td>RSPO</td>
<td>Roundtable on Sustainable Palm Oil</td>
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<td>SARS-CoV-2</td>
<td>severe acute respiratory syndrome coronavirus 2</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>SDG</td>
<td>Sustainable Development Goal</td>
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<tr>
<td>SME</td>
<td>small and medium-sized enterprise</td>
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<td>SMS</td>
<td>short message service</td>
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<tr>
<td>STEM</td>
<td>science, technology, engineering and mathematics</td>
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<tr>
<td>TVET</td>
<td>technical and vocational education and training</td>
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<tr>
<td>UAE</td>
<td>United Arab Emirates</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>UNECA</td>
<td>United Nations Economic Commission for Africa</td>
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<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organization</td>
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<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
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<td>US</td>
<td>United States</td>
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<td>USAFs</td>
<td>Universal Service and Access Funds</td>
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<td>USD</td>
<td>United States dollars</td>
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<tr>
<td>USFs</td>
<td>Universal Service Funds</td>
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<tr>
<td>WEF</td>
<td>World Economic Forum</td>
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<tr>
<td>WHO</td>
<td>World Health Organization</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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OVERVIEW

The 2021 edition of Business Insights on Emerging Markets provides a private sector perspective on opportunities and challenges for the private sector in Africa, Asia and Latin America and the Caribbean (LAC). The publication brings together analysis and insights from the business meetings of the Organisation for Economic Co-operation and Development (OECD) Development Centre’s Emerging Markets Network (EMnet), interactions with the private sector and desk research, organised in four chapters. A chapter by Cornell University’s Emerging Markets Institute at Cornell’s Samuel Curtis Johnson College of Business complements this publication.

From a macroeconomic perspective, an important shift happened over the last 20 years from 2000. During this time, emerging markets have overtaken advanced economies in terms of total gross domestic product (GDP), even though some disparities remain across regions, with Emerging Asia, particularly China and India, leading the way. Emerging markets have also witnessed unprecedented growth in trade and investment, as their share of global trade volume increased from 32% around 2000 to 46% in 2019. In addition, approximately 15% of FDI was destined for emerging economies in 2000, but in 2019 this figure had increased to 46%. Currently, the majority of annual global GDP growth occurs in this part of the world.

The health, social and economic crises triggered by the COVID-19 pandemic have plunged all regions into a deep economic contraction, with serious economic and social repercussions. Signs of an economic rebound are in sight, depending however on the continued production and deployment of the vaccines. Some countries, in particular China and other Emerging Asian economies, are leading the way in the recovery. However, uncertainty remains, as the speed and extent of the vaccine rollouts remains uneven and new and more powerful mutations of the virus continue to emerge.

The OECD’s latest analysis on COVID-19 can be found on its website; this includes an extensive series of policy response papers, which can be accessed at www.oecd.org/coronavirus/en/#policy-responses.

Sectoral drivers for business recovery post-COVID

EMnet participants identified during the Network’s meetings the main drivers for the recovery post-COVID-19 in emerging markets, including digital transformation, green recovery and business sustainability.

Digital transformation for economic resilience

Advanced digital technologies helped societies dealing with the impact of lockdowns, allowing people to remotely work, study, socialise and get medical help remotely. Emerging markets are placing significant emphasis on digitalisation to overcome the crisis, return to sustainable growth and build resilience to future shocks. The private sector is investing alongside governments to expand digital connectivity and bring digital services to end consumers, as access to Internet services remains a challenge in emerging markets, where only 17% of the population in Africa, 37% in LAC and 47% in Asia can afford 1 gigabyte (GB) of data.
Green recovery and climate action

A green recovery that mobilises investment in clean energy and promotes energy efficiency offers an opportunity to stimulate growth, innovation, and jobs in the wake of COVID-19, while tackling the looming challenge of climate change. While reliance on fossil fuels remains a reality across emerging markets, investments in renewable energies are expected to grow significantly, as the sector leads the rebound in global energy demand. In many emerging markets, governments have already taken steps towards a green recovery that supports economic development whilst putting carbon emission into a structural decline. However, investment in renewable energies remains concentrated in a small number of countries. The contribution of the private sector will be necessary to accelerate transformation and achieve a higher level of clean energy investment.

Putting sustainability at the core of business

The current economic and social crisis is changing sustainable business models and their relationship with key stakeholders across emerging markets. As the pandemic continues to unfold in unpredictable ways, firms are rapidly adapting to identify new ways of doing business that can support resilience to the crisis and contribute to a lasting and sustainable recovery. Across emerging markets, multinational enterprises have created or enhanced sustainability initiatives that are locally relevant and embedded sustainability in their operations, leveraging collaborations for greater impact. The role of governments will be decisive in both encouraging and channelling private sector efforts towards sustainability in order to contribute to a resilient and inclusive post-COVID-19 pandemic recovery.

Business in a post-COVID-19 pandemic world

This chapter focuses on the key drivers of the post-COVID-19 pandemic recovery for business. EMnet participants shared their perspectives on improving infrastructure connectivity, increasing investment, designing new regulations and policies and promoting public-private dialogue and multilateral co-operation, in order to seize new opportunities and address persistent challenges on doing business in emerging markets.

Increase infrastructure connectivity

Increasing infrastructure connectivity is necessary to support global businesses and promote a resilient recovery. Emerging economies are facing a large infrastructure financing gap and there is a need for a sound enabling environment to unlock more investment in the sector. An unprecedented era of low interest rates can offer the right conditions to help establish a pipeline of infrastructure development projects. However, public policies must accompany this process, by providing the necessary enabling conditions to safeguard the security of the investment and create the conditions for more bankable projects.

Finally, to achieve digital transformation, regional integration and multilateral collaboration will be required on key aspects such as interoperability and global digital trade. EMnet members emphasised that ensuring the free flow of global information and data that drive the digital...
In an economy could be crucial for its development. Clearer public policies on data protection or use of international standards is needed, for example, in cybersecurity, to spur multi-stakeholder collaboration and sharing of experiences and best practices.

**Invest in human capital**

Investing in human capital is critical to an inclusive recovery across emerging markets and to contribute to gender equality. EMnet participants stressed the importance of addressing existing skills gaps, especially to accompany the future digital and green transformation. Public policies should be focused on better aligning labour demand and supply, reducing occupational segregation between men and women, enhancing the necessary digital skills and expanding social protection measures that can mitigate the impact on employment of labour market transformations. Indeed, estimates show important changes in the workforce, as automation could potentially render 14% of existing jobs obsolete by mid-century, while another 32% of jobs are likely to face significant changes. The private sector can play a role, by not only upskilling or reskilling workers, but also accelerating access to new and digital technologies among their employees.

**Promote green technologies**

EMnet companies agreed that green technologies will be a key enabler for business recovery in a post-COVID world and that further investment is necessary to promote renewable energy and energy efficiency. The private sector will need to play a key role in mobilising the necessary investments to accelerate the green economy transition, stimulating technological developments, creating jobs, and developing new skills. However, governments also play a key role in developing sectoral regulations and targeted support for a low-carbon economy, which can create better enabling conditions for more private investment. Indeed, investment in clean energy and energy efficiency across emerging markets cannot be unlocked without improved domestic enabling conditions and supportive public policies. These include implementing clear guidelines for public-private partnerships; government-backed guarantees; off-takers to purchase clean energy for prices fixed in long-term agreements; and enhanced participation of institutional investors through appropriate financial instruments. Participants stressed in particular the role of national governments in developing credible and predictable national plans for renewable energy and energy efficiency. Investors also pointed to the need for a holistic approach, which takes into account taxation policies, investment regulations and project incentives. In addition, wider efforts to enhance transparency and disclosure requirements, and to develop sustainable finance taxonomies, can provide a more attractive policy framework for investment.

**Design new regulations and policies**

Governments can play a key role in supporting the private sector by designing regulations and policies that can reduce the perceived business and investment risk in emerging markets as well as provide an environment more conducive to the private sector. Strengthening public governance and regulations, for example, can increase trust and alleviate investment barriers.
Governments can help reduce private investment risks by providing a liquidity backstop through government-backed guarantees, either directly or through development finance institutions, ensuring regulators and permitting entities are independent and have the necessary resources and frameworks to run efficiently, and promoting public-private dialogue and multilateral co-operation to address global issues.

**Paths to progress for business and sustainability in emerging markets**

Many multinational enterprises have placed sustainability at the centre of their business model, creating significant tensions with the traditional profit driven business model. Across emerging markets, multinational enterprises have created sustainability initiatives that are locally relevant and embedded sustainability in their operations, leveraging collaborations for greater impact. This chapter looks at the role businesses can play in order to support a sustainable recovery in developing and emerging economies. It addresses the mainstreaming of sustainability concepts in emerging markets and the associated challenges, including measurement. It then highlights the impact of COVID-19 on sustainability, including sustainable investment, before looking at policies for sustainable development in the future. In this regard, harnessing the potential of business for the recovery will be key in emerging markets, as the fiscal space post COVID-19 is set to narrow. There is scope for policy action in a range of areas that are considered as enablers of sustainable and inclusive growth, such as digitalisation, the green economy and gender equality. In addition, a favourable enabling environment can promote an all of industry approach, attract more sustainable private investment and facilitate public-private collaborations. Policy dialogue will be critical to ensuring private sector efforts can progress in line with government priorities.

**A year after: Governments to the rescue in emerging markets and beyond**

The COVID-19 crisis has shown that the private sector alone cannot address the dramatic changes in the global economy. Interventions of governments is crucial and necessary to co-ordinate the response globally. In the final chapter of the report, a guest contribution by Cornell University’s Emerging Markets Institute looks at government responses to COVID-19. The COVID-19 crisis prompted extraordinary policy responses from governments faced with the threats of massive unemployment reminiscent of the Great Depression. In addition to drastic sanitary measures to contain the pandemic, policy makers adopted unprecedented actions to assist households and support businesses. Particularly remarkable in that respect has been the fiscal response to the crisis. Besides the developed world, emerging and developing economies offered strong fiscal and monetary support to fight the pandemic and cushion its economic and social impacts. Country case studies from Asia (India and China), Latin America (Brazil and Mexico) and Africa (Nigeria and South Africa) are featured in this chapter, to provide a better view on how governments intervened to mitigate the effects of the crisis in emerging and developing economies. It also explores the debt situation across emerging markets, a major downside risk impairing the growth prospects of the region.
1. Recent trends in emerging markets

This chapter explores the rise of emerging markets over the last 20 years. From 2000 to 2020, emerging economies’ share of global gross domestic product (GDP) has risen considerably as most of the world’s GDP growth is coming from developing economies.

However, the health, social and economic crises brought on by the 2019 Coronavirus disease (COVID-19) pandemic have plunged all regions into a deep economic contraction.

This chapter concludes with a section on the main drivers for business recovery post-COVID-19 pandemic.

Key messages include:

- While the Organisation for Economic Co-operation and Development (OECD) member countries’ economic growth has consistently been below the world average, Emerging Asia has systematically outperformed the economies of other regions since the beginning of the 21st century.

- The trade volume generated by emerging markets expanded significantly from 2000 to 2019, led in particular by the growth of the People’s Republic of China (hereafter: China). Emerging markets’ share of global trade volume also increased from 32% around 2000 to 46% in 2019.

- The importance of emerging markets has grown significantly since 2000 when it comes to foreign direct investment (FDI). Approximately 85% of FDI was destined for OECD member economies in 2000, but in 2019 this figure had dropped to 54%.

- Post-COVID-19 pandemic recovery will largely come from the ongoing global vaccine rollout and the large economic stimulus packages implemented by governments in response to the crisis.

- Advanced digital technologies helped societies deal with the impact of lockdowns, allowing people to work, study, socialise and access medical help remotely.

- A green recovery that mobilises investment in clean energy and promotes energy efficiency offers an opportunity to stimulate growth, innovation and jobs in the wake of the COVID-19 pandemic, while tackling the looming challenge of climate change.

- The outbreak of the COVID-19 pandemic has seen many multinationals across emerging markets reach for sustainability in their immediate response, pivoting production, investing in supply chain resilience and working through collaborations.
ECONOMIC AND BUSINESS TRENDS IN EMERGING MARKETS

In the first two decades of the 21st century, emerging markets have witnessed rapid economic development, although at different speeds across different regions. While OECD member countries’ economic growth has consistently been below the world average, Emerging Asia\(^1\) has systematically outperformed the economies of other regions since the beginning of the 21st century. Finally, the health, social and economic crises brought on by the COVID-19 pandemic have plunged all regions into a deep economic contraction (Figure 1.1).

Figure 1.1. Annual GDP growth (2000-22)

Note: LAC: Latin America and the Caribbean – ASEAN: Association of Southeast Asian Nations – e2021/e2022: estimated projections


The COVID-19 crisis negatively affected all economies, but prospects are moderately positive

Along with the high human cost, this pandemic has hit a world already affected by major imbalances, sluggish growth, weak investment and deficient welfare systems, especially in emerging and developing economies. The COVID-19 crisis has hit global businesses hard across all industries, but particularly in the travel, tourism, leisure and hospitality sectors (OECD, 2020a).

Global value chains have been disrupted, as companies around the world halted production for health reasons and as a result of international transport disruptions (OECD, 2020b). Corporate debt has reached levels close to those seen during the 2008-09 global financial crisis (OECD, 2020a). And although unprecedented policy support limited the number of bankruptcies, a spike could still happen in 2021 if governments start withdrawing their assistance (Banerjee, Kharroubi and Lewrick., 2020). Rising debt in some emerging market...
economies and developing countries during the COVID-19 crisis has arguably made them more vulnerable to external financial shocks. At the same time, a stronger demand from advanced economies could help some emerging markets offset the tighter financial conditions (OECD, 2021a).

Signs of an economic rebound became clear in the first quarter of 2021. Global GDP is projected to rise by 5.8% in 2021 and by close to 4.5% in 2022, and all regions are registering positive economic prospects (OECD, 2021a; Table 1.1). Global industrial production has strengthened and global merchandise trade is returning to pre-pandemic levels. The rebound has been relatively fast in some large emerging economies (OECD, 2021b). Robust growth is expected to continue in China, with GDP rising by around 8.5% in 2021 and 5.8% in 2022. Export growth is buoyant and monetary policy remains accommodative, but some fiscal policy support is being withdrawn in 2021. In India, the rapid rebound in activity since mid-2020 has paused following the resurgence of the pandemic and renewed localised containment measures, raising uncertainty and suppressing mobility. Provided the pandemic can be contained quickly, GDP growth could still be around 10% in the 2021/22 fiscal year (OECD, 2021a).

Global merchandise trade indicators continue to rebound, helped by stronger global demand for personal protective equipment and information technology goods. Container port traffic and total merchandise trade volumes are now above 2019 levels, helped by the strong trade rebound in Asia. In contrast, services trade remains soft, particularly air traffic. Overall, world trade volumes are projected to increase by close to 8.3% in 2021 (after falling by 8.5% in 2020) and by just under 5.8% in 2022 (OECD, 2021a).

**Table 1.1. Annual real GDP growth rates, 2020-22, percent change year-on-year**

<table>
<thead>
<tr>
<th>Region/country</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>-3.5</td>
<td>5.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Group of Twenty (G20)</td>
<td>-3.1</td>
<td>6.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Africa</td>
<td>-2.6</td>
<td>3.7</td>
<td>4.6</td>
</tr>
<tr>
<td>ASEAN-5²</td>
<td>-3.4</td>
<td>4.9</td>
<td>6.1</td>
</tr>
<tr>
<td>China</td>
<td>2.3</td>
<td>8.5</td>
<td>5.8</td>
</tr>
<tr>
<td>India</td>
<td>-7.7</td>
<td>9.9</td>
<td>8.2</td>
</tr>
<tr>
<td>LAC</td>
<td>-7.0</td>
<td>4.6</td>
<td>3.1</td>
</tr>
</tbody>
</table>

*Note: ASEAN: Association of Southeast Asian Nations – LAC: Latin America and the Caribbean*


However, uncertainty remains high. Positive economic projections depend on the continued production and deployment of the COVID-19 vaccines. An uneven rollout might not be able to stop new and more powerful mutations of the virus, which could mean a weaker recovery, larger job losses and more business failures. Furthermore, rising United States (US) bond yields could trigger
a reversal of capital flows and sharp currency depreciations, which would further increase existing pressures on debt and inflation due to rising commodity prices. These effects can differ substantially across countries. Net commodity exporters, however, could benefit from this rise in prices. Indeed, if a rise in US interest rates was accompanied by a stronger economic growth in large, advanced economies, some negative financial market spillovers could be offset by stronger global trade demand. Mexico and other LAC economies in particular would benefit from growing import demand from the United States, given their strong trade links. In addition, Colombia, Costa Rica, Turkey and other emerging market economies relying heavily on tourism and services exports would benefit from an earlier-than-expected reopening of borders, enabled by improved vaccination coverage (OECD, 2021a). An increase in commodity prices associated with stronger global growth, led by China in particular, would put pressure on the external balances of net commodity importers such as India (OECD, 2021b).

The pandemic also risks having long-lasting effects on economies. While the world economy has now returned to pre-pandemic activity levels, the risk of lasting costs remains high, as global output at the end of 2022 is projected to remain weaker than that forecasted prior to the pandemic, especially in emerging markets. OECD analysis shows that advanced G20 economies will be able to absorb the effects of the pandemic on global output, while G20 emerging economies will remain below the pre-pandemic projections (OECD, 2021a). Prospects for recovery are likely to be uneven across African regions, with those that have diversified their economies catching up faster than those that are heavily reliant on commodity exports (AUC/OECD, 2021).

**Constant growth of trade and investment volumes in emerging markets**

The trade volume generated by emerging markets expanded significantly from 2000 to 2019, led in particular by the growth of China. Emerging markets’ share of global trade volume also increased from 32% around 2000 to 46% in 2019 (Figure 1.2). Following a significant drop in the first half of 2020 coinciding with the outbreak of the pandemic, global merchandise trade is rebounding, with the exception of cross-border services trade (OECD, 2021b).
While the majority of FDI is still targeting advanced economies, the importance of emerging markets has grown significantly since 2000. Approximately 85% of FDI was destined for OECD member economies in 2000, but in 2019 this figure had dropped to 54% (Figure 1.3).

**Figure 1.3. Foreign direct investment, 2000-19 (at current prices, in USD billion)**
The pandemic has also had a negative impact on investment. In 2020, global FDI flows decreased by 38% to USD 846 billion (United States dollars), reaching their lowest level since 2005. While FDI inflows to OECD member countries plunged by 51% in 2020, flows to G20 emerging market economies only decreased by 9% due to the recovery of China and India. China overtook the United States as the top destination for FDI worldwide (OECD, 2021c).
MAIN DRIVERS FOR BUSINESS RECOVERY POST-COVID

The global economy collapsed in 2020 as the COVID-19 pandemic took hold. The crisis severely affected global businesses across all industries, but particularly in the travel, tourism, leisure and hospitality sectors, disrupting global value chains and industrial production (OECD, 2020a, 2020c). Absorbing and responding to this shock has demanded extraordinary policy responses and may leave societies and economies looking different than they did before the pandemic (OECD, 2020d). Prospects for 2021 improved with the ongoing global vaccine rollout and the large economic stimulus packages implemented by governments in response to the crisis (OECD, 2020a). Meanwhile, some sectors have emerged as the main drivers for a successful and resilient business recovery.

Digital transformation for economic resilience

The pandemic has demonstrated the critical contribution of digital transformation to economic resilience. Advanced digital technologies have helped societies deal with the impact of lockdowns, allowing people to work, study, socialise and access medical help remotely. Emerging markets are placing significant emphasis on digitalisation in order to overcome the crisis, return to sustainable growth and build resilience to future economic shocks. The private sector is investing alongside governments to expand digital connectivity and bring digital services to end consumers. This has generated a steady development of information and communications technology (ICT) infrastructure, which increases Internet access and speed across emerging markets (Figure 1.4).

Figure 1.4. Percentage of the population covered by the 3G and 4G internet networks in Africa, Asia, and LAC, 2004-20

Source: Author’s calculations based on GSMA (2020b), GSMA Intelligence (database), www.gsmaintelligence.com/data.
However, digital transformation does not come without challenges. Ensuring an affordable price for Internet services remains an important issue for emerging markets, where only 17% of the population in Africa, 37% in LAC and 47% in Asia can afford 1 gigabyte (GB) of data (AUC/OECD, 2021). OECD recommendations encourage the elimination of digital divides by promoting access for all at affordable prices (OECD, 2019a). Governments and companies therefore share an urgent need to collaborate further, in order to bridge digital divides and promote sustainable economic development.

Africa’s digital economy is developing rapidly. The continent has attained 300 million mobile money accounts, the highest number of such accounts in the world, while more than 500 African companies provide technology-enabled innovation in financial services (AUC/OECD, 2021). At the same time, important geographical and social divides remain. With unique mobile subscribers comprising only 45% of the population in sub-Saharan Africa, the region is lagging behind other developing regions in terms of Internet adoption (GSMA, 2020a).

In the LAC region, the digital transformation has the potential to help countries overcome structural weaknesses that were further exacerbated by the COVID-19 crisis, such as low productivity, social vulnerability and mistrust in public institutions. In 2018, the percentage of the population in LAC regularly using the Internet reached 68%, having almost doubled since 2010. Mobile broadband reached almost 74% of the population, while subscriptions for mobile broadband were more than five times higher than those for fixed broadband (OECD et al., 2020). However, digital access remains unequal, with 75% of the richest population in LAC using the Internet, compared with only 37% of the poorest population.

Emerging Asia has become an important destination for investment in ICT, attracted by a growing regional market. E-commerce in particular has maintained double-digit growth since 2015. During 2019 and 2020 alone, the number of e-commerce users is estimated to have increased by 37 million in ASEAN member countries, by 71 million in China and by 50 million in India (OECD, 2021d). The percentage of Internet users in Emerging Asia is expected to increase from 42% in 2019 to 54% in 2025, growing by 430 million users (GSMA, 2020b). Mobile broadband penetration is more advanced in some countries – for example, Malaysia and Singapore surpass the OECD average of 102 subscriptions per 100 inhabitants – but is lagging behind in countries such as Cambodia, India, Lao PDR, the Philippines and Viet Nam (OECD, 2019b).

**Green recovery and climate action**

A green recovery that mobilises investment in clean energy and promotes energy efficiency offers an opportunity to stimulate growth, innovation and jobs in the wake of the COVID-19 pandemic, while also tackling the looming challenge of climate change. Across emerging markets, reliance on fossil fuels remains a reality, although investments in renewable energies are expected to grow significantly as the renewable energy sector leads the rebound in global energy demand (Figure 1.5).
Decarbonising economies by stimulating green investment is a key objective of the energy transformation roadmaps such as the Net Zero by 2050 roadmap outlined by the International Energy Agency (IEA, 2021). Achieving the climate goals of the 2016 Paris Agreement and decoupling GDP growth from carbon emissions will require trillions of dollars of investment. In the power sector alone, the International Energy Agency (IEA) calculates that in order to achieve decarbonisation objectives, investment will need to nearly triple from USD 760 billion in 2019 to USD 2 200 billion in 2030. More than one-third of this amount should be spent to expand, modernise and digitise electricity networks (IEA, 2020b).

In emerging markets, governments have already taken steps towards a green recovery that supports economic development while putting carbon emissions into a structural decline. However, although investment in renewable energies is growing, it remains concentrated in a small number of countries. The contribution of the private sector will therefore be necessary in order to accelerate transformation and achieve a higher level of clean energy investment.

In Africa, 600 million people still lack electricity, despite the fact that the continent has vast, largely untapped, renewable energy potential (IEA, 2019a). Electrification efforts during the 2010’s are finally outpacing Africa’s population growth, adding some 20 million connections per year. One-quarter of those are from solar home systems, solar kits and other off-grid or mini-grid solutions (RES4Africa, 2020). Despite being home to 17% of the world’s population, Africa currently accounts for just 4% of global power supply investment. Achieving a reliable electricity supply for all would require an almost four-fold investment increase, to around USD 120 billion per year through to 2040 (IEA, 2019b).

Many countries in LAC are facing an “environmental trap”: an environmentally unsustainable development model in which emissions have been growing faster than GDP. On average for the region (excluding Mexico), 50% of exports were commodities in 2016. Another 23% were...
natural-resource-based manufactures, with less than 5% of these being manufactures with high technology (OECD et al., 2019). A nine-country coalition has set a collective target of 70% renewable energy use by 2030 (Volcovici, 2019), but the transition to a low-carbon economy will require unprecedented investment in order to transform infrastructure and technologies.

In Emerging Asia, only 0.2% of urban residents live in areas with pollution concentrations at, or below, levels in line with World Health Organization (WHO) recommendations. Fine particulate air pollution in excess of WHO guidelines is estimated to cause 1.5 million excess premature deaths per year in urban areas (OECD, 2019c). China leads the world in the addition of wind and solar photovoltaics (PV) capacity, spurred by renewable energy feed-in tariffs (Oxford Institute for Energy Studies, 2020). India boasts the largest solar power plant in the world (Sanjay, 2020) and plans to install 175 gigawatts (GW) of renewable energy by 2022 (Partnerships for the SDGs, 2020).

**Putting sustainability at the core of business**

The current economic and social crisis is changing sustainable business models and their relation to key stakeholders across emerging markets. As the pandemic continues to unfold in unpredictable ways, firms are rapidly adapting in order to identify new ways of doing business that can support resilience to the crisis and contribute to a lasting and sustainable recovery.

The importance of sustainable business has grown considerably since 2010, as companies have come to understand the importance of putting sustainability at the core of their corporate strategies and of including Environmental, Social and Governance (ESG) criteria when screening potential investments (Figure 1.6).

**Figure 1.6. Share of market coverage by ESG-scoring companies by region, 2012-19**

![Graph showing share of market coverage by ESG-scoring companies by region, 2012-19](image)

*Note:* Calculated as the number of public companies with an ESG score divided by the total number of public companies in each year for the different areas.

Many multinational enterprises have placed sustainability at the core of their corporate identities and of their business models. They understand that a focus on sustainability can help them to access new markets and opportunities, improve talent retention and increase global competitiveness (OECD, 2018). Across emerging markets, multinational enterprises have created sustainability initiatives that are locally relevant, and have also embedded sustainability in their operations, leveraging collaborations for greater impact. Initiatives to measure progress and impact in this space have also garnered interest and have the potential to further attract investment (OECD, 2021e).

The outbreak of the COVID-19 pandemic has seen many multinationals across emerging markets focus on sustainability in their immediate response, pivoting production, investing in supply-chain resilience and working through collaboration with other companies and stakeholders. However, the financial, logistical and public health impacts of the pandemic make it difficult for firms to systematically prioritise and incorporate sustainability into their core strategies. With profitability affected by the crisis, boards and shareholders are becoming more risk-averse, particularly where sustainable projects require significant upfront investments with delayed returns (OECD, 2021e).

While the crisis has the potential to negatively affect sustainable business, it is not yet clear how permanent or profound these effects may be. In this context, the role of governments will be decisive in both encouraging and channelling private sector efforts towards sustainability in order to contribute to a resilient and inclusive post-COVID-19 pandemic recovery. This is an opportunity for governments to enact policies conducive to sustainable private investment based on legal certainty and a reassessment of existing sectoral policies. Policy dialogue will be critical to ensuring that private sector efforts can progress in line with government priorities, whether through digital transformation, the transition to a green economy, or enhanced trade and regional collaboration. A favourable enabling environment can promote an industry-wide approach, attract more sustainable private investment and facilitate public-private collaborations (OECD, 2021e).
Notes

1 Emerging Asia encompasses China, India and the ten ASEAN member states: Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic (hereafter: Lao PDR), Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

2 ASEAN-5 includes Indonesia, Malaysia, the Philippines, Singapore and Thailand.

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UNCTAD Stats, https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx


2. Business in a post-COVID-19 pandemic world

This chapter provides insights from the private sector into doing business in a post-COVID-19 pandemic world. The analysis builds on the discussions hosted by the Organisation for Economic Co-operation and Development (OECD) Development Centre’s Emerging Markets Network (EMnet) during virtual meetings held in 2020, featuring the participation of high-level policy makers, senior business executives and OECD experts. Further insights originate from desk research and bilateral conversations with EMnet members and other multinational companies operating in emerging markets.

Key messages include:

- Governments can support business in a post-COVID-19 pandemic world by focusing on increasing connectivity, investing in human capital, focusing on gender equality, promoting green technologies, and designing new regulations and policies that contribute to investment, innovation, competition, and adherence to human rights.
- Increased connectivity consists of enhancing information and communications technology (ICT) infrastructure and expanding Internet access and speed. It also involves increasing resource mobilisation for infrastructure financing and accelerating regional integration efforts.
- Governments need to invest in human capital development, enhance digital skills and literacy, and promote science, technology, engineering and mathematics (STEM) education. Aligning labour demand and supply can accompany business transformation.
- Social measures and social protections need to be expanded to mitigate the impact of changes in labour markets.
- In order to accelerate a low-carbon recovery, governments should focus on supporting more investment in green technologies, clean energy and energy efficiency.
- Regulations and policies reducing perceived business risk in emerging markets will be essential to encouraging more private investment.
- Public-private dialogue and multilateral co-operation will be crucial in order to address global issues, design appropriate investment policy reforms and prepare effective post-COVID-19 pandemic recovery plans.
INCREASE INFRASTRUCTURE CONNECTIVITY

Companies participating in the EMnet meetings in 2020 stressed the importance of increasing connectivity in order to support global businesses and promote a resilient recovery. Important ICT infrastructure gaps still exist in emerging markets, preventing access to the Internet (DW, 2021). In Africa, the poor quality of transport infrastructure accounts for 40% of logistics costs in coastal countries and 60% in landlocked countries (AUC/OECD, 2019).

Investments in infrastructure can play a critical role in supporting economic recoveries in emerging markets by generating sustained employment and long-term productivity. Multimodal, cross-sectoral and smart infrastructure can also be operationalised to support stronger regional economic integration. Finally, EMnet participants have highlighted the need to increase resource mobilisation, both public and private, for better access to finance for connectivity infrastructure projects.

Enhance ICT infrastructure to expand Internet access, speed and affordability

In spite of increasing investments in ICT infrastructure, wide access gaps remain, as about 40% of the world’s population does not have access to the Internet (DW, 2021). In Africa, 70% of young people (1.4 billion people) live in rural areas, yet only 26% of African rural dwellers have access to the Internet. The comparable figures for the rural populations in Asia and Latin America and the Caribbean (LAC) are 35% and 40%, respectively (AUC/OECD, 2021). In Asia, the percentage of Internet users is expected to increase from 42% in 2019 to 54% in 2025, growing by 430 million people. In Southeast Asia, the 2019 Coronavirus disease (COVID-19) has led to a permanent and massive digital adoption, with more than one in three digital services consumers (36%) being new to the digital service, of which 90% intend to continue their new-found habits post-pandemic (Google, Temasek and Bain, 2021). However, fixed broadband penetration in Association of Southeast Asian Nations (ASEAN) member countries and in India is below the OECD average, especially in rural areas. At the same time, the gender gap in mobile Internet use in Bangladesh, India and Pakistan is among the widest in the world (GSMA, 2020a). Estimates also show that 3.3 billion people, although living in an area with mobile Internet coverage, cannot afford it (GSMA, 2019). Only 17% of Africa’s population can afford 1 gigabyte (GB) of data, while the comparable figures are 37% for LAC and 47% for Asia (AUC/OECD, 2021).

While the quality of ICT infrastructure has improved globally, digital divides remain, meaning further investment is needed in order to expand broadband connections and increase network resilience. In OECD member countries, mobile broadband penetration rose from 32 subscriptions per 100 inhabitants to almost 113 subscriptions per 100 inhabitants by June 2019 (OECD, 2020a). In many emerging markets, important gaps remain, pertaining both to coverage and usage (Figure 2.1).
Figure 2.1. Sizing the mobile broadband coverage and usage gaps (2018)

Note: ‘Connected’ refers to those who have used Internet services on a mobile device. Mobile Internet services are defined as any activity that consumes mobile data. ‘Usage gap’ refers to those who live within the footprint of a mobile broadband network but are not using mobile Internet. ‘Coverage gap’ refers to those who do not live within the footprint of a mobile broadband network. Percentages not adding up to 100% due to rounding errors.


China and Singapore have the highest broadband coverage and speed in Asia. Malaysia and Thailand also benefit from higher broadband speed than the world average. In India and the other ASEAN member countries, on the other hand, most of the population cannot enjoy high broadband access and speed (OECD, 2021a). In LAC, there were around 14 fixed broadband connections per 100 inhabitants, versus 32.5 per 100 inhabitants in OECD member countries, in 2018 (OECD et al., 2020). In Africa, the comparable figure stood at 0.4 connections per 100 inhabitants in 2019, or 5 million broadband connections for the entire continent (ITU and UNESCO, 2020).

EMnet participants have pointed to voluntary infrastructure sharing as a possible way of reducing the cost of deploying ICT networks, particularly in rural areas where investment in infrastructure can be too expensive to be viable. Estimates show, for instance, that African telecommunication companies can potentially save 15-30% of total costs and reduce capital expenditure by up to 60% by combining infrastructure resources (ITU, 2017). Companies have suggested that government, particularly regulators, could promote cross-sectoral collaboration to support infrastructure development and enhanced connectivity in underserved and rural areas. For example, collaboration between ICT and energy companies to distribute electricity effectively or to install off-grid solutions could lower the investment cost and double the benefit of granting access to both ICT and electricity.

A stable and predictable regulatory framework can encourage more long-term investment in communication infrastructure. In a sector where return on investment is often measured in decades, guaranteeing a stable and transparent regulatory environment can significantly encourage more
private investment. The independence of regulators is also seen as an essential method of increasing investment confidence (OECD et al., 2020). Regulations and policies are also necessary in order to address issues related to digital security, privacy and data protection. In 2019, OECD issued a new Recommendation on Digital Security of Critical Activities – the result of more than two years of discussions among more than 18 countries and civil society and business representatives – in order to enhance the security of critical economic and social activities that rely on ICT infrastructures (OECD, 2019a). Moreover, in the digital sector, regulatory measures and policies that promote access to high-speed broadband networks should be made more accessible to and affordable for disadvantaged groups and people living in rural and remote areas, given the importance of these networks to a successful and inclusive digital transformation. Public authorities can also establish incentives and finance networks when markets alone are unable to meet the demand (OECD, 2019b 2020b).

Making enough broadband spectrum available is an important requirement for increasing mobile broadband deployment, especially as new technologies (such as 5G) are about to be widely introduced. Universal Service Funds (USFs) or Universal Service and Access Funds (USAfs) are another way to help bring ICT services to a larger number of people at affordable prices. USFs and USAFs can take the form of an annual or monthly fee (either fixed or as a percentage of revenue or of the subscriber’s monthly service cost) that is sometimes supplemented with further funds – e.g. proceeds from broadband spectrum auctions; contributions from government budgets or from international agencies such as the World Bank – and are to be spent on extending connectivity (ITU, 2013). Many USF or USAF regimes exist across emerging economies. In Africa, 37 countries have created USAFs. However, a recent review found that USD 408 million (United States dollars), or 46% of funds collected, remained unspent by the end of 2016 (Thakur and Potter, 2018). A number of countries, including Benin, Ghana and Rwanda, have focused their USFs or USAFs on skills acquisition programmes for women entrepreneurs (AUC/OECD, 2021). In LAC, too, several USFs have large amounts of undisbursed funds, although some are using funds to improve access to digital services in the context of the current COVID-19 crisis (OECD et al., 2020).

Closer collaboration between the public and private sectors is critical to enhancing ICT infrastructure. Huawei and ZTE have established more than forty 3G networks in 30 African countries, and have built fibre-optic communications networks and e-government platforms in more than 20 countries (Hruby, 2021). Facebook is investing in a 2 500 kilometre (km) “Malbec” submarine cable linking Argentina and Brazil to the United States, in order to increase connectivity between South and North America and expand broadband access. Facebook and Google are also collaborating to build two new submarine cables linking the United States with Indonesia via Singapore, increasing data capacity by 70% in a region that counts as one of the fastest-growing user populations (Ruehl, 2021). In Africa, Google has built a private subsea cable from Portugal to South Africa, providing a connection to Nigeria along the way (Google Cloud, 2019). Facebook is working on an even more ambitious project: its 2Africa cable, which will be 37 000 km long and will wholly circumnavigate Africa, will provide Internet connectivity to 23 countries. Once finished in 2024, it will double the total Internet capacity on the continent, supporting further growth of 4G and 5G networks (Ahmad and Salvadori, 2020). Public-private collaboration is also happening at the multilateral level. The World Bank Global Infrastructure Connectivity Alliance brings together international organisations, multilateral development banks and interested countries in support of
connectivity through co-operation, resources and knowledge exchange (GICA, 2018). The Smart Africa initiative brings together the continent’s private sector, the African Union, the Global System for Mobile Communications Association (GSMA) and the World Bank, among others, to accelerate digitisation and enhance ICT infrastructure (Smart Africa Manifesto, 2013).

Dialogue with the private sector can also help governments make timely and affordable broadband spectrum available for mobile operators, establish appropriate bandwidth requirements, assess the need for future technologies such as 5G, and improve the enabling environment in order to promote private investment in infrastructure development. In various countries, vacant radio spectrum bands previously used by television broadcasters (“TV white space”) have been reallocated for broadband Internet transmission. By reallocating vacant spectrum bands previously used for broadcasting, Malawi and four other Southern African countries were able to facilitate Internet transmission over long distances. In East Africa, policy dialogue around regional infrastructure and harmonised spectrum-licensing regimes have resulted in cutting roaming charges within the East African Community (AUC/OECD, 2021).

Finally, EMnet participants have stressed the importance of increasing coverage for disadvantaged and underserved communities. In particular, they agree on the need to focus on reaching women, youth and people living in rural areas, where coverage is most limited, through policies in support of a wider diffusion of digital networks. In the wake of the pandemic, free e-learning platforms have surged across Africa with the support of governments working with telecommunications companies, while other governments have made certain educational websites freely available (AUC/OECD, 2021). To promote the expansion of access and the use of digital technologies, some countries in LAC, including Brazil, Chile and Colombia, have proposed nationwide Wi-Fi access hotspots (OECD et al., 2020). In Bogotá, Colombia, the government has created digital inclusion centres for women and has increased the availability of computers and Internet access at schools (OECD, 2019b).

### Increase resource mobilisation for infrastructure financing

Emerging economies are facing a large infrastructure financing gap. According to pre-COVID-19 pandemic McKinsey estimates, developing countries will need to invest more than USD 2 trillion per year in infrastructure just to keep pace with projected gross domestic product growth over the next 15 years. Some of the biggest gaps remaining are in Indonesia and Mexico, although Brazil, India, Saudi Arabia and South Africa also face significant gaps. These gaps apply across different sectors. In Africa, for example, annual investment in the power structure will need to increase from USD 33 billion in 2015 to USD 55 billion in 2025. Over the same period, annual investment in transport infrastructure will need to increase from USD 20 billion to USD 45 billion, while major additional investments will also be needed in water and telecommunications infrastructure (McKinsey, 2019).

EMnet participants have confirmed the need for a sound enabling environment in order to unlock more investment in infrastructure. The main issues identified concern safeguarding the security of their investments and creating the conditions for bankable projects, particularly in infrastructure development. Given the long-term nature of the cash flow required for these projects, EMnet participants highlighted the critical importance of legal certainty and a stable legal and regulatory
environment. Ethiopia, for instance, has established industrial parks with specific regulation to attract foreign direct investment (FDI). This strategy is viewed as largely successful with respect to attracting investments in light manufacturing such as garments, textiles, leather and agro-processing: in 2016, Ethiopia received inflows of close to USD 4 billion, accounting for over 50% of all FDI in the East Africa region (AUC/OECD, 2019). Other African examples can be found in Morocco (Tangier Med), Rwanda (Kigali Special Economic Zone) and Egypt (Suez Canal Economic Zone). To varying degrees, firms operating in these zones benefit from infrastructure, tailored regulations, and administrative procedures such as custom procedures, taxation and business permits, and targeted support (for example, facilitating matchmaking and partnerships with local suppliers, research institutions, labour associations and investors) (AUC/OECD, 2019; OECD, 2020).

An unprecedented era of low interest rates can offer the right conditions to help establish a pipeline of bankable projects. The current low interest rate environment is pushing investors to diversify their portfolio of investments, and new opportunities can also emerge from infrastructure projects (Haegeli, 2020). Investments will be more selective going forward, shifting from growth metrics alone towards sustainable profits (Google, Temasek and Bain, 2021). However, public policies must accompany this process by providing the necessary enabling conditions for increasing access to finance. In emerging markets there is still scope to further ease interest rates where fiscal support is limited, provided that inflation and exchange rates remain stable (OECD, 2021b). Furthermore, governments should address other roadblocks such as regulatory barriers, market fragmentation, information asymmetries and local capacity to deal with complex project financing models (OECD, 2020d).

Strengthening African infrastructure includes increasing domestic resource mobilisation through peer learning and exchange of information, strengthening the Pan-African policy dialogue on taxation, the joint production of up-to-date and comparable statistics on domestic revenue mobilisation, and cross-border tax information sharing. Finally, it is also necessary to strengthen institutions in order to attract private investment and enhance the effectiveness of public investment and services (OECD, 2021b). For a sustainable recovery, African governments need to increase investment in high-value sectors through the empowerment of national investment promotion agencies. These can then encourage foreign investors to transfer knowledge to local companies by employing, training and subcontracting locally (AUC/OECD, 2018). By providing financial assistance, market intelligence, branding and investor aftercare, and by assisting with overseas expansion, foreign investors help develop local business ecosystems. Their actions can be supported by policies for industrial clusters and value chain development. The African Union Commission (AUC)-OECD Development Centre Platform on Investment and Productive Transformation can facilitate dialogue between African governments, Regional Economic Communities, development partners and the private sector to better attract and co-ordinate investment (OECD, 2021b).

Furthermore, to close the infrastructure finance gap, domestic capital markets have a role to play in mobilising funds in the local currency that can eliminate foreign exchange risks. In a successful example, India’s National Highways Authority issues tax-exempt bonds in order to attract domestic investment to finance road projects across the country (McKinsey, 2019).
Finally, the LAC region requires greater resource mobilisation at the national and international level in order to ensure a strong and inclusive recovery. As highlighted in the forthcoming *Latin American Economic Outlook 2021* (OECD, forthcoming), fiscal policy must help drive a productive transformation that generates formal employment, while also fully leveraging digital transformation and prioritising the environment. For fiscal policy to be effective, a well-defined sequence of actions and reforms is needed at the national level, as well as clear communication and pedagogical dialogue with citizens. At the international level, co-ordination is crucial to ensuring the sustainability of the recovery. There is no single solution to public debt management in LAC: countries differ in terms of their initial fiscal conditions, types of foreign creditors and capacity to tap into capital markets (OECD et al., 2020). Co-ordination should involve multilateral banks, developed countries and private creditors (Nieto-Parra and Orozco, 2020). So far, private creditors have not engaged sufficiently with the relevant parties, and some countries have opted out of international programmes in order to avoid possible credit rating downgrades (OECD, 2021a; Nieto-Parra et al., 2021).

**Accelerate existing regional economic integration efforts**

Higher connectivity can be enhanced by regional integration efforts, which can lower trade and investment barriers as well as decrease non-tariff roadblocks such as different regulatory requirements or lengthy customs procedures.

Estimates show that the African Continental Free Trade Area (AfCFTA) has the potential to generate a 40-50% increase in intra-African trade between 2020 and 2040 solely through the removal of tariffs on goods. The full operationalisation of the AfCFTA agreement could also result in a 1.17% increase in employment (AUC/OECD, 2021). In Asia, the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are expected to contribute substantially to the development of intra-Asian trade and regional co-operation, in the context of a severe economic downturn and increased tendency towards global protectionism (OECD, 2021b). The RCEP – signed in 2020 by 15 economies in Asia and the Pacific, including ASEAN member countries and China – will come into force once enough countries have ratified the agreement (Pearson, 2020). The CPTPP, a wider agreement covering countries in the Pacific Rim and which includes a chapter on e-commerce, came into force in 2018. LAC regional integration remains an underexploited opportunity. Only 16% of total LAC exports were destined for the regional market in 2015. This is well below the intra-regional trade coefficients of the world’s three major “factories”: the European Union (EU) (63.2%), the North American Free Trade Agreement (NAFTA) (49.3%) and ASEAN+5 (47.0%) (OECD et al., 2019). So far, the countries that are part of the Mercado Común del Sur (Southern Common Market; Mercosur) seek to increase co-operation in the digital economy and innovative research and to start discussions on trade promotion by boosting e-commerce, as a reflection of the growing importance of digital transformation in trade. Meanwhile, the Pacific Alliance has initiated conversations in order to establish an additional protocol for cross-border digital trade and e-commerce, including arrangements for the mutual recognition of digital and electronic signatures, online consumer protection and digitally transmitted products, such as software or video games (UNCTAD, 2021a).

The OECD has developed analyses and tools to help governments avoid conflicting or duplicate regulatory requirements. OECD analysis recommends reforming laws and regulations that can be
too pervasive in the lives of businesses and suggests regional co-operation in order to address many of today’s most pressing policy challenges that transcend national borders (OECD, 2018a). For example, specifically for the chemicals industry, the OECD has established the Mutual Acceptance of Data system, which allows the results of various non-clinical safety studies of chemicals and chemical products to be shared across OECD member countries and other adherent countries (OECD, n.d. 1). Beyond mutual recognition, Participants in the EMnet meetings discussed other ways to leverage regulatory work already completed by other countries. One highlighted example is that of regulatory reliance, whereby an institution takes into account decisions or assessments made by another regulator, while maintaining independent decision-making (OECD, 2020e).

Enhancing cross-border infrastructure is an important element of successful economic integration. Estimates show that in most emerging economies, a ten-percentage-point decrease in logistical costs would increase demand in the leather and shoes sector by 12%, followed by the wood and furniture sector (10%) and the agro-industry sector (9%). The same reduction in costs would increase employment levels in the wood and furniture sector by 12%, followed by the leather and shoes sector (10%) and the textiles sector (7%) (Guasch, 2021). Cross-border infrastructure can also be an excellent way of generating economic synergies among neighbouring countries. In West Africa, regional projects can help find complementarities between landlocked economies in the Sahel and coastal countries, creating transport infrastructure corridors linking seaport cities (e.g. Abidjan, Accra, Cotonou, Dakar, Lagos and Lomé) with other inland capitals (e.g. Bamako, Niamey and Ouagadougou) (Pasteur, 2019).

**Promote multilateral collaboration in digital trade**

Multilateral collaboration on key aspects, such as interoperability and global digital trade, are required in order to unleash the potential of digital transformation and to avoid depriving countries, particularly emerging markets, of export-led growth. EMnet meeting participants emphasised that ensuring the free flow of global information and data that drives the digital economy could be crucial for its development. Data flows should be subject to narrowly tailored and legitimate public policy objectives, such as personal information protections or adherence to international standards.

Data and data flows, including across borders (Casalini López González and Nemoto, 2021), fast payments, trade facilitation and access to the digital services market are more critical than ever in order to enable third-party sellers, entrepreneurs, and micro, small and medium-sized enterprises (MSMEs) to trade online, and ultimately for end consumers to enjoy the benefits of digital trade. Unilateral rules and actions by governments in this space can create barriers to growth. Conversely, policies in support of digital trade and, in particular, multilateral and bilateral trade agreements that cater for the challenges raised by new cross-border digital business models, including e-commerce, can support both the economic recovery across emerging markets and the greater inclusion of MSMEs.

In particular, companies highlighted the need for rules across the Internet in order to protect users and ensure that what is unlawful offline is unlawful online. This could be achieved by empowering all users to manage online risks and stay safe, granting technology companies greater responsibility for the content, products and services their platforms provide, and enforcing copyright,
trademark and patent protections. Another example is that of establishing safeguards to protect intellectual property (IP), such as ensuring that any trade deal includes protection of key rights and obligations with respect to IP, including coverage, trade secrets, copyright and remedies. Cybersecurity is a crucial area for international collaboration, and EMnet meeting participants have emphasised the need for an environment of trust. Trust is required not just among ecosystem players, including within supply chains, but also among end users. This will necessitate multi-stakeholder collaboration in order to share experiences and best policy practices. In Africa, the AUC is supporting member countries in designing and building a Pan-African Statistics Programme system necessary for socio-economic planning. Finally, companies raised the issue of providing and protecting market access by allowing foreign investors to provide services on a non-discriminatory basis.
EMnet participants stressed the importance of addressing existing skills gaps in emerging markets in order to support the post-COVID-19 pandemic recovery and accompany the business transformation to a digital world where most of the services can be accessed remotely and to entire sectors now turning at facing climate change and energy transition. Public policies should be focused on better aligning labour demand and supply, reducing sectoral and occupational segregation between men and women, enhancing the necessary digital skills, and expanding social protection measures that can mitigate the impact of labour market transformations on employment. Indeed, estimates show important changes in the workforce, as automation could potentially render 14% of existing jobs obsolete by mid-century, while another 32% of jobs are likely to face significant changes (OECD, 2019). In LAC, two out of ten jobs are at high risk of automation, while another four out of ten may undergo substantial changes in terms of tasks (OECD et al., 2020). In Southeast Asia, Google identified six key barriers to growth in 2019 – Internet access, funding, consumer trust, payments, logistics and talent – and 2020 saw significant progress on most of them, with the exception of talent, which remains a key barrier (Google, Temasek and Bain, 2021).

**Align labour demand and supply to accompany the business transformation**

EMnet participants highlighted the need to prepare a skilled workforce to meet the expected growing demand of competencies generated by future investments in digital and green technologies. In sub-Saharan Africa, more than 230 million new jobs will need additional digital skills by 2030 (AUC/OECD, 2021). Ghana alone can potentially generate 9 million new digital jobs for a revenue of USD 4 billion by 2030 (IFC, 2019). According to International Labour Organization (ILO) estimates, the transition to a greener economy can yield a net job growth of 18 million jobs worldwide by 2030, while the circular economy can generate another 7 million new jobs, as compared to a business-as-usual scenario (ILO, 2019). Meanwhile, some estimates indicate that 85% of the jobs that will be available in 2030 have not been invented yet (The Adecco Group, 2020). In the energy sector, recent estimates show that 9 million new jobs will be needed to accompany the green transition (IEA, 2020a) and that renewable energy could employ more than 40 million people by 2050, should the international community utilise its full renewable energy potential (IRENA, 2020). Energy efficiency also offers significant opportunities for rapid job creation, with the International Energy Agency (IEA) estimating the potential creation of up to 2.5 million new jobs per year, many of them in emerging economies, as part of recovery efforts (IEA, 2020b).

The private sector can play a role not only by upskilling or reskilling workers, but also by accelerating access to digital technologies among employees. The Italian energy company Eni, for example, has started a digitisation transformation programme. Elements of the programme are “smartifying” industrial assets through data, computer power, artificial intelligence (AI) and advanced data analytics, and efforts to accelerate the future of energy transition, creating increased synergies between digital tools and technical experience through skills development (Eni, 2021). Similarly, Italian electricity producer and distributor Enel has invested heavily in digitisation as part of its employees’ corporate identity through an initial company survey in 2015,
which found an inverse relationship between management position and digital ability. As a result, the company accelerated its digital transformation and started exploring new business lines such as Enel X. Enel also migrated to a digital infrastructure that has allowed it to become a full-cloud company (Enel, 2020).

The private sector is also ready to increase partnerships with higher education institutions in order to better align skills with the labour market. Examples include companies partnering with African universities to develop skills related to the industrial Internet of Things (IoT) in Ghana, Kenya, Nigeria, South Africa and Tanzania (Malinga, 2018). The private sector is also willing to play an important role in providing capacity-building programmes for local workers. Google, for example, developed its Digital Skills for Africa programme to train young people in digital skills (Google, n.d.).

National education systems, vocational education and training, and technical and vocational education and training (TVET) will have key roles to play in the upskilling and reskilling of the workforce. However, they also need to adapt to a new post-COVID environment. In Asia, for example, evidence shows that the TVET sector struggled to adjust to the digital context at the onset of the pandemic due to the closure of workplaces. Viable approaches for ensuring the digitisation of TVET can include massive open online courses (MOOCs), open educational resources (OER) and digital simulators (OECD, 2021a). TVET can also be further promoted in Africa through strategic partnerships with the private sector. In South Africa, the government set the ambitious target of expanding the TVET college system to 2.5 million enrolments by 2030 as a way of reducing the number of young people — currently 3.4 million — who are neither formally employed nor in education or training. In Botswana, Malawi, Namibia and Zambia, the United Nations Educational, Scientific and Cultural Organization’s (UNESCO’s) five-year Better Education for Africa’s Rise project assists local governments in improving their TVET systems by identifying relevant sectors (such as agro-processing and construction in Malawi) and potential partnerships to give youth a better chance of finding decent work (AUC/OECD, 2021; UNESCO, n.d.).

Enhance digital skills and literacy

Digital skills are becoming increasingly relevant in the labour market, and EMnet meeting participants highlighted the need to address the existing gap in digital literacy, particularly in some emerging economies. In a survey published in 2020, a lack of digital literacy and skills was the most significant self-reported barrier to further Internet adoption across the world (ITU and UNESCO, 2020). While broadband Internet is becoming more affordable in many emerging economies, a lower price does not automatically translate into increased uptake. In Africa, 34% of people identified skills as the top barrier to using mobile Internet; in Emerging Asia, this figure was 37%, and in LAC, it was 27% (ITU and UNESCO, 2020). A national household survey in Bangladesh found that lack of skills and ability was the number one reason for the low use of the Internet in the country (ITU and UNESCO, 2020).

Governments can play an important role in boosting digital skills, literacy and capabilities. EMnet participants have urged policy makers to continue their efforts to incorporate digital skills and capabilities into education systems. Globally, expenditure in the industry for education technology
is predicted to grow from USD 163 billion in 2019 to USD 404 billion in 2025 (Van der Vlies, 2020). Public policies should also focus on boosting digital skills for women. Initiatives could include campaigns conveying women’s aptitude for STEM and for ICT-related occupations, promoting female leadership role models and encouraging mixed-gender teamwork (OECD, 2018b).

The digital transformation influences quality of life, labour markets and learning. Lockdowns as a result of the COVID-19 pandemic revealed that many activities can be performed remotely, but they also revealed that despite considerable improvements in recent years, insufficient skills and disparities in access and use across socio-economic groups persist. In the context of the COVID-19 crisis these disparities can widen, creating winners and losers. For instance, less than half of the LAC population had enough experience using computers and digital tools to carry out basic professional tasks, effectively excluding more than half of the region’s population from performing remote online activities. New technologies bring both opportunities and challenges to the labour market. Two out of ten jobs in LAC are at high risk of automation, while another four out of ten may undergo substantial changes in terms of tasks. On the other hand, new job opportunities are appearing. Policies to support the transition of workers in declining industries towards new job opportunities are crucial (OECD et al., 2020).

Providing disadvantaged schools and students with more access to ICTs is not enough; programmes that develop the right skills for both students and teachers are also required (OECD et al., 2020). The private sector can also play a role in collaborating with local universities to increase local capacity to counter STEM competency shortages. Siemens, for example, has developed an international STEM education programme, Experimeto, through its foundation. It is partnering with universities and educational institutions in 12 countries, including Argentina, the Plurinational State of Bolivia (hereafter: Bolivia), Brazil, Chile, Colombia, Germany, Ghana, Kenya, Mexico, Nigeria, Peru and South Africa, and has reached 1.4 million children as of 2020 (Siemens Stiftung, 2021).

**Promote gender equality in the labour market**

Achieving gender equality in the labour market would yield large economic gains for countries in general, and private businesses in particular. At the global level, women’s labour force participation rate is close to 49%, compared to 75% for men (ILO, 2021a). Despite an increase in the labour force participation rate of women aged 15-64 years in most G20 countries between 2012 and 2019, gender gaps in labour force participation remain substantial in some countries, notably in emerging markets. For instance, in 2018 and 2019, less than 25% of women in India aged 15-64 years participated in the labour force, compared to nearly 80% of men (ILO/OECD, 2020). The economic consequences are dramatic since the partial exclusion of women from the job market artificially reduces the pool of talent from which employers can draw, and therefore decreases countries’ ability to accumulate physical and human capital and to innovate (OECD, 2019e).

Discriminatory social institutions play a critical role in creating such labour imbalances between men and women. Formal and informal laws, discriminatory social norms and practices constrain women’s economic opportunity and prevent many of them from joining the job of their choice. For instance, 88 countries in the world have laws that prevent women from entering certain professions and in 51 countries women cannot work the same night hours as men. Social norms also matter as
17% of the population globally thinks that it is not acceptable for any woman in their family to have a paid job outside the home if she wants one and 50% of the population believes that when a mother works, the children will suffer (OECD Development Centre/OECD, 2019). Only taking into account discriminatory social institutions as measured by the Social Institutions and Gender Index (SIGI) of the OECD Development Centre, the current level of discrimination induced a loss of up to USD 6 trillion or 7.5% of global income in 2019 (OECD, 2019e).

The COVID-19 pandemic has accentuated these pre-existing imbalances as women have been disproportionately affected by job losses. At the global level, women tend to be overrepresented in certain sectors of the economy – such as retail trade, accommodation and food services, or domestic services. This gender-based sectoral segregation partly stems from discriminatory social norms and attitudes that deem some professions more appropriate from women than for men and vice versa (OECD, 2021c). These sectors have been severely and specifically affected by the crisis with long-lasting consequences on women’s employment. Estimates from ILO show that there will be 13 million fewer women in employment in 2021 compared to 2019, while men’s employment will have recovered to 2019 levels (ILO, 2021b).

Although promoting gender equality in the labour market requires strong policies and adequate laws from governments, the private sector has a pivotal role to play on the implementation side. Unlocking women’s economic potential for the private sector requires strong measures that include granting maternity and paternity leaves to encourage an equal redistribution of unpaid care duties, ensuring women can access decision-making and management positions and closing the gender pay gap. For instance, data points towards a sharp drop in women’s labour force participation when they reach about the age of 30 years (OECD, 2017a). This sharp drop illustrates the role played by stereotypes on gender roles and norms of restrictive masculinities which continue to confine women to their care and reproductive roles (OECD, 2021c). One of the major consequences for the private sector is a loss of potential talent and a trained workforce. Laws as well as company-specific policies can help mitigate these outcomes, for example by providing adequate maternity leave benefits, ensuring mothers still have access to promotion opportunities on equal footing with men, implementing flexible work arrangements or contributing to childcare arrangements and spending.

**Implement social measures to mitigate the impact of changes in labour markets**

EMnet participants noted the precarious situation of informal workers, particularly women, in the context of the COVID-19 crisis. In the LAC region, close to 40% of workers (mainly informal workers) did not have access to any form of social assistance or protection before the pandemic (OECD et al., 2020). ILO estimates show that informal employment makes up as much as 61%, or 2 billion workers, of the global workforce (Chen, Alfers and Plagerson, 2021). These workers do not receive social protection or benefits that can provide safety nets during periods of crisis and job losses, causing them to rapidly fall below the poverty line during such crises (OECD et al., 2020).

LAC countries such as Argentina, Brazil, Colombia and Peru have announced the temporary expansion of some of their cash transfer and in-kind programmes in order to better protect vulnerable categories of workers not covered by existing social protection programmes. To help business and household cash flows, Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Paraguay and Peru have also announced the deferral or
temporary reduction of certain tax payments, temporary payment cancellations for selected public utilities, and the suspension of social security contributions (Bonaglia and Nieto-Parra, 2020). Some countries were able to implement well-targeted mechanisms to support these vulnerable working populations. Some examples of these mechanisms are Ingreso Familiar de Emergencia in Argentina, Auxilio Emergencial in Brazil, Ingreso Familiar de Emergencia in Chile, Ingreso Solidario in Colombia, Subsidio Pytvô in Paraguay and Bono Familiar Universal in Peru. Additionally, countries focused public spending on preserving productive capacity, and particularly on protecting MSMEs (OECD et al., 2021; Nieto-Parra et al., 2021). These efforts might bring an unexpected benefit to the COVID-19 crisis, as these policies could pave the way to building universal social registries that include the self-employed, informal workers and productive units, which could be critical in order to create better targeted and more effective social protection systems (Basto-Aguirre, Nieto-Parra and Vazquez-Zamora, 2020).

The digital divide heavily affects women and girls, as 327 million fewer women than men have smartphone access to Internet (OECD, 2018c). Emerging Asia has one of the largest gender gaps for mobile Internet use, at 36%, although this is significantly lower than the 50% recorded in 2019 (Sibthorpe, 2021). In Africa, young women aged 19-25 years old are 25% less likely to use the Internet than men in the same age group (AUC/OECD, 2021). Closing the gender gap will involve addressing issues around access, affordability, knowledge and skills, safety, and security (Sibthorpe, 2021). Africa provides some examples of gender-sensitive policies that can support skills development and reduce the digital divide. Benin, Ghana and Rwanda, for example, focus their USAFs on skills acquisition programmes for women entrepreneurs. Other initiatives promote women’s enrolment in higher-education STEM programmes, support female employment in ICT companies and help rural women entrepreneurs (AUC/OECD, 2021).

Developing digital skills early in life and continuing this throughout one’s lifespan is necessary for all, especially for women. Among workers with fewer skills, a higher proportion of women than men have no computer experience (OECD et al., 2020).
PROMOTE GREEN TECHNOLOGIES

EMnet companies agree that the green technologies sector will be critical for business recovery in a post-COVID world and that further investment is necessary in order to promote renewable energy and energy efficiency. Governments play a key role in developing sectoral regulations and targeted support for a low-carbon economy, while also creating conditions that enable further private investment. Key policy actions include licensing procedures for clean energy infrastructure, regulations promoting the penetration of renewable energies through system flexibility (e.g. demand response, storage systems, green hydrogen), policies facilitating innovation in green mobility, and incentives for greater energy efficiency in residential, commercial and industrial buildings. In addition, countries could consider a tariff model that allows people with lower incomes to access quality energy in order to combat energy poverty in developing countries.

Enhance investment in renewable energy and energy efficiency

EMnet participants agree that the private sector will need to play a key role in mobilising the investments necessary to accelerate the green economy transition, in promoting technological developments, in creating jobs and in developing new skills. However, investment in clean energy and energy efficiency across emerging markets cannot be achieved without improved domestic enabling conditions and supportive public policies.

Public policies will be key to creating a level playing field and encouraging more green private investment. EMnet participants particularly stressed the role of national governments in developing credible national plans for renewable energy and energy efficiency with a long term vision and goals providing transparency, predictability and certainty for investors. Investors also pointed to the need for a holistic approach, which takes into account taxation policies, investment regulations and project incentives, such as efficient licencing and permitting procedures. Governments can also help improve access to finance needed for green investments, especially with policies aimed at increasing domestic resource mobilisation through local banks or pension funds.

Technological innovation is an important aspect of promoting the green transition. EMnet members have highlighted how innovation is driving down the cost of renewable energy technologies – such as solar photovoltaics (PV) and wind in electricity– or energy-efficient solutions, such as electric vehicles (EVs) in transport, making the sectors more competitive, while smart solutions can contribute to integrating renewable energy into national grids. Digital technologies may also improve energy efficiency and cut emissions (OECD, 2020). AI, for example, helped manage the energy grid in the urban district of Vila Olímpia in São Paulo, Brazil, by optimising consumption and improving the quality of service. This move beyond a smart city and towards a sustainable city is part of a wider Brazilian project, Urban Futurability (Enel, 2019).

Electrification is a vital element of the effort to combat climate change and pollution and should be viewed as an integrated strategy that can help increase renewable energy supply and consumption. Indeed, industries pursuing hybrid or dual setups could take advantage of the lower electricity prices that apply when renewable sources like solar and wind are at peak production. Having those setups could also generate additional revenue sources through “grid balancing” practices (McKinsey, 2020). Electrification is also an important factor in improving energy efficiency while reducing imports of fossil fuels. It is believed that 50% of all the fuel consumed
by industry could be replaced with electricity from renewable sources, using modern green technologies (McKinsey, 2020). Finally, adoption of electrification can encourage the adoption of more modern digital technologies, as research and development of electric industrial equipment and processes could significantly improve the financial attractiveness of industrial electrification (McKinsey, 2020).

EMnet companies have emphasised the essential role of local governments and municipal authorities in developing green smart cities and green mobility. Cities can “green” public transportation services by contracting electric public buses, or by encouraging mass public transit systems to purchase energy from renewable providers. Some countries are already making progress in promoting policies that encourage e-mobility and the electrification of urban transportation (e.g. electric charging stations, electric buses and metro). China, for example, had more than 800,000 charging station outlets for EVs available by the end of 2020, up from 516,000 in 2019 and 300,000 in 2018. In December 2020 alone, the country installed 112,000 public charging points, making up two-thirds of the world’s total (McKerracher, 2021). In a green smart city, citizens will have a more proactive role in the management of their energy consumption; therefore, distributed energy generation on a residential scale, such as PV, must be part of government regulation, as must incentives for energy efficiency and decentralisation efforts.

Develop sectoral regulations and targeted support for a low-carbon economy

EMnet meeting participants have noted the importance of sectoral regulations and targeted support for private investment in the transition to a low-carbon economy. Specifically, policies should focus on promoting the decarbonisation of the energy sector while reducing emissions from industrial and transport activities, supporting green innovation, and orienting COVID-19 stimulus packages towards a green recovery.

To promote the decarbonisation of the energy sector, countries should renovate their electricity infrastructure networks, thus increasing their level of digitisation and resilience, as establishing national grids will enable the energy transition, favouring the increasing penetration of distributed energy resources, and renewable energy generation plants in particular. Progressively tightening regulations on emissions will provide further incentive to divest from “brown” energy sources and boost investments in clean energy. This trend is confirmed by recent analysis showing a rapid growth in renewable energy in the global electricity mix. Data from the International Renewable Energy Agency (IRENA) show how the share of renewables in global net-capacity expansion increased from 38% in 2010 to 82% in 2020 (IRENA, 2021). IEA analysis has confirmed that renewable energy installed capacity grew by 10.3% in 2020, which represented 50% higher annual growth than previous record. Global wind energy expansion nearly doubled from 2019 to 2020, while total solar generation capacity has almost reached the same level as that of wind energy, due especially to expansions in Asia (IEA, 2020a).

Manufacturing, transportation (including trucking, aviation and shipping), the steel industry, the chemical industry and the production of cement and aluminium together comprise 30% of global emissions (RMI, 2021). Governments should address the decarbonisation of these economic activities by providing innovation funding and adopting mandatory emissions reduction targets, while at the same time promoting greater energy efficiency via the alternative fuel infrastructure,
the uptake of renewable fuels, and the research and deployment of low-carbon process routes (IEA, 2020b). Carbon pricing schemes can provide further incentives to decarbonise industrial activities. Some of the world’s largest steel producers, such as ArcelorMittal, Thyssenkrupp and the China Baowu Steel Group, are already advancing in the effort to produce competitive “green steel”, introducing technologies ranging from green hydrogen to carbon capture, storage and utilisation (Pooler, 2021). The European Union (EU) has proposed a “carbon border adjustment mechanism”, a policy scheme designed to counteract a risk of “carbon leakage”, which occurs when companies transfer carbon-intensive productions to countries that are less strict about emissions (EC, n.d.).

EMnet participants meetings have detailed how governments can provide regulatory and other support to stimulate green innovation. Specifically, public authorities can incentivise the adoption of clean technologies through making green provisions for their tenders, bidding processes, permits or other procurement processes. A policy environment that enables private climate and green investment can, for example, include policy reforms such as phasing out fossil fuel subsidies, which in turn increases the profitability of clean energy investment, and creating feed-in tariffs for specific renewable energy technologies (OECD, 2017b). At municipal level, cities around the world are pushing for green mobility solutions that can reduce carbon emissions. The Colombian capital of Bogotá has moved to electrify its city bus operations: with several large orders from the Chinese electric bus manufacturer BYD, there will soon be 1 500 electric buses in the country (Marquardt, 2021).

As the COVID-19 pandemic unfolded and governments across the world announced large stimulus packages, many urged that these funds should target an economic recovery that would also “build back better”. One year later, OECD member countries and key partner economies have so far allocated only USD 336 billion for environmentally positive measures within their COVID-19 pandemic recovery packages, representing 17% of the total sum that has been allocated to economic recovery thus far (OECD, 2021d).

Create enabling conditions for more private investment in green technologies

To support private investment in clean energy, EMnet participants have highlighted the importance of domestic enabling conditions. EMnet members noted that reducing the perceived risk to investment to countries can generate more investment and help scale up a pipeline of bankable projects. Examples of supportive measures mentioned in the EMnet meetings include implementing clear guidelines for public-private partnerships; government-backed guarantees; offtakers to purchase clean energy for prices fixed in long-term agreements; and enhanced participation of institutional investors through appropriate financial instruments. In addition, wider efforts to enhance transparency and disclosure requirements, and to develop sustainable finance taxonomies, can provide a more attractive policy framework for investment.

While COVID stimulus packages can be used to “build back better” or support “green” technologies and industries, it is equally important that they do not encourage “brown” activities in emissions-intensive sectors (OECD, 2020g). Companies recommend that governments level the playing field between green investments and other types of investments by discouraging policies that provide unfair advantages for “brown” investment. In 2019, for example, OECD
EMnet meetings participants recognise the variety of definitions currently in place and would welcome more international policy co-ordination and coherence. Such taxonomies can help increase transparency in the market and attract investors (OECD, 2020h).

Environmental, Social and Governance (ESG) criteria can also raise awareness on green technologies and strengthen corporate and investor commitments to green finance, but more work is needed to ensure that ESG ratings are fit for purpose. Today’s ESG markets contain a large variety – and, at times, divergence – of methodologies, performance metrics and product structures (OECD, 2020i).

Finally, public entities, at both national and local level, can focus on “green public procurement” (GPP) to promote clean technologies and innovation. OECD analysis demonstrates how several OECD member countries have developed strategies or policies supporting GPP and provides an overview of best practices for sustainable procurement, conducive legal and policy frameworks, environmental standards, and monitoring instruments (OECD, 2015). By using their purchasing power to choose goods, services and manufacturing industries with a reduced environmental impact, governments can make an important contribution towards sustainability goals. Best practices for sustainable procurement include legal and policy frameworks and the introduction of environmental standards in public tenders. China, for example, introduced a “list for environmental labelling products” as part of its regulations for government procurement, which requires that all government bodies, institutions and organisations give priority to purchasing products on the list (OECD, 2015).
DESIGN NEW REGULATIONS AND POLICIES

According to company representatives participating in EMnet meetings, governments can play a key role in supporting businesses by designing regulations and policies that can reduce the perceived investment risk in emerging markets. Other important factors in improving the investment climate are the promotion of public-private dialogue and the development of digital markets and services.

Reduce perceived investment risk and political risk in emerging markets

EMnet participants agree that strengthening public governance and regulations can increase trust and alleviate investment barriers, but more work is needed, particularly in relation to institutional stability and sound regulatory frameworks. The shock that the pandemic inflicted on the global economy increased business risk and consequently reduced global foreign investment. Many emerging markets entered the crisis from a weaker economic position and have experienced a massive drop in portfolio investment inflows as a result, as international investors tend to transfer capital back home or invest in safer assets during periods of uncertainty (OECD, 2020).

In LAC, institutional instability has reached an all-time high due to the increasing social discontent since 2010, whereby satisfaction with public services has declined steadily. The COVID-19 pandemic has further exacerbated this discontent, widened inequalities, heightened uncertainty and, ultimately, eroded investor confidence (OECD et al., 2020). These two factors combined also encourage polarisation and the perception that countries are governed in the interests of a few, fuelling a new wave of social protests that could lead to increased support for populist political parties’ options through the electoral cycle in the region (OECD et al., forthcoming). In this context, companies raised the issue of discontent translating into resource nationalism, particularly for extractive industries, and the danger of economic and political hostility developing towards certain business sectors.

Governments can help reduce private investment risks by providing a liquidity backstop through government-backed guarantees, either directly or through development finance institutions. The Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group, provides a political risk guarantee and other guarantees to investment projects in emerging economies. Governments can also use delivered assets as collateral in order to guarantee the private financing of new infrastructure. In 2000, Peru’s Banco de la Nación created a trust division to provide collateral and support to infrastructure investors and developers, and has supported more than 60 projects since then (McKinsey, 2019). Countries can provide further support by co-investing with the private sector, either directly through a public-private partnership, or with the participation of DFIs and regional or national development banks. In this context, a number of countries have used the income and assets of state-owned enterprises or sovereign wealth funds as the basis of guarantees or collateral (McKinsey, 2019).

Reducing trade and investment restrictions can also contribute to creating an attractive business environment. The OECD Services Trade Restrictiveness Index (STRI) showed that barriers to services trade were rising pre-pandemic, and that the pace of global service trade liberalisation slowed by 60% compared to 2018 (OECD, 2020k). With the onset of the COVID-19 crisis, the global regulatory environment for services trade became even more restrictive. New barriers across all
major sectors compounded the shock of the COVID-19 pandemic on exporters, with restrictions affecting services traded in sectors including computer services, commercial banking and broadcasting (OECD, 2020).

Finally, companies have stressed the need for regulators and permitting entities that are independent and have the necessary resources and frameworks to run efficiently. Indeed, a lack of support from key agencies that ensure business continuity can slow the permitting of projects and affect their implementation and final output.

**Promote public-private dialogue and multilateral co-operation to address global issues**

EMnet meetings participants underlined the importance of public-private dialogue and multilateral co-operation to address current global issues, particularly those related to the COVID-19 crisis. They suggested that public-private dialogue and stakeholder consultation could help to better identify how the private sector might support specific policy actions that could accelerate the successful implementation of recovery plans. Likewise, this dialogue and consultation could help governments understand how to support responsible business practices, including adherence to the United Nations’ Guiding Principles on Business and Human Rights (UN, 2011) and the OECD Guidelines for Multinational Enterprises (OECD, 2011). Apart from collaboration with existing partners among international organisations, such as the OECD and the World Bank Group, corporations expressed an interest in working more closely with new development banks in some emerging markets, such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), formerly known as the BRICS (Brazil, Russian Federation, India, China, South Africa) Development Bank after its founders.

Companies also emphasised the relevance of policy discussions to regional economic integration. For example, the Africa Private Sector Forum serves as a sounding board for the AUC in its efforts and commitment towards enhancing the private sector’s capacity to contribute to the realisation of Agenda 2063 (a set of initiatives proposed and currently under implementation by the African Union) and to be part of the global value chain for inclusive and sustainable growth in Africa (AU, 2019). Similarly, the ASEAN Business Advisory Council provides inputs to the ASEAN member countries with regard to the opportunities and challenges related to doing business in the Southeast Asia region (ASEAN, n.d.).

**Support the development of digital markets and services**

EMnet meetings participants have stressed the importance of further developing digital markets and services to accompany the digital transformation. Governments can enhance their uptake of digital technologies and address issues related to digital security, privacy and taxation, while protecting consumers and safeguarding IP rights.

The COVID-19 pandemic has accelerated the emergence of a strong, tech-savvy middle class, with more and more individuals and companies shifting their activities online. For this reason, governments should create further conditions to help develop e-commerce and e-payment systems. During the pandemic, Southeast Asia reached a number of 300 million digital consumers, a number that was not expected to be reached before 2025 according to a 2020 report by Bain and Facebook. (Bain and Facebook, 2020).
Digital trade will be a key component to a resilient recovery, as it supports international market access, particularly for small and medium-sized enterprises (SMEs), without requiring a physical investment to reside in a specific country. The value of global e-commerce (including business-to-business and business-to-consumer sales) grew to USD 26.7 trillion in 2019, up 4% from 2018, which represents a value bigger than the United States’ entire economy (UNCTAD, 2021b). Amid COVID-19 restrictions, the global share of total online retail sales grew from 16% to 19% in 2020, according to United Nations Conference on Trade and Development (UNCTAD) estimates (UNCTAD, 2021b). During the COVID-19 pandemic, the overall demand for online services more than compensated for the decline in sales of firms offering ride-hailing or travel services. The growth in e-sales also explicitly extended to emerging markets. In China, for example, the share of online retail sales rose to 24.6% in August 2020, up from 19.4% in 2019 and 17.3% in 2018. In Brazil, around 54% of Internet users had bought food or food products on the Internet in 2020, which was a substantial increase from 2018, when the figure stood at 22%. In South Africa, too, the figure for customers shopping online rose above 50%. In both Brazil and South Africa, this rise was largely achieved by “new users”, or users without prior experience in these activities (OECD, 2020)). In LAC, MercadoLibre registered a 100% year-on-year increase in the demand for essential goods and pharmacy products, while Africa’s Jumia registered a four-fold increase in the sale of grocery items (Totolo and Baijal, 2020).

The digitisation of public administrations, schools and hospitals is also an opportunity for public institutions to improve governance, efficiency and the quality of public services (OECD et al., 2020). For example, evidence shows that revenue authorities in Africa can improve their tax collection capacity using digitisation (AUC/OECD, 2021). In LAC, the shift towards digital technologies can improve the transparency and openness of governments; for example, when firms request licences or building permits (OECD et al., 2020).

Improved data access and sharing can also inform public policies. Anonymised public and private mobility data from transportation companies, such as Cabify, can inform urban and transport planning initiatives, benefitting the public at large. However, as the global economy becomes more digitised, public trust in the digital environment will be critical. In order to increase digital security, it will be important to make sure that effective policies are in place to protect data and consumers, to fight piracy and to safeguard IP rights.
Notes


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3. Paths to progress for business and sustainability in emerging markets

In the wake of COVID-19, what can businesses do to support a sustainable recovery in developing and emerging economies? And how can governments create conditions that support corporate sustainability in the face of the current crisis? This chapter provides insights from the private sector, building on recent discussions of the Emerging Markets Network’s (EMnet) Working Group on Business and Sustainability in Emerging Markets, a new company survey, conversations with EMnet members and their contacts, as well as desk research. Here are the key takeaways:

- Across emerging markets sustainability initiatives may take a wide variety of forms, depending on both global and local contexts.
- While there is abundant anecdotal evidence of private sector sustainability initiatives across emerging markets, both prior to and in response to the COVID-19 crisis, presenting an accurate picture of their impact remains a challenge due to a lack of data and absence of uniform measurement and reporting.
- The COVID-19 crisis and its economic downturn has introduced new financial and resource constraints for sustainable initiatives in emerging markets. This could discourage sustainable initiatives in the short term, particularly where projects require significant upfront investments with delayed returns.
- Globally, investors are taking an increasing interest in ESG indicators, as an effective way to align investments with sustainable objectives and to manage risks.
- Emerging Markets governments encourage sustainable investment and reporting, as evidenced by a number of initiatives for example in China, Colombia and Egypt.
- Emerging markets and developing economies can do more to attract sustainable investment, to mitigate the impact of the crisis and support longer-term recovery.
- Harnessing the potential of the private sector to support an inclusive and sustainable recovery will be key in emerging markets, as the fiscal space for expansive public policies is set to narrow.
- Governments can enact policies conducive to sustainable private investment, based on legal certainty and a reassessment of existing sectoral policies.
- Public-private dialogue can support effective policy design, higher impact of private initiatives and better alignment with governmental priorities for post-COVID recovery, such as digital inclusion, mainstreaming gender equality or green economy.
INTRODUCTION

For the purposes of this chapter of the OECD Emerging Markets Network (EMnet), the term sustainability describes the contribution of business to sustainable development. The commonly accepted definition of sustainable development is development that “meets our own needs without compromising the ability of future generations to meet their own needs, across three main pillars covering natural, social and economic resources” (World Commission on Environment and Development, 1987).

Many multinational enterprises have placed sustainability at the core of their corporate identity and of their business model, creating significant tensions with the traditional profit-driven business model. Across emerging markets, multinational enterprises have created sustainability initiatives that are locally relevant and embedded sustainability in their operations, leveraging collaborations for greater impact. Initiatives to measure progress and impact in this space have garnered interest in emerging markets and have the potential to further attract investment.

The COVID-19 (coronavirus) pandemic has seen many multinationals across emerging markets reach for sustainability in their immediate response, pivoting production, investing in supply chain resilience and working through collaborations. Examples of this are highlighted in this chapter. However, the crisis has the potential to affect sustainable business negatively, although it is not yet clear how permanently or how profoundly. In particular, the economic crisis could create disincentives for sustainable initiatives in the short term, particularly where projects require significant upfront investments with delayed returns. Sustainability can attract investment looking to invest responsibly and de-risk, particularly in emerging markets. Yet the downturn has introduced new financial and resource constraints for companies. Public policies and programmes can help companies recover from the crisis, without sacrificing years of efforts to transform their business models.

This chapter explores sustainability trends across emerging markets (pre-COVID) and the impact of the crisis in these countries. It also identifies ways for companies to increase their sustainability efforts, as well as opportunities for governments to work with the private sector in support of a sustainable and inclusive recovery.
SUSTAINABILITY IN EMERGING MARKETS

EMnet’s previous Policy Note on Sustainability highlighted the importance of the private sector to the achievement of the Sustainable Development Goals (SDGs) as well as the business opportunities presented by sustainability (OECD, 2018a). The SDGs themselves call for “partnerships between governments, the private sector and civil society” (UN, 2017) while companies recognised investments in sustainability as business opportunities despite the challenges involved (OECD, 2016). More recently, high-profile initiatives, such as the Business Roundtable’s “Statement on the Purpose of a Corporation” (Business Roundtable, 2019) have emphasised the commitment of business to society as a whole (Colvin, 2020). While some argue that this approach does not benefit stakeholders as its supporters claim (Bebchuk and Tallarita, 2020), this growing debate highlights the impact of companies on society and the importance of their role beyond immediate profit-making.

Businesses across emerging markets are affected by the same sustainability megatrends that can be observed globally. In emerging markets, these discussions are taking place against the backdrop of specific national or regional dynamics, from the need for a renewed social contract in Latin America to the government-led drive towards a more sustainable development pattern in the People’s Republic of China (hereafter ‘China’) and delivering on the promise of the African Continental Free Trade Agreement (AfCFTA).

Almost 20 years ago, research by the International Finance Corporation compared the business case for sustainability in developed markets to that of emerging markets. It found that, in the main, companies in emerging markets focused more on short-term cost savings and revenue gains. Intangible assets, such as brand value and reputation, were considered more significant in developed countries (IFC, 2002).

The full picture was and still is more complex than this overview might suggest, with prominent examples of emerging market companies already successfully placing sustainability at the core of their business proposition. Founded in 1969, Natura, a Brazilian cosmetics multinational, has built a reputation for treating the environment, suppliers and customers responsibly. Its business model connects the conservation of the Amazon with local communities and technological innovations. Natura built a business case for sustainability by sourcing sustainable ingredients in the rainforest for their beauty products, encouraging farmers to preserve trees and make a greater income by partnering with the company rather than logging. For example, the Ucuuba tree was threatened with extinction until it was tested for use as a cosmetics asset. It was protected from logging due to its increased value to farmers collaborating with Natura to grow it for cosmetics purposes.

Over the course of the years, many other emerging market multinationals have placed sustainability at the core of their corporate philosophy and business model. In 2011, Mahindra in India launched Mahindra Rise as a guiding philosophy for the Group, the third pillar of which is to create positive change within the organisation and in the ecosystem (The Economic Times, 2012). The company has also invested in business models adapted to the local market that have sustainability at their core. Mahindra’s electric vehicle company designed India’s first electric three-wheeler platform to address India’s bottleneck of short-distance commute. By contributing to the efforts to decarbonise Indian cities and by providing collective clean mobility solutions, Mahindra is a business case for sustainable development through green mobility in India (Babu, 2020).
Adapting sustainability initiatives in emerging markets

The IFC’s research also found that community investment and development, seen primarily as an overhead item in firms operating in developed countries, were important in emerging markets in retaining the license to operate and in reducing risk (IFC, 2002). An analysis of numerous examples submitted to EMnet, spanning a wide range of sectors, shows that companies are going beyond these incentives in designing their sustainability initiatives, leveraging their understanding of the local environment and their specific areas of business expertise, to maximise the relevance of these initiatives to their business models.

With widely varying social and economic conditions across emerging markets, sustainability initiatives need to adapt to more heterogeneous environments than those in more advanced economies. As noted in previous EMnet publications, this presents challenges across areas as wide-ranging as infrastructure, with significant gaps exacerbated by rapid urbanisation; labour markets with informal workers representing 70% of the workforce; or social protection, which for example only covers just over half of vulnerable populations and just under half of the poor in Latin America (OECD, 2020a). These differences also extend to sustainability policies. The 2020 Environmental Performance Index (EPI), which provides a data-driven summary of the state of sustainability around the world notes that, to date, good sustainable policy results are associated with wealth (i.e. with level of gross domestic product [GDP] per capita). One factor posited is that economic prosperity makes it possible for nations to invest more in policies and programmes that lead to desirable outcomes (EPI, n.d.). This trend may also be exacerbated by the exporting of polluting activities, such as management of plastic waste, to emerging markets such as Thailand, Malaysia, Vietnam, Turkey, and India. This practice has triggered concerns about the health and environmental impacts that could result in these countries, given their poorly developed plastics recycling facilities and relatively weak environmental and treatment standards (OECD, 2018c). This said, environmental health policies are gaining greater prominence across emerging markets, with many emerging markets governments including sustainability policies in their national plans. Circular economy is part of the national economic plans of both Colombia and Indonesia, while sustainable mobility is a policy priority in India (IKI, 2020). Yet much more remains to be done for these efforts to gain in scope and take hold across emerging markets as a whole.

In designing their sustainability strategies, multinationals operating in emerging markets need to take into account and adapt to these wide differences in local context. In resource-scarce areas, firms have introduced technologies and accelerated sustainability initiatives, with the aim of improving efficiency, saving energy and reducing waste. For example, SUEZ, a leader in smart and sustainable resource management, has partnered with Chile’s largest water utility company, Aguas Andinas, to process Santiago’s wastewater using the principles of the circular economy: design out waste and pollution, keep products and materials in use and regenerate natural systems. Aware of the local resource limitations, SUEZ’s biofactories adjusted to reduce pollution in the Mapocho River and are generating bioenergy and fertilisers in the process. It created self-sufficiency using renewable energy sources and systems to control emissions, minimising environmental impacts in the region. The wastewater treatment plant has become a centre that produces resources (water, nutrients, fertiliser) and energy (biomethane, electricity, heat), with minimal environmental impact on noise, odours and landscape. Treated wastewater is re-used directly or indirectly for agriculture to enhance the resilience of territories and to mitigate water scarcity risks.
The political context is also a critical factor for companies to take into account to ensure the impact of their sustainability strategies. In Colombia, the energy company Grupo Energía Bogotá launched an initiative called Energy for Peace. The programme seeks to help build peace in territories affected by the armed conflict through an electrical energy transmission project. Among the objectives is the strengthening of the social and institutional fabric, bringing security, progress and well-being to communities in areas affected by violence, going beyond operational and humanitarian demining. The project includes environmental, education and training initiatives, such as Bosques de Paz (Forests for Peace), Habilidades para la Paz (Skills for Peace) and Energía que Construye mi Futuro (Energy to Build my Future), among others.

Promoting climate-smart dairy initiatives underpins Danone’s Algerian H’lib Dzair project. The project is adapted from traditional Algerian dairy farming models and provides farmers with technical expertise, as well as individual audits and advice, enabling them to become more competitive and to reduce their ecological footprint. H’lib Dzair also contributes to the circular economy by encouraging local production of feed and use of agro-industrial and agricultural by-products, while supporting milk collectors by improving milk quality.

The Mars and ‘Economics of Mutuality’ initiative, the Maua business in Kenya is an example of how financial goals can be achieved while acting sustainably to improve the income and well-being of impoverished communities. The Maua business established a new route to market by engaging partners in informal settlements and rural areas that were difficult to reach through traditional distribution channels by expanding the distribution of Mars Wrigley products through local micro-distributors. The project uses non-financial metrics to drive business performance holistically (including financial returns).

Circular economy roadmaps were introduced in China in 2013 (OECD, 2018b). More than 60% of the industrial waste generated in 2014 was "utilised", compared to about 45% in 2000 and 30% in 1990. Recovered materials and products grow on average by 0.3% annually. In 2015, China recovered a total of 246 million tonnes of scrapped metals, plastics, paper, glass, tyres, batteries, electrical and electronic equipment, automobiles and ships, representing a total value of 515 billion yuan (OECD, 2018d). In a context where digital access is high and e-waste is a growing issue, in 2020, Huawei Technologies improved their online One-Stop trade-in programme: when customers trade in their old device, they can get the new device at the same time. To incentivise returns, by recycling old devices, customers receive vouchers to purchase new ones. Since 2015, Huawei Technologies’ trade-in programme has reached nearly half a million devices. Its circular-economy model provides an opportunity to maximise the product value, reduce waste and have a positive environmental and ecological impact. Companies are also building on efforts by local authorities. Unilever has joined forces with the Alibaba Group to launch the country’s first large-scale closed-loop plastic recycling system. The joint initiative – called Waste-Free World – is described as an active response to the Shanghai government’s plan to create a plastic packaging management system (Unilever, 2021).
Mainstreaming sustainability in emerging markets

Placing sustainability at the core of multinational companies’ strategies implies a sustainable approach across the whole of business, often reflected in company-wide sustainability commitments, which should in turn always be adapted to the local context. For example, global initiatives on responsible business conduct such as the recommendations in the OECD Guidelines for Multinational Enterprises (OECD, 2011) set expectations that businesses, while contributing to economic, environmental and social progress, also need to manage negative impacts on people, society and environment associated with their activities including through their supply chains and business relationships. Similarly, the Ten Principles of the United Nations Global Compact require companies to operate in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption across their global operations.

While standards may vary across countries, the OECD Guidelines for Multinational Enterprises note that “a state’s failure either to enforce relevant domestic laws or to implement international human rights obligations, or the fact that it may act contrary to such laws or international obligations, does not diminish the expectation that enterprises respect human rights” (OECD, 2011). The Guidelines also encourage enterprises to work to raise the level of environmental performance in all parts of their operations, even if this may not be formally required by existing practice in the countries in which they operate. They specifically note that enterprises should take due account of their social and economic effects on developing countries. The potential costs of failing to do so were set out in EMnet’s previous Policy Note on Sustainability. These can take the form of missed business opportunities, but also reputational costs. It cited the efforts made by Nike, which was ranked the most sustainable apparel and footwear company in North America following years of reputational challenges (OECD, 2018a).

The mainstreaming of sustainability has led to accountability across the supply chain, including from purchasers and end-customers, for companies to ensure that sustainable principles are embedded in their business operations and in those of their suppliers. This has created strong incentives for companies operating across emerging markets to invest in more effective monitoring and tighter controls and audits of their supply chain, and to trace and verify sustainable sourcing more effectively.

Cross-sector collaboration can help companies achieve impact

In many instances, collaborations, particularly in the form of partnerships to supplement specific needs, have allowed companies to achieve greater impact. Barry Calebaut, a global manufacturer of chocolate and cocoa products, has established a collaboration with SAP, a software solutions company, to help enable sustainable cocoa farming, providing traceability and sustainability-related activity records. The SAP solution allows for data collection at every level of the supply chain, providing tighter monitoring and assessment of individual farmers’ and community needs, which results in higher quality and targeted impact support.

Companies seeking to move the dial have also grouped together at industry level to create vehicles for change. Certification initiatives, such as the Roundtable on Sustainable Palm Oil (RSPO), allow industry to encourage sustainable production. Indeed, almost 20% of palm oil globally is RSPO certified, with the majority coming from Indonesia and Malaysia (RSPO, 2020a).
The RSPO has seen an increase in membership from emerging markets companies. China is one of the biggest market for palm oil globally (Gillespy, 2020). As of August 2020, the number of Chinese RSPO members had increased by 50% over the same period last year to 222, of which 163 are from mainland China (RSPO, 2020b).

The incentives created by these initiatives complement action by governments: they do not replace them. A favourable enabling environment can create a level playing field for companies and favour an all-of-industry approach, while still allowing for complementary targeted initiatives where required.

Challenges to measuring progress on sustainability in emerging markets

There is abundant anecdotal evidence of sustainability initiatives across emerging markets led by the private sector. Yet, presenting an accurate picture of their impact remains a challenge. The lack of a common measurement and reporting standard in particular makes it difficult to interpret existing evidence, while the lack of data themselves poses additional challenges. Measurement of non-financial performance of all businesses, not just the leading few, is necessary to hold businesses accountable and better monitor progress.

There is an appetite for better measurement of sustainability efforts

Initiatives offering voluntary measurement services across emerging markets have had significant success, although not uniformly through regions or countries. In Latin America, markets including Argentina, Brazil and Chile show significant uptake of voluntary certification methods, such as B Corp, overtaking certain European countries (Sistema B, n.d.). These initiatives do not have equal cross-sector appeal, with representation higher among consumer-facing brands, where the business case for undertaking this form of audit may be stronger, than across other sectors. Yet, there is potential for wider reach, particularly through the incorporation of companies in sectors with systemic impact. Bancolombia, for example, partners with B Corp to measure and manage the positive impact of their suppliers (B The Change, 2016).

Recent years have witnessed a significant increase in responsible business conduct (RBC) due diligence legislation, in support of sustainability efforts. From 2010 to 2020, legislation has been passed in many developed markets, and mandatory rules are currently being considered in several countries and by the European Union (OECD, 2021a). These developments could have implications for all actors globally, including those from emerging markets. In parallel, some emerging markets have been stepping up efforts in increasing sustainability. Along with economic growth and integration into the global economy, Thailand has also made considerable strides in the area of inclusive and sustainable development. While challenges remain in some areas of RBC, there is strong political will to address them. A regional leader in RBC, Thailand became the first country in Asia to adopt a standalone National Action Plan on Business and Human Rights (2019-2022) (OECD, 2021b).

A key global trend in the uptake of Environmental, Social and Governance (ESG) factors is pressure from investors, who are increasingly focused on climate risks (Wamsley, 2020). They pragmatically want to see comparable data, to better understand underlying company and industry risks, as well as accurately report on the impact of their investments. Large and listed companies are facing growing pressure from the investment community, which is increasingly taking data on
ESG into account when making investment decisions. This interest is mirrored in the growing number of national reporting provisions on sustainability related topics. To date, national reporting provisions primarily cover climate change, human rights, labour and anti-corruption and are featured both on a voluntary and mandatory basis. In terms of the composition of the reporting provisions, overall, it is clear that climate change is a top agenda item for policymakers (Figure 3.1). On the social agenda, human rights and labour similarly score highly in terms of frequency of the topic being addressed (Carrots & Sticks, 2020).

**Figure 3.1. Where the largest number of reporting provisions are found (2020)**

![Chart showing the largest number of reporting provisions by country](source: Carrots & Sticks (2020), Sustainability Reporting Policy: Global trends in disclosure as the ESG agenda goes mainstream, www.carrotsandsticks.net/media/zirbzabv/carrots-and-sticks-2020-interactive.pdf)

The above graph covers key reporting provisions, meaning any instrument, mandatory or voluntary, that either require, encourage and/or support organisations to report on or disclose information related to their sustainability performance. This includes “non-financial” or “pre-financial” and “integrated” information found in annual financial, integrated or sustainability reports, on websites, in documents submitted to stock exchanges for listing purposes, and in data published in response to questionnaires and specific regulations.

For large listed companies at least, sustainability reporting has moved away from showcasing preferred projects, towards external assessments that often adopt a “comply or explain” approach, penalising companies that are not able to justify missing data. Many businesses are now ESG ranked, including by mainstream agencies, such as Bloomberg, which feature indexes targeting emerging markets (Bloomberg, 2020). The Dow Jones Sustainability Emerging Markets Index, for example, aims to represent the top 10% of the largest 800 companies in 20 emerging markets, ranked by long-term economic, environmental and social criteria (S&P, 2020).

Global initiatives are complemented by country-led initiatives to enhance the visibility of ESG investments. The Egyptian Exchange, Egypt’s stock exchange, recently launched an ESG index with the stated purpose of raising the profile of companies that perform well along the three
parameters of environmental, social and corporate governance responsibility, compared with their market peers (EGX, 2020). Initiatives to enhance reporting at the national level across emerging markets, including in China (The Reporting Exchange, 2018) and Colombia (Carrots & Sticks, 2020), show that governments see the potential in incentivising these forms of investments.

**No common set of measurement criteria**

ESG investing has grown considerably and is fast becoming mainstream. Yet market participants across the board are missing the relevant, comparable ESG data they need to properly inform decisions, manage risks, measure outcomes, and align investments with sustainable, long-term value (OECD, 2020c). One of the difficulties in progressing further and faster in measuring sustainability in business is the proprietary nature of many measurement initiatives. Each rating agency develops their index based on different methodologies and criteria, often not publicly disclosed. The competition between ranking firms can create confusion, as companies are ranked differently by different indexes, and there have been high-profile examples of rankings failing to provide a comprehensive ESG assessment, particularly when it comes to reflecting sector-specific risks. In the wake of the Samarco disaster, for example, the Corporate Human Rights Benchmark suspended Vale, noting that its assessment of human rights allegations was not particularly well suited to dealing with rare large-scale harm events (CHRB, 2019). Fragmented ESG frameworks and inconsistent disclosure requirements also mean that both institutional investors and corporates cannot properly communicate on their ESG-related decisions, strategies and performance criteria, with beneficiaries and shareholders. This in turn makes it hard for such beneficiaries to assess how their saving are used, and for companies to attract financing at a competitive cost that fully considers ESG factors (OECD, 2020c).

Global initiatives that seek to create a set of common measurement and reporting criteria will be key to unlocking progress in this area. Advances have been made by the Global Reporting Initiative (GRI) which has developed a number of standards for reporting publicly on economic, environmental and social impacts, and the World Economic Forum, which has proposed a set of common metrics on sustainable value creation (WEF, 2020).

The OECD is currently developing a complementary initiative, using its Well-Being Framework as a starting point to measure the non-financial performance of firms by stakeholders across different dimensions of well-being. This framework, which distinguishes between people’s current well-being and the resources that contribute to well-being in the future, allows looking at business’ performance in terms of well-being and sustainability in a comprehensive manner. By aligning the measure with established country-level indicators of progress, it has the added advantage of shining a light on how businesses perform relative to national progress indicators. The OECD also supports the Business for Inclusive Growth (B4IG) coalition to advance and harmonise measurement approaches for monitoring inclusion and sustainability aligned with the Pledge to Fight against Inequalities. The progress made in ESG reporting also bodes well for the ability of companies across emerging markets to adapt to these global initiatives and ultimately benefit from them.

These initiatives complement OECD work on responsible business conduct, help support a common understanding of sustainability achievements and promote cross-recognition between different initiatives and programmes. For example, in the garment sector, the OECD has launched
a voluntary process to assess the alignment of these frameworks and indicators with the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector. This work includes, for example, an Assessment of the Sustainable Apparel Coalition, whose Higg Brand & Retail Module is a tool to assess the environmental and social performance of its brand and retail members (OECD, 2019a).

**ESG performance and financial accounting are not yet connected**

Failing to take into account sustainability can have an effect on financial performance. Research by Société Générale found that two-thirds of companies hit by a major ESG controversy saw their stock price underperform the MSCI World by an average of 12% in each of the following two years (Andrew, 2020). Yet, currently, very few companies are tracking the return on their ESG investments in their accounting systems. Thus, there are virtually no connections between accounting data and sustainability investments (Whelan, 2020).

There are examples of companies seeking to account for external costs better and to represent the value of certain investments more accurately. In 2016, Mahindra was the first Indian company to announce an internal carbon price. Internal carbon pricing produces carbon value that can be used as a financial metric in decision-making, allowing organisations to determine the most cost-effective strategy to reduce their emissions. Internal carbon pricing is a decision-making tool companies use, to understand their exposure to external carbon pricing schemes and to guide their business decisions and investments. The capacity of this metric to effect change, therefore, depends on the extent to which it is considered in decision-making. Critically, it helps organisations understand the climate-related financial risks and opportunities that could arise from government policies related to the transition to a low-carbon economy. Its use has become widespread across business and governments and established across emerging markets, thanks to both the global reach of supply chains and uptake by business.

An initiative proposed by The Adecco Group intends to reflect the value of an investment in skills more accurately. It proposes accounting and investment models to help change how expenses for human capital investments are capitalised over time and, therefore, to incentivise investment in training and skills (The Adecco Group, n.d.).

These efforts are important in that they propose a path forward, but also because they shine a light on the way in which current business metrics fall short of effectively accounting for the benefits of investing in sustainability, and the human cost of failing to do so. They show that, despite progress, there are significant challenges and disincentives under current business metrics for companies to prioritise sustainability. The tension between sustainability metrics and the bottom line is likely to become particularly acute during economic crises, especially when they are of the magnitude seen in the wake of COVID-19.
THE IMPACT OF COVID-19 ON SUSTAINABILITY: IN THE SPOTLIGHT AND UNDER PRESSURE

The human toll of the COVID-19 (coronavirus) crisis is still unfolding. At the time of writing, global cases are edging close to 50 million, with over 1 million deaths. Parts of the world headed for second or third lockdowns are struggling to contain the contagion and ensure that health systems are not overwhelmed while trying to salvage the economy. The impact of the virus varies by region, but the economic and social crisis is of a global nature.

All G20 countries except China will suffer recessions in 2020. Although a fragile recovery is expected next year, many countries’ output at the end of 2021 will still be well below what was projected prior to the pandemic (OECD, 2020b). Across emerging markets, recessions in several African countries – the first in 25 years – is now likely, with ripple effects on already high poverty numbers (Beegle and Christiaensen, 2019). GDP in 2020 is expected to decline by 2.9%, on average, in Emerging Asia and by 2.8% in the Association of Southeast Asian Nations-10 (OECD, 2020d). Despite high heterogeneity across countries, all Latin American countries are being hit by the crisis, and on average, GDP growth will contract by more than 9.0% in 2020 (OECD et al., 2020). The impact on businesses and livelihoods stands to be dramatic. In Latin America, the COVID-19 crisis is particularly difficult for the close to 40% of workers who do not have access to any form of social assistance or social protection mechanism, but also for micro and small firms that lack capacity to absorb this shock. Projections show that 2.7 million companies are likely to close, most micro-enterprises, which would entail the loss of 8.5 million jobs, and poverty rates may increase by 4.4 percentage points in 2020 (OECD et al., 2020).

COVID-19 has revealed tensions, weaknesses and inequalities across emerging markets that are inherent in existing economic and social systems. In many instances, it has also exacerbated them, particularly on vulnerable categories such as women (Box 3.1).

Box 3.1. COVID-19 and gender in emerging markets

The COVID-19 crisis is having a significant impact on the condition of women. Lockdown and confinement measures have primarily affected economic sectors in which women are over-represented, such as health care, hospitality or the garment industry, entailing acute job losses and income reduction for the category. At the same time, lockdown measures and school closures are increasing the unpaid care and domestic work burden that mainly falls on women’s shoulders, which further constrains their ability to maintain employment and income.

This situation is aggravated by high informality rates for women, excluding them from the benefits of formal social protection systems put in place by governments, to cope with the closure of food markets and restrictions on the operations of street vendors. The lack of comprehensive gender-disaggregated data to measure the socio-economic consequences of the COVID-19 crisis for women, coupled with recovery packages that did not take women’s constraints or the gendered dimension of the crisis into account, are likely to deepen pre-existing inequalities.
Box 3.1. COVID-19 and gender in emerging markets (cont.)

Just as governments should shape policies with a gender lens to avoid widening inequalities, companies should take the unequal impact of the COVID-19 pandemic into account when designing sustainability initiatives, particularly but not solely in sectors where women are over-represented.


The OECD finds that the speed and depth of the economic crisis have shown that a core principle of the global economy – prioritising short-term economic growth and efficiency over long-term resilience and well-being – can have huge societal costs. The precariousness of long and complex global value chains has been revealed, with many countries struggling to acquire medical and other strategic supplies. Social inequalities have been exposed and rapidly exacerbated by the massive but uneven loss of employment, with the equivalent of more than 300 million jobs potentially at risk. Although this is not the first economic crisis to expose these fragilities, the depth and breadth of the current circumstances have brought the issues of resilience and preparedness high in the public consciousness (OECD, 2020f).

The impact of COVID-19 has been felt across all sectors, but in a highly unequal way, with industries including air transport, travel, tourism, and hospitality particularly affected (OECD, 2020d). The COVID-19 crisis is also causing abrupt reductions in the operations of foreign firms in developing countries. This, in turn, affects workers, whose jobs, incomes and livelihoods are at risk. Just as with domestic business (OECD, 2020g) some foreign firms have been able to shield their workforce from such impacts and are choosing to keep and pay employees during the suspension of activities, many businesses have had to lay off workers or reduce their work hours (Box 3.2).

Several general cross-sector trends can be identified, to analyse the impact of COVID-19 on the shape of sustainability initiatives, as companies reorganise their business to adapt to a “new normal” (Figure 3.2).
Figure 3.2. **Job creation intensity of FDI in the developing world during COVID-19, by industry**

Note: Capex = announced capital expenditure.

In response to an EMnet survey, companies across all sectors reported that they had not decreased their sustainability efforts following the outbreak of the pandemic, with some declaring an increase in the portfolio of projects, and others choosing to adapt their existing initiatives. As the health crisis continues and the economic outlook remains uncertain, there is increased pressure on both governments and business to cut costs (UNCTAD, 2020). Nonetheless, firms have reaffirmed their commitment to sustainability as a strategy for the recovery. The reaction of companies in the immediate response to the pandemic, shows that sustainability initiatives have created their own set of incentives for business and suggests that the business case for sustainability remains relevant.

Corporate purpose-guided responses to the COVID-19 pandemic

As COVID-19 spread and its global impact on health and the economy became clearer, we saw a number of instances where multinational companies sought to complement government efforts to fight the pandemic, as well as the launch of global initiatives to support the response. Schneider Electric, whose Tomorrow Rising fund covered all geographies where the company was present, made financial contributions to 74 different local initiatives that provided emergency support to over one million people, amongst the most vulnerable to the effects of the pandemic.

Many multinational enterprises also adapted to the fast-changing circumstances and dedicated significant manufacturing resources to supporting public efforts. As gaps in global supply chains for essential products appeared, companies sought to adapt or “pivot” (Balch, 2020) their manufacturing facilities to develop items in scarce supply globally, such as hand sanitiser, face masks and ventilators. Companies across emerging markets were no exception, with responses adapted to market needs. For example, Mahindra developed affordable ventilator models adapted to the needs of the local market (Dasgupta, 2020). Many companies designed these initiatives in consultation and collaboration with governments. Doing so allowed for a response tailored to specifications that would have the most impact in supporting public-sector efforts.

The nature of the pandemic and health policy responses meant companies operating in the digital space played an important role in promoting resilience through their initiatives. SAP offered free access to its services for three months to help buyers and suppliers connect quickly and effectively, notably to support supply chain resilience in Africa, minimising the disruption caused by shipment delays, capacity issues and increased consumer demand in times of crisis (SAP, 2020). Information and communications technology companies, such as AT&T and Telefónica, worked in collaboration with governments in Latin America to support distance education initiatives during school closures. Efforts towards greater financial inclusion through innovative digital finance initiatives meant providers could move swiftly to facilitate digital payments, including in support of social protection programmes, which research indicates reduced the unbanked population throughout Latin America by 25% (Americas Market Intelligence, 2020).

The pandemic has also brought a new focus on the role of employers in empowering their staff to act as a force for good. From the start of the crisis the pharmaceutical company MSD, recognising the need for additional health care professionals in regions where SARS-CoV-2 is spreading, updated their company volunteering policy to allow employees who are trained in health professions such as medicine, nursing, laboratory technology, and other areas, to volunteer their time to aid...
their communities while maintaining their pay. MSD recognised that their responsibility to society went beyond maintaining critical supplies of medicines to their patients or the launch of SARS-CoV-2 vaccine and therapeutic research and development programmes, to include activating their employee base to support their local health systems and communities.

Employer-Employee relations may also play a critical role in addressing the pandemic. The World Economic Forum has launched a cross-sectoral coalition focusing on the important role vaccination will play to end the COVID-19 pandemic. Efforts focus on addressing the rising problem of misinformation and declining trust in vaccination, which could undermine the effective deployment of vaccines. The VIEW Collaborative (Vaccination Information and Empowerment at Work) is a coalition of global companies committed to taking a proactive approach to addressing employees' questions and concerns about vaccines. The objective is to ensure that employees have the credible information they need to make informed decisions when COVID-19 vaccines become available. A number of horizontal collaborations have also emerged, not least in the area of health. The pandemic resulted in the largest exchange of scientific data in history and brought head-on competitors into joint initiatives (Bellens and Atalla, 2020).

The immediate and short-term nature of these initiatives means they are not likely to be representative of the impact on long-term sustainability strategies. They do, however, illustrate how the movement towards defining corporate purpose established a responsibility to act amongst some multinationals. Where a sustainable approach is adopted, this has a systemic impact through the supply chain ecosystem (ICC, 2020a), and establishes a common purpose between the public and private sectors, which could ultimately support sustainable investment and lay the groundwork for multi-stakeholder initiatives to support the post-COVID-19 recovery (ICC, 2020b).

**Sustainability as a tool for resilience across global supply chains**

The COVID-19 crisis have accelerated structural shifts happening in global supply chains: increased supplier diversification ensuring supply chain continuity, changing consumer's habits moving towards more sustainable and local products as well as digitalisation and automation of manufacturing processes and so forth. In parallel, the pandemic eroded trust in international trade and global supply chains as a driver of economic and social development, by undermining economic integration, encouraging trade restriction, negatively impacting FDIs growth and reigniting debated around reshoring and economic nationalism.

At the time of writing, the long-term impact of the COVID-19 crisis remains unclear. When the pandemic hit, it resulted in disruptions to business that had significant impacts on suppliers, particularly SMEs. In the course of responding to crises, sustainability and responsible business considerations have become increasingly central in investment decisions, sourcing practices and trade dialogues, which overall shape the structure of global supply chains and contribute to the progress on sustainability. Multinational companies that had invested in their supply chain could react quickly to support their partners and help them be more resilient. Danone was able to deploy financial support of around EUR 300 million, including EUR 250 million of available cash flow for extended payment terms, and credit to farmers, suppliers and smaller customers in its global ecosystem. Likewise, L’Oréal shortened the payment delays to 9 000 suppliers and froze the payments of 100,000 clients (e.g. hair salons, small perfume shops) until their businesses resumed.
Companies that have worked closely with their supply chain to promote responsible and sustainable business conducts are both well-placed and incentivised to maintain existing structures. As such, these efforts not only had a beneficial impact for businesses, but also supported resilience. The software that Schneider typically used to monitor conflict mineral compliance, became an important tool for monitoring real-time production status (Cosgrove, 2020). Mars and the Economics of Mutuality report that their Maua business pilot in Kenya not only allowed the company to support independent distributors with support and advice throughout the crisis but that this distribution community promoted business resilience, generating profits at a time when other distribution networks were significantly affected.

In the instances cited above, sustainability efforts provided readily available tools and created built-in incentives that could counter what was, in many sectors, the devastating and systemic impact of the economic downturn. As efforts to measure the impact of these initiatives continues, companies will also be in a better position to reap the rewards of integrating sustainability principles into their business model.

Policymakers have also increasingly integrated components and incentives on RBC on their policy agenda to respond to the health, economic and confidence crises. For example, in Asia, RBC and sustainability have been put forward in the ASEAN Comprehensive Recovery Framework (ACRF) and in the 31st APEC ministerial meeting.

Box 3.2. A multi-stakeholder response: garment sector case study

In Bangladesh, garments account for more than 80% of exports. By April, more than 1 100 garment factories in Bangladesh reported demand shocks that represented almost 1 000 million pieces and more than USD 3 billion (United States dollar) in cancelled or postponed orders by global buyers (FWF, 2020). International buyers are halting new orders, asking suppliers not to ship clothing already made and deferring payments. In these cases, manufacturers have already incurred costs and may be in debt to their suppliers. Cancellation of orders may cause suspension of scheduled wages and shutdown of factories on a large scale. As the sector employs over 4 million people in Bangladesh, mostly women, this will have a severe knock-on effect on livelihoods (OECD, 2020f).

Donors and international organisations are helping mitigate these effects and building resilience in the sector through co-ordinated efforts. An example is Better Work Bangladesh, a multi-stakeholder initiative led by the International Labour Organization, the International Finance Corporation, the Bangladesh Ministry of Labour and Employment, various employer organisations and 25 brand and retail partners, and supported by multiple governments, including Australia, Canada, Denmark, the Netherlands, Switzerland and the United Kingdom (OECD, 2020g). It provides training and assistance, collaborating with workers, employers and the government of Bangladesh to improve working conditions and boost the competitiveness of the garment industry in the country.

Sustainable investment in emerging markets

The potential to unlock investment and generate a competitive advantage creates powerful incentives to pursue sustainability efforts, particularly in a context where global investment is dropping. Studies suggest that sustainable investment has paid off in the context of COVID-19, especially in emerging markets (Friede et al., 2015). The initial four months of 2020 show that ESG funds are outperforming the broader market during the pandemic (Whieldon, Copley and Clark, 2020; Zhou et al., 2020). Evidence of higher return on investment over a longer period remains contested, not least given the widespread discrepancies in criteria among ESG indexes (Boffo and Patalano, 2020). What is clear is that ESG indicators are attracting greater investor interest globally and are perceived as an attractive investment product for emerging markets (Dunne, 2020), particularly to manage risk.

Emerging markets and developing economies can further explore the potential of sustainable investment, in order to mitigate the impact of the crisis. Evidence shows that the COVID-19 pandemic affected greenfield investments more intensively in emerging markets than in advanced economies (fDi Markets, 2020). In the first half of 2020, M&A deal values in emerging markets fell by 18%, while the actual number of completed deals decreased by 22%. In the same period capital expenditures dropped by 9% in advanced economies as compared to the last half of 2019, while they plunged by 46% in emerging markets and developing countries (OECD, 2020g). Governments in emerging markets have therefore an interest in unlocking sources of sustainable finance, to make their countries more competitive and maximise the positive impact of private investments. To secure sustained private capital inflows, policy makers should be looking at best practices in the public finance space and promote recovery stimulus packages that support sustainable and innovative corporate practices. This year has also seen a significant number of new green bond issues by countries in emerging markets, including Egypt, the first Arab country to do so (Reuters, 2020b), and Chile, which created the conditions to issue more green, social or sustainable bonds, by publishing a new regulatory framework with the support of the Inter-American Development Bank (Segal, 2020).
THE SHAPE OF SUSTAINABILITY POST-COVID: POLICIES FOR THE FUTURE

The OECD has warned that, in order to ensure a sustainable and resilient recovery from the COVID-19 crisis, a return to “business as usual”, including environmentally destructive investment patterns, must be avoided. Economic recovery packages should be designed to “build back better”, meaning that, in addition to supporting economic recovery, policies also need to trigger investment and behavioural changes that will reduce the likelihood of future shocks and increase society’s resilience to them. Central to this approach is a focus on well-being and inclusiveness (OECD, 2020f).

The social and economic case for a sustainable and resilient recovery is clear. Despite this, in many countries policy responses have, so far, mostly scored poorly on environmental and inclusiveness metrics. Furthermore, announced stimulus packages to date had a net negative environmental impact in 16 of the G20 countries, including the emerging economies (Vivid Economics, 2020).

Harnessing the potential of business for the recovery will be key in emerging markets, as the fiscal space post-COVID-19 is set to narrow. There is scope for policy action in a range of areas that are considered as enablers of sustainable and inclusive growth, such as digitalisation, the green economy and gender equality. It is also critically important to understand the regulatory impact of policy measures on sustainability efforts and to look for opportunities for multi-stakeholder collaborations (OECD, 2019b).

Creating an enabling environment for sustainability

A number of regulatory initiatives across emerging markets have primarily focused on the financial contribution companies can make to wider sustainability initiatives (WRI, 2018). A prominent example is India, which mandated Corporate Social Responsibility (CSR) contributions by large companies in 2008 and regulated their purpose in 2014. However, the lack of impact assessment frameworks and clear outcomes-based targets makes it difficult to present an overall picture of the effects of this initiative. On the main purpose of the legislation, which was to increase the amount of CSR expenditure by large Indian companies, studies suggest that levels of expenditure may have dropped (Mukherjee, Bird and Duppata, 2018).

Discussions in EMnet meetings suggest that a broader policy approach focusing on the enabling environment for sustainable business models could better support a resilient and inclusive recovery. Companies highlighted the importance for governments to enact policies conducive to sustainable private investment, based on legal certainty and a reassessment of existing sectoral policies. In the case of digitalisation, policy changes in the wake of COVID-19 have already laid the groundwork for progress. Companies recognise that governments and regulators globally have gone to great lengths in their response to the current crisis (OECD, 2020h), and note that some of the policy responses across a wide range of areas – from expedited digitalised customs procedures, labour policies allowing for remote working, reduced reporting requirements and additional spectrum availability – showing potential to support inclusive digitalisation and long-term economic growth.
Decarbonisation is another area where government policies and private initiatives, such as internal carbon pricing, are pushing in the same direction and can be supported by multi-stakeholder collaboration (CPLC, 2020). As of June 2019, 57 carbon pricing initiatives have been implemented or scheduled for implementation. This consists of 28 emissions trading systems in regional, national, and subnational jurisdictions, and 29 carbon taxes, primarily applied at the national level (CPLC, 2020). Dialogue with the private sector can help unpick how these multiple initiatives interact and make clear their impact on business across a range of sectors, as well as identify drivers of adoption or barriers to implementation.

Companies operating internationally are also well placed to support the sustainability objectives of regional initiatives. The AfCFTA for example has the potential to support sustainable and inclusive growth across Africa. The agreement explicitly references the importance of women’s empowerment for the development of international trade and economic co-operation and emphasises the promotion of gender equality as one of its general objectives (UNECA, 2020). However, implementing the provisions of the trade agreement alone will not be sufficient to achieve these social objectives. For example, empowering female entrepreneurs to take advantage of the AfCFTA will require a combination of policies focused on, among others, access to finance, entrepreneurship, access to markets, mentorship and digital skills (UNECA, 2020), all areas where private-sector contributions could complement government actions.

Public-private collaboration for sustainable development

Policy dialogue with the public sector on opportunities for collaboration can enhance the impact of private initiatives and can encourage alignment with the priorities of governments. Closer collaboration will allow businesses and governments to identify concrete projects, where common objectives can support progress and increase positive impact. High-ambition projects that require public-private collaboration have the potential to garner the support of multinational companies to maximise their impact and ultimately result in gains that will benefit all of industry. Examples include circular economy, which is part of Colombia’s national economic plan, and sustainable mobility, a policy priority in India (IKI, 2020).

Public-private collaboration is particularly effective when it helps identifying initiatives that leverage the competences of the private sector in support of specific policy objectives. For example, Internet para Todos, developed by Telefónica, Facebook, CAF (the Development Bank of Latin America) and the Inter-American Development Bank, was created to connect communities in isolated areas in Peru, while ensuring a financial return and commercial viability that could be replicated in the region, ultimately to bring Internet access to over 100 million people in Latin America. Through this project, a combination of new technologies and business models have rendered previously unconnected and under-connected areas in Peru profitable (NERA Economic Consulting, 2020).

The OECD has already stressed that achieving a greening of the economy will require a combination of incentives, investment and support measures to ensure a smooth transition and maintain popular support (OECD, 2019c). Even before the pandemic, public-private partnerships to develop innovative technologies showed the potential to generate significant jobs and growth, while making efforts to decarbonise the economy. South Africa’s Renewable Energy Independent Power
Producer Procurement Programme, for example, has successfully channelled private-sector expertise and investment into grid-connected renewable energy. Some USD 14 billion has flowed into 64 projects, some of them already online, leading to substantial drops in average solar photovoltaic and wind tariffs (68% and 42%, respectively). The initiative has created an estimated 39 000 jobs for youth and women and reduced South Africa’s carbon emissions by 33.2 million tonnes (Bellens and Atalla, 2020).

CONCLUSION

The COVID-19 crisis has encouraged many multinationals to further embed sustainability considerations into their corporate practices. This is in line with significant progress in recent years which has seen both global and locally driven sustainability initiatives shape ways of doing business across emerging markets. While there are difficulties in accurately measuring and mapping this progress, it remains uneven across emerging markets. Wider challenges such as growing inequality and the looming climate crisis create a pressing need to move further faster.

The economic crisis that has accompanied the pandemic presents a real challenge for companies wishing to enhance their sustainability efforts. As seen throughout this paper, the financial, logistical and sanitary impacts of the pandemic are making it difficult for firms to systematically prioritise and incorporate sustainability into their core business.

In this challenging and rapidly changing context, the role of governments will be decisive in both encouraging and channeling private sector efforts. Discussions in EMnet meetings favour an approach which seeks to support sustainable business models that can support a resilient and inclusive recovery. There is an opportunity for governments to enact policies conducive to sustainable private investment, based on legal certainty and a reassessment of existing sectoral policies. Policy dialogue will be critical to ensuring private sector efforts can progress in line with government priorities whether through digital transformation, the transition to a green economy or enhanced trade and regional collaboration. A favourable enabling environment can promote an all-of-industry approach, attract more sustainable private investment and facilitate public-private collaborations.
Notes

1 Analysis of B Corp certified companies undertaken based on publicly available information on 27 October 2020.
2 Bancolombia is also taking steps to become a certified B Corp. www.elcolombiano.com/negocios/bancolombia-le-apuesta-a-la-sostenibilidad-PE12619143.
3 The EMnet survey targeted multinational companies active across emerging markets and was conducted from March to April 2020.

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4. A year after: Governments to the rescue in emerging markets and beyond

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This chapter explores the policy response of emerging market economies to the 2019 Coronavirus disease (COVID-19) pandemic.

Key messages include:

- This crisis has brought the role of government in the economy back to the fore, as governments began to forcefully intervene to cushion the dramatic impacts of the pandemic on their populations.
- Compared to advanced economies overall, emerging economies paid more attention to measures that provided direct assistance to the most vulnerable households in the form of additional spending and foregone revenue than they did to business supports such as equity injections, loans or contingent liabilities.
- Many emerging economies adopted significant monetary policy measures to ease liquidity conditions and enable banks to provide debt relief to borrowers, including cutting interest rates, loosening bank capital requirements and increasing borrowing limits, among others.
- This crisis also demonstrated the consequences of policy responses on debt, since many of the support packages, which were largely financed through budgetary deficits, are bound to increase government indebtedness and fiscal deficits.
INTRODUCTION

One year after the outbreak of the COVID-19 pandemic, the world continues to grapple with the crisis, with many countries still in lockdown mode. The crisis has been a human tragedy with dramatic social and economic consequences. On the economic side, we have seen the largest drop in gross domestic product (GDP) in the past 90 years, a dramatic fall in world trade and investments, and, according to the World Bank, about 100 million people falling back into extreme poverty (Casanova and Miroux, 2020). Production processes, global value chains and modes of interaction are also being affected, potentially exacerbating social inequalities and geopolitical tensions.

The economic crisis was especially difficult for emerging markets, which were affected by the paralysis of tourism, the fall of commodity prices and the sudden outflows of capital. Hence, out of necessity, this crisis has brought the role of government in the economy back to the fore, as governments – whatever their types and ideological tendencies – began to forcefully intervene to cushion their populations from the dramatic impacts of the pandemic. This is a major departure from the policy trend of the past half-century, built around the premise that the government should play a reduced role in the economy. Doubts about the efficacy of the role of the government developed during the 1970s, prompted by inflated public sectors and increased budget deficits. The neoliberal economic model developed, advocating reduced government spending, a downsized public sector and an increased role for the private sector. Even the Global Financial Crisis – despite some temporary adjustments in the United States (US) and the United Kingdom to contain it with, for instance, large stimulus packages and the nationalisation of some imperilled institutions – did not fundamentally alter the supremacy of the neoliberal economic model. A reduced role for the government remained the orthodoxy.

The present crisis, however, is of unprecedented scope and depth. Truly global, it is both a supply and a demand crisis, in which COVID-19 first forced business closures and the disruption of supply chains, while demand collapsed due to job and income losses, restrictions affecting consumption, and greater uncertainty about the future. In this new environment, the role of the government is being reconsidered. The crisis has revived the debate about crucial issues such as the need for social safety nets and basic public services. The debate about social insurance in the United States is an illustration of this change of perspective, as is the revival of the “universal basic income” debate (see the section titled “Policy responses in emerging economies”). Most obviously, the reliance on sizeable budget deficits to finance recovery packages has broken down the “financial orthodoxy” barrier of low government spending and balanced budgets that many countries had abided by since the 1970’s.

Indeed, the COVID-19 crisis prompted extraordinary policy responses from governments faced with threats of massive unemployment reminiscent of the Great Depression in the 1930s. In addition to drastic public health measures taken to contain the pandemic, governments adopted unprecedented support measures to assist households and support businesses. Particularly remarkable in that respect has been the fiscal response to the crisis. The world total of fiscal measures adopted in 2020 to address the pandemic’s economic toll reached a staggering USD 14 trillion (United States dollars), four times the amount mobilised at the time of the GFC (IMF, 2021a). Both developed countries and emerging economies adopted massive fiscal packages, as we will see in the next section. In March and April 2020, the United States announced fiscal
measures amounting to USD 2.8 trillion, including, among others, a one-time direct cash payment to qualifying citizens. The country passed a new federal fiscal stimulus package of 4.3% of GDP (USD 900 billion) in December 2020. This was followed in March 2021 by another massive stimulus package amounting to USD 1.9 trillion, the largest so far in 2021. Several European Union (EU) member countries also adopted large spending support programmes as the EU set aside its sacrosanct budgetary balance principle. In July 2020, the EU announced a massive stimulus package (USD 860 billion) to be combined with those of member states. Surprisingly, and unlike other crises, emerging markets launched their own stimulus packages, which will be reviewed in the next section.

Policy responses in emerging economies

Like developed countries, emerging and developing economies offered strong fiscal and monetary support to fight the pandemic and cushion its economic and social impacts. Their efforts, though comparatively smaller than those of more advanced economies, were significant. For instance, between March and September 2020, Brazil, Chile, Peru, Poland, South Africa and Thailand adopted fiscal measures and packages corresponding to between 10% and 15% of their respective GDPs versus about 20% in developed countries (Figure 4.1).

The fiscal response adopted differed around the world. Compared to advanced economies overall, emerging economies paid more attention to measures that provided direct assistance to the most vulnerable households in the form of additional spending and foregone revenue than they did to business supports such as equity injections, loans or contingent liabilities (Figure 4.1) Among emerging economies, many provided social security relief (including Egypt, Indonesia, the Russian Federation (hereafter: Russia), Saudi Arabia, Thailand and Turkey) and directed support to workers (including Brazil, Chile, India, the Islamic Republic of Iran (hereafter: Iran), Mexico and South Africa) or pensioners (including Brazil, Egypt, Mexico and Turkey). Others also set aside additional financing for the health sector in order to contain the spread of the virus. Bangladesh, Egypt and Russia, for instance, did provide direct assistance to health workers. Some of the measures adopted around the world revived the principle of a “universal basic income” — a concept that has been discussed for decades. In March 2020, for instance, the National Congress of Brazil passed a bill adopting an emergency basic income of USD 102 per month for newly unemployed individuals, including informal workers. Although the scheme was temporary, it is all the more remarkable that it emerged under a government in one of the largest emerging economies that is otherwise hostile to government interventions in the economy. This approach remains in effect in Brazil, as a scaled-down version of that same instrument in the form of monthly payments of about USD 40 to the poorest members of the population. In July 2020, South Africa also introduced its own COVID-19 relief grant programme targeted at unemployed adults. That scheme was to end by early 2021; however, at the time of writing, the government is considering a more permanent basic income grant for all South Africans who are in need and unemployed.

A number of emerging and developing economies also offered support to targeted industries, such as agriculture in India, Malaysia, the Philippines, Saudi Arabia, Thailand and Turkey; tourism in Egypt, Indonesia, Russia, Saudi Arabia, South Africa, Thailand and Turkey; or export activities in Bangladesh and Egypt.
In addition to fiscal policy measures, many emerging economies adopted significant monetary policy measures to ease liquidity conditions and enable banks to provide debt relief to borrowers, including cutting interest rates, loosening bank capital requirements and increasing borrowing limits, among others. Moreover, in an unprecedented move, they also engaged in quantitative easing programmes. With these programmes, central banks bought their own government debt - in effect printing money to pay for their own debt. Long the subject of debate as to its effectiveness and possibly high inflationary effects, this unconventional monetary policy tool has been used at times since the GFC by advanced economies, but never by emerging economies. As of September 2020, 18 emerging economies had announced quantitative easing measures, including, among the E20,\(^2\) Chile, Colombia, India, Indonesia, Malaysia, the Philippines, Poland, South Africa, Thailand and Turkey (IMF, 2020a).

**Emerging markets’ policy responses: Selected cases**

A few examples illustrate the scope and diversity of the policy responses in emerging economies to address the economic and social consequences of the COVID-19 crisis, as demonstrated below. The following present some of the fiscal and monetary measures adopted in six major emerging economies in Asia (China and India), Latin America and the Caribbean (LAC) (Brazil and Mexico) and Africa (Nigeria and South Africa).\(^3\)
Asia policy responses: Selected country case studies

In Asia, in China, the fiscal policy response in terms of additional expenditures and foregone revenues was higher than in India. Equivalent to about 4.7% of GDP, it comprised a set of discretionary measures, including spending for epidemic prevention and the production of medical equipment; accelerated payments of unemployment benefits and extension of unemployment insurance to migrant workers; tax relief; and the waiving of social security contributions. A number of specific public support measures, such as cuts in fees or tariffs on electricity or roads, were also adopted. On the monetary front, China resorted to: 1) injecting liquidity into the banking system via open market operations; 2) expanding re-lending and re-discounting facilities and reducing their respective interest rates to support medical supply manufacturers as well as MSMEs and the agricultural sector; and 3) cutting several bank lending rates aimed at benefitting SMEs. Particular attention was paid to micro and small-sized enterprises (MSEs), as reflected in the numerous measures adopted to support lending to these firms. This included the expansion of policy banks’ credit lines; the introduction of new instruments, including a zero-interest “funding-for-lending” scheme to finance part of the local banks’ new unsecured MSE loans; raising the target for large banks’ lending growth to MSEs; and establishing an evaluation system for banks’ lending to those enterprises. Several measures – such as the delay of loan payments, the relaxation of loan size restrictions for online loans and other credit support measures, and the easing of housing policies by local governments – also eased financial conditions for eligible SMEs and households. Interestingly enough, China did not send direct cheques or financial assistance to those in need, but vouchers. Vouchers had an immediate effect in consumption as they had to be used within a particular time frame, and they turbocharged the economy. These measures, and the early control of the expansion of the pandemic, are among the reasons why the Chinese economy was the only big economy with 2.3% growth in 2020.

India adopted a wide set of monetary measures. For instance, it cut its cash reserve ratio and its repurchase agreement and reverse repurchase agreement rates to 4.0% and 3.3%, respectively; temporarily reduced the liquidity coverage ratio; restricted dividend payouts by banks; and created a facility to help with state governments’ short-term liquidity needs. A large number of measures specifically targeted businesses, setting up special refinance facilities for rural banks, housing finance companies (HFCs), and small and medium-sized enterprises (SMEs); providing collateral-free lending with a 100% guarantee; and providing a partial credit guarantee scheme to support public banks’ lending to non-bank financial companies, HFCs and microfinance institutions. Particular attention was paid to micro, small and medium-sized enterprises (MSMEs) through subordinate debt for stressed MSMEs with a partial guarantee, as well as the creation of a “Fund of Funds” for equity infusion in these enterprises, among other initiatives. India also relaxed the eligibility criteria and extended the Emergency Credit Line Guarantee Scheme for MSMEs until 31 March 2021 and halved the interest rate charged on the overdue filings of small businesses. The Central Bank of India also launched an asset purchase programme (in other words, quantitative easing) to stabilise the domestic bond market (IMF, 2020a). Faced with the risk of surging insolvencies, India also amended the Insolvency and Bankruptcy Code (2016), prohibiting any insolvency cases until 25 December 2020, and the Securities and Exchange Board of India (SEBI) relaxed norms related to debt default on rated instruments.
Besides additional spending on health infrastructure for testing and medical equipment, other fiscal measures included assistance in the form of food, cooking gas and cash transfers for low-income households; wage support and employment provision for low-wage employees; insurance for healthcare workers; specific support for migrant workers; and the relaxation of a number of tax regulatory requirements. The package also included support schemes for certain sectors, such as the Production Linked Incentive Schemes directed at 13 priority sectors, particularly agriculture and urban housing.

**LAC policy responses: Selected country case studies**

In LAC, Brazil stands out: its fiscal package was equivalent to about 15% of GDP in 2020, with additional spending and foregone revenues alone accounting for more than 8% of GDP, making it one of the largest fiscal packages among emerging economies (Figure 4.1). Measures included increased spending in health; employment support through partial wage compensation as well as temporary tax breaks, lower taxes, and import levies on essential medical supplies; and financial assistance to states and municipalities with a temporary stay of debt payments. Particularly notable was the direct support to vulnerable households through, among other things, cash transfers to informal and low-income workers, and the inclusion of more than 1 million additional beneficiaries in the Programa Bolsa Familia (the Family Allowance Programme). Monetary measures were mostly aimed at encouraging lending by easing rules and requirements. For instance, reserve requirements were reduced and provisioning rules were temporarily relaxed. Capital requirements were changed for small financial institutions. The Central Bank of Brazil also opened a facility to provide loans to financial institutions backed by private corporate bonds as collateral, and a swap facility of up to USD 60 billion for the Central Bank of Brazil was set up.

With a fiscal package equivalent to about 1% of GDP as of September 2020, Mexico was at the other end of the spectrum. Fiscal measures included increased health expenditures to fight the pandemic, direct support to households and firms (e.g. frontloading of old-age and disability pension payments; acceleration of procurement processes and value-added tax (VAT) refunds; and loans to workers, in particular self-employed and domestic workers, and to SMEs), and the provision of liquidity support and guarantees by development banks. Increased resources were also allocated for additional social spending on infrastructure, security, education, housing and urban improvement, among other things. On the monetary front, the government adopted a set of measures to for example, support the flow of credit (through cuts in interest rates, a reduction in the mandatory regulatory deposit, and the opening of financing facilities for commercial and development banks for MSMEs and individuals affected by lockdowns); strengthen liquidity (by substantially expanding financing facilities through reducing the cost of repurchase agreements and expanding the range of collateral accepted and the range of eligible institutions); and ensure the proper functioning of financial markets.

**Africa policy responses: Selected country case studies**

Africa’s fiscal policy response was constrained by limited budgetary resources. Nigeria, for instance, was already facing a difficult financial situation due to the decline of oil prices throughout the 2010s. Then, in April 2020, the oil prices collapsed, only to somewhat recover later on. With depleted financial resources, fighting the pandemic and supporting the economy has been a major
challenge. Nigeria adopted a number of measures to this end, establishing a fund of NGN 50 billion (Nigerian naira), or about USD 131 million, to support the country’s economy, targeting the health sector, poor and vulnerable households, and MSEs. The government provided some food assistance and cash transfers to vulnerable households and offered a 50% tax refund to companies that did not cut down on staff until the end of the year. However, the fiscal policy response in additional spending and foregone revenues barely reached 1.5% of GDP (Figure 4.1). Monetary authorities also reduced the cost of borrowing, expanded credit facilities for businesses and households, and announced a moratorium on principal repayments on intervention facilities provided by the Central Bank of Nigeria, among other initiatives.

The situation was particularly difficult in South Africa as well, since the country was facing a fiscal crisis even before the pandemic, largely because of lower commodity prices. In April 2020, the government announced a large package of measures of ZAR 500 billion (South African rand), or about USD 26 billion, to support the healthcare system as well as businesses and individuals affected by the crisis. Forty percent of the package consisted of a credit guarantee scheme to encourage banks to extend credit to eligible businesses. The package also included a large set of fiscal measures, including additional spending for the healthcare system, assistance to municipalities for basic services provision, wage support through the Unemployment Insurance Fund (UIF), further income support through tax relief, and financial support for small and informal businesses. At 5.3% of GDP – counting only measures based on additional spending and foregone revenues – South Africa’s policy response has been quite sizeable compared to many other economies, both emerging and advanced (Figure 4.1), and one of the largest in Africa. Because of its severe budgetary situation, however, the government had to carry out an extensive reallocation of expenditures compared to its initial 2020 budget in order to finance this support package. On the monetary front, South Africa lowered policy rates and adopted a number of additional measures to ease liquidity conditions. It set up a range of facilities for banks, temporarily relaxed bank capital requirements and reduced the liquidity coverage ratio, among other measures. It also facilitated debt relief for bank customers. South Africa is also one of the emerging economies that launched a central bank asset purchase programme (quantitative easing) for the first time to support the smooth functioning of capital markets.

**The legacy of the COVID-19 crisis: The debt conundrum**

Emerging economies have been hard hit by the COVID-19 crisis. Even if economic prospects look somewhat brighter in early 2021 than they did six months ago – with global growth projected to reach 6.0% of GDP in 2021 and 4.4% in 2022 according to International Monetary Fund (IMF) projections (IMF, 2021b) – the economic and social cost is huge. The severity of the crisis called for forceful policy responses. This, however, is not without consequences for some key macroeconomic aggregates such as debt, since many of the support packages governments have implemented, which were largely financed through budgetary deficits, are bound to increase government indebtedness and fiscal deficits.

A further deterioration of their debt situation is a major risk impairing the growth prospects of emerging and developing economies. Indeed, many of these economies were already grappling with high debt vulnerability prior to the pandemic (UNCTAD, 2019). The debt-to-GDP ratios of emerging and developing economies, for instance, rose by 60 percentage points since 2010 to
165%, and their debt surged, one of the fastest growth periods in the past half century, to about USD 55 trillion (Kose et al., 2020). The debt service-to-exports ratios surged to very high levels in economies such as Argentina (46%), Brazil (53%), Colombia (32%), Indonesia (39%) and Turkey (34%).

The COVID-19 crisis will only compound the ongoing debt difficulties of many emerging economies, as illustrated in Table 4.1. In just one year, the government debt-to-GDP ratio of emerging market and middle-income economies, for instance, increased by nine percentage points to 64% in 2020, and their fiscal deficit-to-GDP ratio more than doubled to almost 10% (IMF, 2021d). Many E20 countries in particular are expected to register a significant deterioration in their fiscal balance (Table 4.1).

Table 4.1. General government overall fiscal balance of selected E20 countries, 2019-20 (as a percentage of GDP)

<table>
<thead>
<tr>
<th>Country</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>-6.3</td>
<td>-13.4</td>
</tr>
<tr>
<td>China</td>
<td>-6.3</td>
<td>-11.4</td>
</tr>
<tr>
<td>Colombia</td>
<td>-2.5</td>
<td>-6.9</td>
</tr>
<tr>
<td>India</td>
<td>-7.4</td>
<td>-12.3</td>
</tr>
<tr>
<td>Iran</td>
<td>-5.1</td>
<td>-8.4</td>
</tr>
<tr>
<td>Philippines</td>
<td>-1.8</td>
<td>-5.5</td>
</tr>
<tr>
<td>Poland</td>
<td>-0.7</td>
<td>-8.2</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>-4.5</td>
<td>-11.1</td>
</tr>
<tr>
<td>South Africa</td>
<td>-5.3</td>
<td>-12.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>-0.8</td>
<td>-4.7</td>
</tr>
</tbody>
</table>


The situation could become more difficult, as the first quarter of 2021 witnessed rising US interest rates and a stronger US dollar. This situation could potentially trigger capital outflows, reversing the trend observed in the latter part of 2020 and impairing external debt service capabilities. Particularly vulnerable in that respect would be emerging economies in LAC (e.g. Argentina, Brazil, Colombia and Mexico) and in Africa (South Africa), as well as some economies in Asia (e.g. India and Turkey). The Head of the IMF warned in March 2021 that the world is facing an emerging market debt crisis, while the United Nations Secretary General stressed that one-third of emerging economies face a fiscal crisis (United Nations, 2021a).
High levels of indebtedness constrain the manoeuvrability of governments, damaging their ability to take the necessary measures to address the crisis. Debt relief initiatives were put in place in 2020, such as the one approved by the IMF under its Catastrophe Containment and Relief Trust (CCRT) fund, which provides grants to the poorest countries to cover their IMF debt service obligations, or the Group of Twenty (G20) Debt Service Suspension Initiative (DSSI), which temporarily suspends debt servicing on official bilateral debt. However, such initiatives address only the situations of the poorest countries, leaving aside middle-income economies. Against this background, in March 2021 the UN Secretary General called for an extension of the DSSI to highly indebted, vulnerable middle-income countries, as well as for other measures. He also urged the international community to consider mechanisms that would allow countries to access debt relief under the Common Framework for Debt Treatment beyond the DSSI without compromising their credit rating (United Nations, 2021a, 2021b). Without international support, the debt burden may force a number of emerging economies to curtail their response to the crisis, compromising their recovery prospects.

Conclusion: Moving forward, governments are here to stay

The severity of the crisis brought about by the COVID-19 pandemic led countries all over the world to adopt significant policy packages to address its consequences and improve the situation. Particularly notable in that respect is the social dimension of these packages in emerging and developing economies to tackle the public health crisis and directly assist the most vulnerable segments of the population – those with the lowest incomes and the newly unemployed. The crisis also brought the role of government in the economy back to the fore.

The strong policy response of emerging economy governments to the COVID-19 crisis and the unprecedented fiscal packages adopted helped improve the situation in the short term, but have led to the deterioration of an already fragile debt situation. Overall, this applies more to LAC and Africa than to Asia. In view of the magnitude of the crisis and its devastating social and economic impacts, the point here is not to argue about whether or not governments should have taken such measures, but rather to determine how to address the emerging market debt crisis that may soon confront the world. As growth prospects are revived, it is to be hoped that the international community will help those economies address their debt problem so that their recovery prospects are not jeopardised by a combination of crises – whether related to debt or to COVID-19.

The positive notes come from the successful vaccination programmes being rolled out. As we are about to finalise this paper, China and Russia are exporting vaccines to emerging economies, giving hope for an end of the pandemic tragedy for all. Besides the positive effects of going back to normal economic activity, we see signs of the rising prices of commodities benefitting exporting countries in Africa and LAC. Additionally, as of April 2021, the IMF’s economic prospects reflect a rapid and more positive trend than initially anticipated, with projected 2021 GDP growth rates at 6.0% for emerging and developing markets. The good news inspires hope of a quicker recovery, and we hope that emerging markets find a way to shape a better post-COVID-19 pandemic world.
Notes

1 This chapter is based on Casanova and Miroux, 2020.
2 The E20 is a group of the top 20 emerging economies established by the Emerging Markets Institute, selected on the basis of their GDP nominal and population. See Casanova and Miroux, 2016 and 2019.
3 Based on information available as of December 2020, from International Monetary Fund, Policies for recovery, Fiscal Monitor, October 2020 and International Monetary Fund Policy Tracker “Policy Responses to COVID-19”.
4 China accounted for a large part of the increase, but even excluding China, the debt-to-GDP ratio of emerging and developing economies rose by about 20 percentage points to 107% in 2018.”

References

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www.oecd.org/dev/oecdemnet.htm