



WEEKEND READING / [Global](#)

ESG needs to focus on countries, not just companies



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- ESG has been a great marketing tool for institutional funds, albeit applied with varying degrees of rigour and sincerity
- So far the focus of the industry has been companies rather than countries, which misses the ethical wood for the trees
- The Worldwide Governance Indicators may be useful for those brave enough to screen EM countries for the S and G in ESG

So many assets have been raised under the banner of "Environment, Social, and Governance" (ESG) with varying degrees of sincerity, as demonstrated by the SEC investigation that was opened into Deutsche Bank's asset management arm DWS in August.

Generally, ESG criteria are applied at the company level. If we are going to bring morality into an investment discussion, surely a more important question is whether the country in which companies operate, or investors deploy capital, meets ESG criteria.

The Environmental part of ESG appears the simplest: consider metrics such as greenhouse gas emissions, energy intensity, and freshwater use. The interpretation of this data is still highly [controversial](#): should one adjust on: 1) a per capita basis, which would make China look much less of an offender than is portrayed by the US; 2) an income per capita basis, allowing less developed countries more leeway; or 3) an inherited natural resource basis, giving greater allowance for countries in chronically arid habitats like the Middle East.

On the Social and Governance parts of ESG, the majority of institutional funds dodge questions related to [illicit financial flows](#), [corruption](#), [internet freedom](#), [media freedom](#), [inequality](#), and [child labour](#). Some of the reports I have published on these topics are among the least read by an audience that generally prefers the focus to remain on valuation, performance, near-term economic outlook, and funds flows.

I am in no position to preach, because I cannot convince myself that a moral standard can be universally defined and objectively measured. But for those who do market themselves as ESG-compliant, I always feel there is a wood being missed for the trees because almost all of the analysis takes place at the company, not the country, layer.

When it comes to countries, the discussion of the Social and Governance aspects of ESG are emotionally charged topics. Pretty quickly, ideals that are held up as universal, eg "[human rights](#)", start losing their meaning, or, at least, their intuitive simplicity, when one is forced to reconcile the different components of those rights, ie liberty versus entitlement, or mesh whatever definition or standard one settles on with cultural, religious and historic context.

For those still wishing to stir up this hornet's nest and emerge with some useable data, they could do worse than rummage around the Worldwide Governance Indicators ([WGI](#)) from the World Bank, the latest version of which was released on 24 September.

While every component of WGI is open to debate, in terms of whether it is a valid measure and whether it is given an appropriate weight, it is at least an annual time series, going back to 2002, and biennially back to 1996, covering every country of potential interest. I hope for those fund managers who embrace WGI that it does not end up suffering the [scandalous](#) fate of the Ease of Doing Business data set.

WGI aggregates a myriad of indices and surveys covering six aspects of Governance and Social, calculating scores in a range of minus 2.5 (indicating a very weak score) to positive 2.5 (very strong):

1. Freedom
2. Political stability
3. Government effectiveness
4. Regulatory quality in the private sector
5. Rule of law
6. Corruption control

As with most ESG analysis, there are two ways to use the available data: the latest snapshot and the trend of improvement or decline over a historic time frame.

The following countries screen well using the 2020 snapshot alone, weighting each of the six aggregate metrics equally:

- Large EM: Taiwan, Hong Kong, South Korea
- Small EM:
 - Africa: Mauritius
 - Asia: Malaysia
 - Europe-CIS: Iceland, Czechia, Slovenia, Poland, Hungary, Croatia, Georgia
 - LatAm: Chile
 - Middle East: UAE, Qatar

2020 Snapshot of Governance scores in Emerging Markets

Simple average of 6 scores, where each ranges -2.5 (weak) to +2.5 (strong): (1) Freedom, (2) Political Stability, (3) Government Effectiveness, (4) Private Sector Regulation, (5) Rule of Law, and (6) Corruption Control.

■ Europe ■ Asia ■ LatAm ■ Africa ■ Middle East



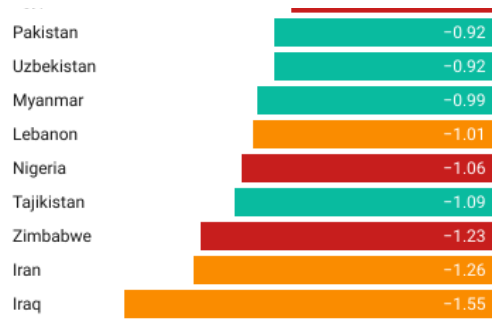


Chart: Hasnain Malik • Source: WB, WGI, Tellimer Research • Created with Datawrapper

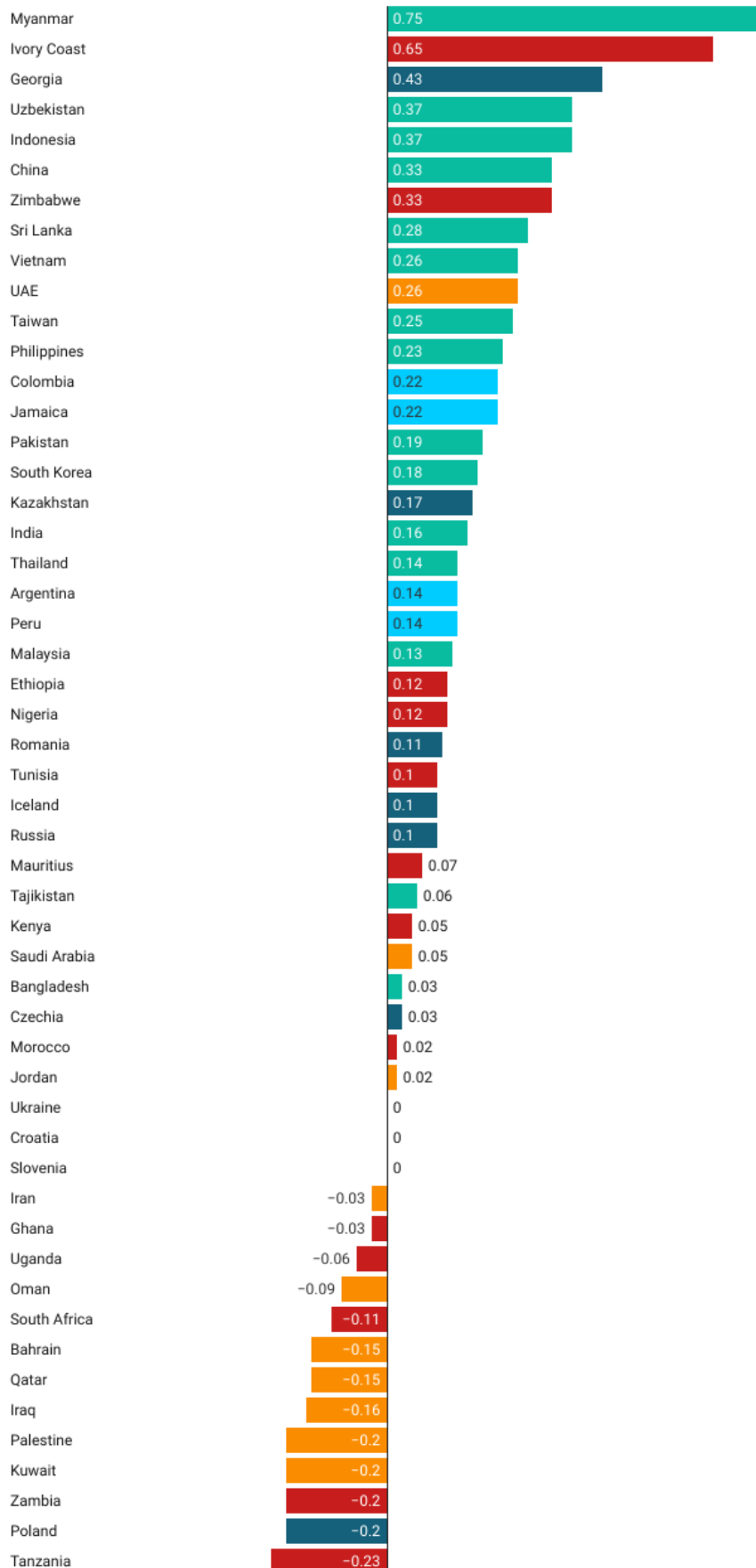
The following countries screen well using the change exhibited over the past decade, weighting the change in the six aggregate metrics equally:

- Large EM: China
- Small EM:
 - Africa: Ivory Coast, Zimbabwe
 - Asia: Indonesia, Sri Lanka, Vietnam, Philippines
 - Europe-CIS: Georgia
 - LatAm: Colombia, Jamaica
 - Middle East: UAE

10 year change in Governance scores in Emerging Markets

Simple average of change in 6 scores from 2010 to 2020, where each ranges -2.5 (weak) to +2.5 (strong): (1) Freedom, (2) Political Stability, (3) Government Effectiveness, (4) Private Sector Regulation, (5) Rule of Law, and (6) Corruption Control.

Asia Africa Europe Middle East LatAm



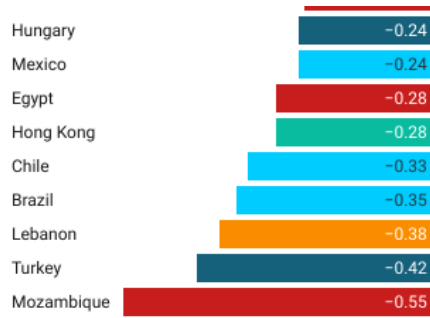


Chart: Hasnain Malik • Source: WB, WGI, Tellimer Research • Created with Datawrapper

Our curated version of WGI, with adjustable weights for those who consider, for example, individual freedom to be more important than quality of private-sector regulation, is available in Excel via this link.

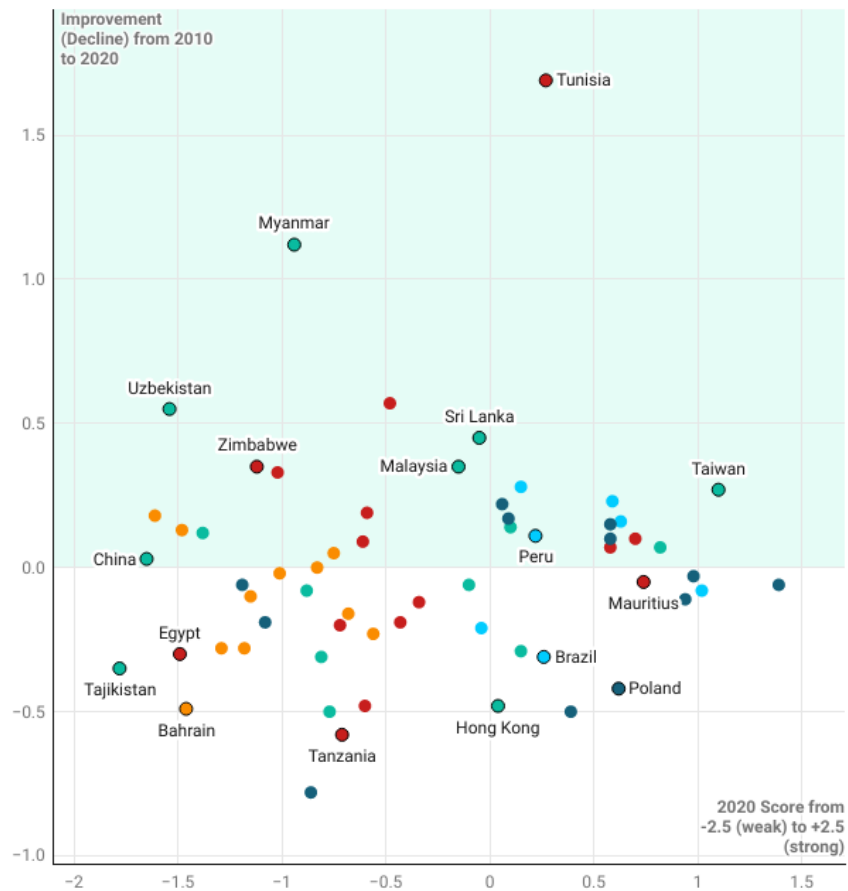
[Download .xlsx](#)

WGI Components

(1) Freedom

Countries which have improved their score in the last decade sit in the green highlighted area

● Asia ● LatAm ● Africa ● Europe ● Middle East



"Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media."

Chart: Hasnain Malik • Source: WB, WGI, Tellimer Research • Created with Datawrapper

(2) Political Stability

Countries which have improved their score in the last decade sit in the green highlighted area

● Asia ● LatAm ● Africa ● Europe ● Middle East



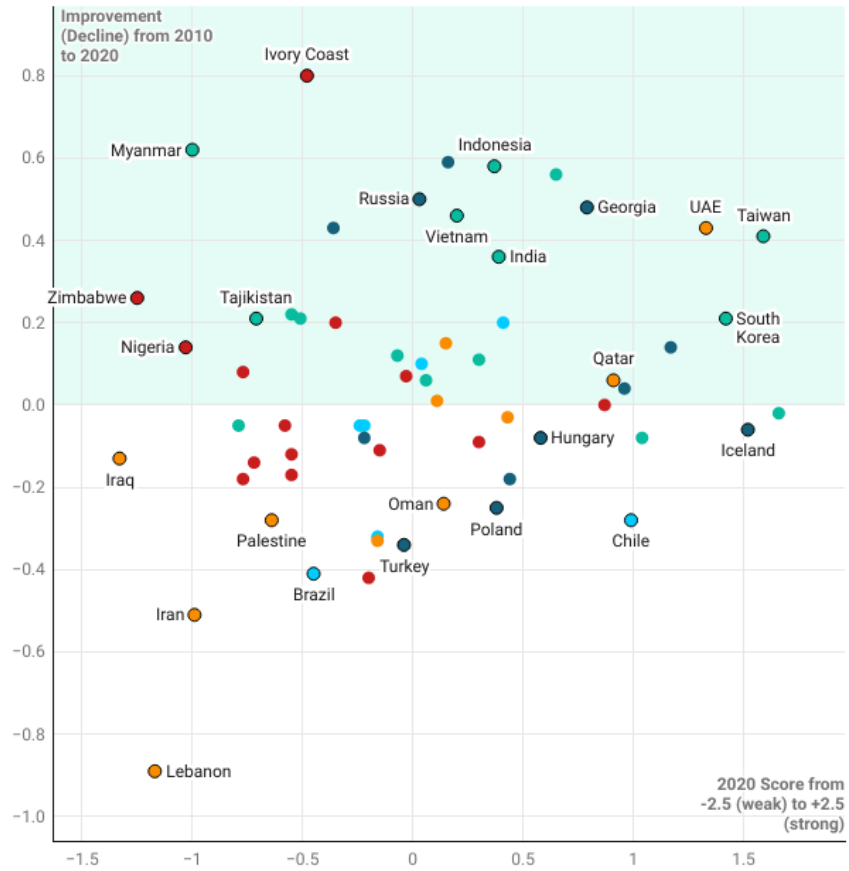
"Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism."

Chart: Hasnain Malik • Source: WB, WGI, Tellimer Research • Created with Datawrapper

(3) Government Effectiveness

Countries which have improved their score in the last decade sit in the green highlighted area

● Asia ● LatAm ● Africa ● Europe ● Middle East



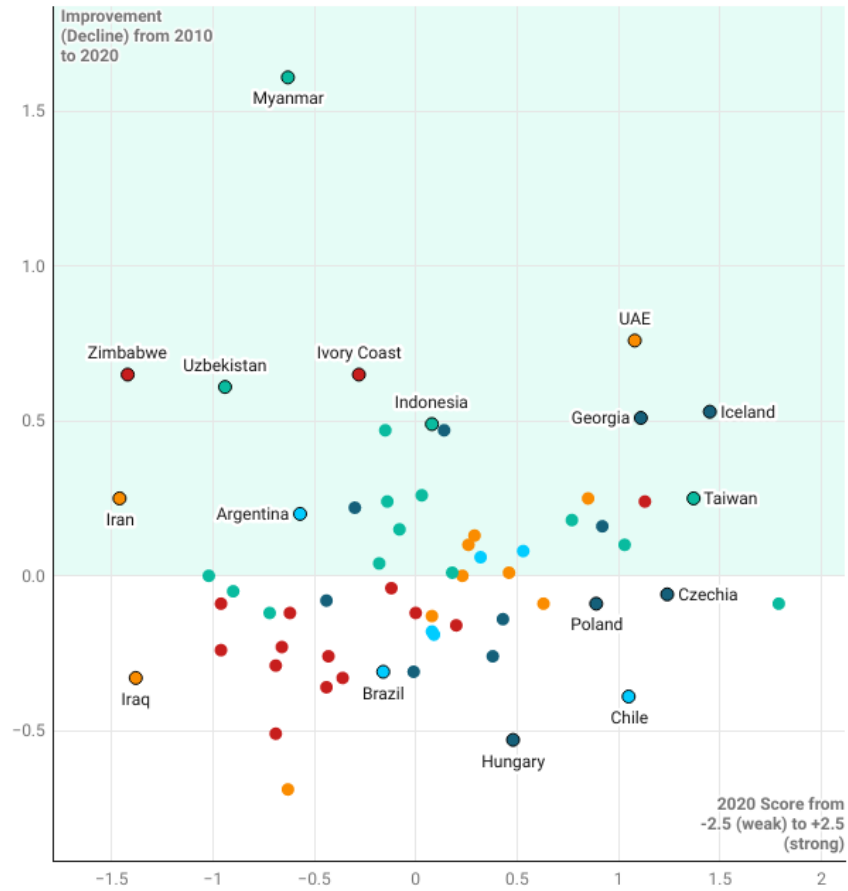
"Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies."

Chart: Hasnain Malik • Source: WB, WGI, Tellimer Research • Created with Datawrapper

(4) Regulation of the Private Sector

Countries which have improved their score in the last decade sit in the green highlighted area

● Asia ● LatAm ● Africa ● Europe ● Middle East



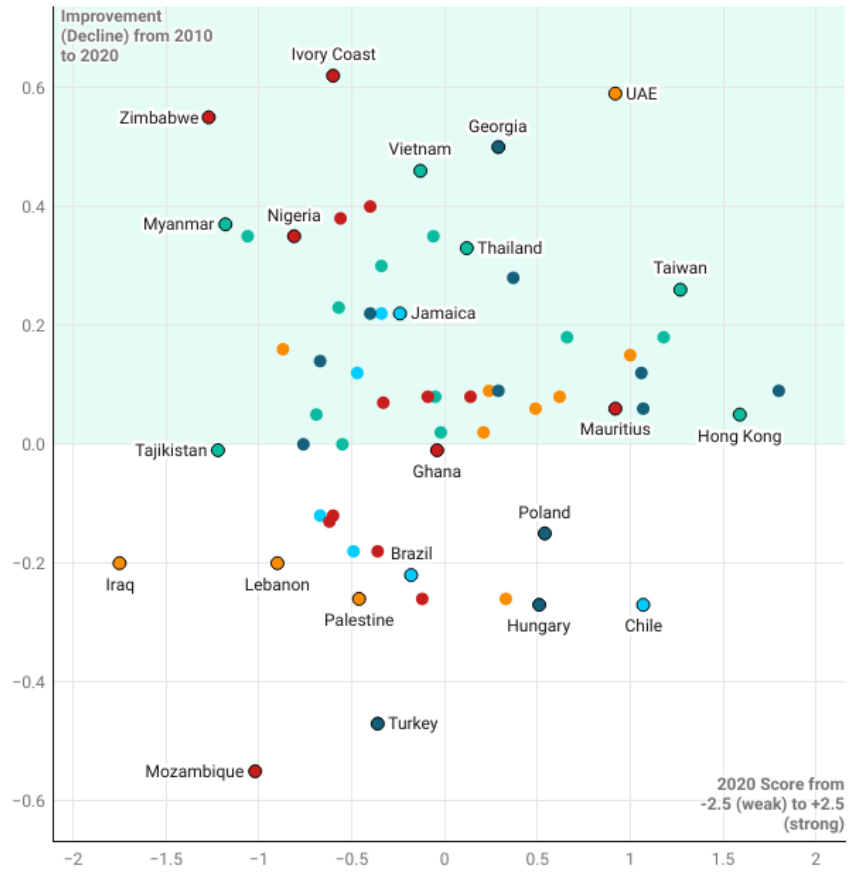
"Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development."

Chart: Hasnain Malik • Source: WB, WGI, Tellimer Research • Created with Datawrapper

(5) Rule of Law

Countries which have improved their score in the last decade sit in the green highlighted area

● Asia ● LatAm ● Africa ● Europe ● Middle East



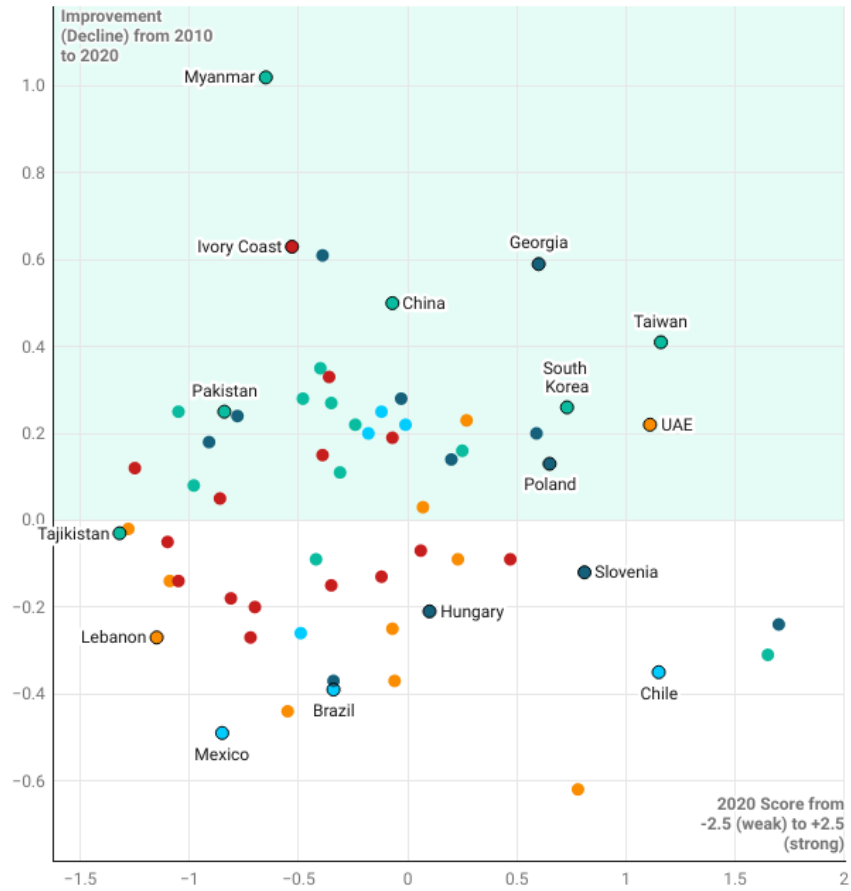
"Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence."

Chart: Hasnain Malik • Source: WB, WGI, Tellimer Research • Created with Datawrapper

(6) Corruption Control

Countries which have improved their score in the last decade sit in the green highlighted area

● Asia ● LatAm ● Africa ● Europe ● Middle East



"Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests."

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