

# Human development pillars: investing in companies contributing to and benefiting from sustainable development



Stewart Investors  
Sustainable Funds Group

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## Investment terms

View our list of [investment terms](#) to help you understand the terminology within this document.

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Since our first sustainable development-focused strategy launched in 2005, human development has been a key focus area given our long history of investing in Asia Pacific and emerging markets. Recently we have been expanding the way we assess and report on how our companies are contributing to various solutions to human development challenges. This builds upon our work mapping the contribution our companies are making to climate solutions featured in [Project Drawdown](#).

The idea of 'sustainability' is simple and easy to understand. Yet at the same time, it is a concept which has spawned innumerable marginally different definitions. Each interpretation of the concept is inevitably imperfect and incomplete, and at the same time has something to offer. We do not presume that our own framework is the 'right' approach, let alone the only valid one.

## How we think about sustainable development

Since 2012 we have used a framework developed by the Global Footprint Network for describing sustainability, which brings together the twin imperatives of human development and environmental sustainability. To us, combining these two high-level goals is a solid basis for understanding what sustainability is at its heart. This is a goal which economist Kate Raworth describes as providing “for every person’s needs while safeguarding the living world on which we all depend.”<sup>1</sup>

The graph, below, from the Global Footprint Network encapsulates this.<sup>2</sup> On its vertical axis, the graph uses the concept of ‘ecological footprint’ to plot humanity’s use of the Earth’s regenerative and absorptive capacity in terms of water, land, food and other natural resources.<sup>3</sup> On its horizontal axis, the graph uses a broad measure of human development – the Human Development Index (HDI) developed for the UN by economist Amartya Sen, and which includes metrics related to income, education and health.<sup>4</sup>

The bottom right quadrant (coloured light sage green) is the area of global sustainability: the zone in which a society has delivered ‘high human development’ but still lives within its environmental means. Unfortunately it is quite a lonely part of the graph!

We use this framework to help think about the sustainability positioning of individual companies. Our aim is to find companies which are contributing

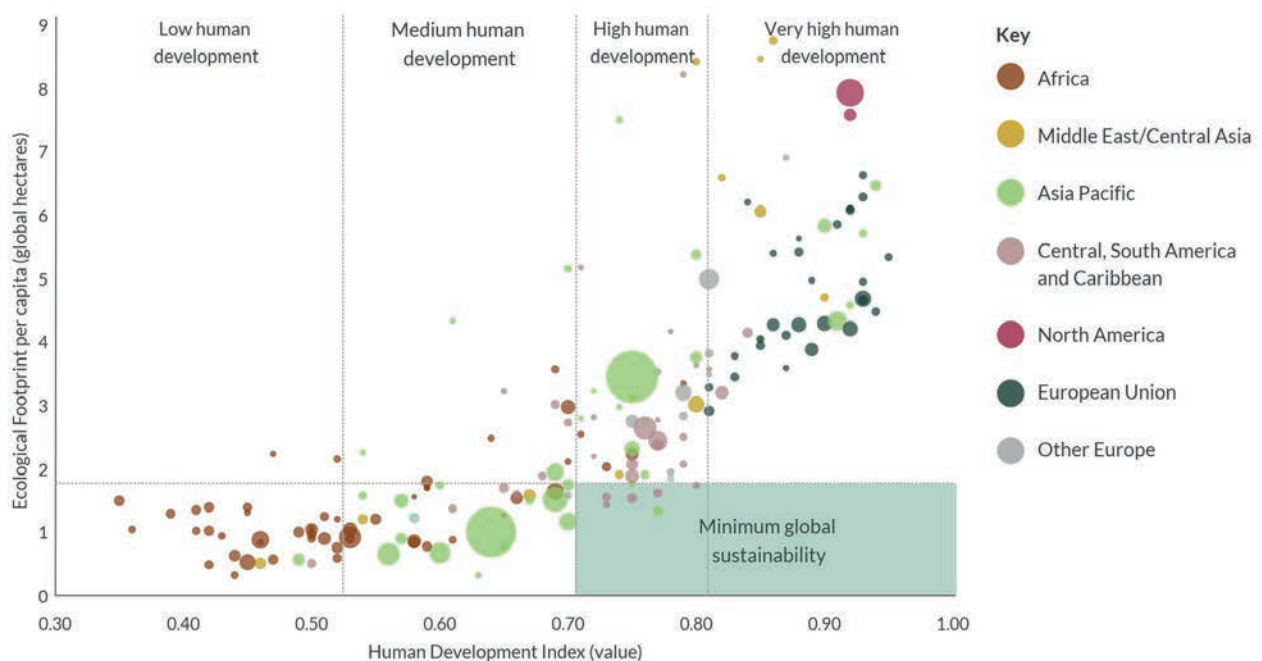
to and benefiting from sustainable development. That means we look for business models which help move societies from north to south on the chart by reducing environmental impact, and from west to east by improving human development outcomes.

To deepen our understanding we recently evaluated companies on their contribution to [environmental solutions](#) using an external framework developed by Project Drawdown which identified 80 climate change solutions. We are continuing this work by doing the same for human development. However, a comparable framework to Project Drawdown does not exist and so we have instead expanded on the components of the HDI.

## Deepening our understanding of human development

The HDI used in the chart works well as a high level measure. Countries which score well on it genuinely do tend to be delivering for their citizens, and vice versa. However, like all metrics it has its limitations. Many companies which we believe to be sustainable do not map directly to any of its constituent components – income, education and health – and so we have spent some time thinking about how we would expand this idea.

Taking inspiration from many different sources, we have determined 10 broad pillars which we believe encapsulate the essence of human development in a slightly more detailed way, and to which we could readily map companies. We believe that our investee companies should all be contributing in a tangible way to at least one of the ten pillars.



Source: Global Footprint Network, 2019 National Footprint Accounts [www.footprintnetwork.org](http://www.footprintnetwork.org) and [data.footprintnetwork.org/#/sustainableDevelopment?cn=all&yr=2016&type=BCpc,EFCpc](http://data.footprintnetwork.org/#/sustainableDevelopment?cn=all&yr=2016&type=BCpc,EFCpc). Latest country data for the Ecological footprint is 2016.

## 10 pillars of human development

- Nutrition
- Health & wellbeing
- Water & sanitation
- Education
- Information & connectivity
- Energy & electricity
- Income & employment
- Financial inclusion
- Housing
- Standard of living

These pillars cover a range of areas which we believe to be central to the spirit of sustainable human development, and quality of life for people around the world, particularly in emerging markets. Most of them are self-explanatory and link back in clear ways to Sen's concept of 'development as freedom'<sup>5</sup> and the HDI.

To elaborate on probably the least self-evident pillar and to illustrate our thinking more generally, our conception of 'Standard of living' is an idea inspired by the late Hans Rosling's work. It is approximated in the HDI as GDP per capita.

At its heart, it refers to people's ability, through the ownership of private goods, to attain a higher quality of life. As shown below, Rosling's

exceptional book *Factfulness* illustrated this with reference to transport, cooking equipment and sleeping arrangements.<sup>6</sup> We could equally refer to ownership of air conditioning – which in many tropical emerging markets has clear links to educational attainment and labour productivity – or to family possession of white goods – which have been instrumental in allowing women to enter the workforce in many societies around the world.

## Demonstrating positive impacts on human development

To test and demonstrate our approach, we have analysed the companies in our Global Emerging Markets Sustainability strategy against the pillars, and will soon roll this analysis out to other strategies as has previously been done for [Project Drawdown](#) solutions.

For clients in the Global Emerging Markets Sustainability strategy, for instance, we own shares in a Chinese provider of extractor fans and gas cooking hobs. In a Chinese context, these products have huge environmental and health benefits. Households switching from burning solid fuel to using gas has been shown to be the single biggest contributor to improving air quality in China, preventing an incredible 400,000 premature deaths annually.<sup>7</sup> The company, in our view, maps clearly onto the 'Energy & electricity' pillar, since its business model is to provide people with a cleaner form of cooking fuel.



The strategy also has a position in a leading provider of medicines in Bangladesh. With over 700 drugs and the only truly nationwide distribution system, the company has a focus on anti-infectives, as well as treatments for the non-communicable diseases which are now the leading causes of illness in Bangladesh. In a country in which the annual medical spend was a paltry US\$36 per person per year in 2017<sup>8</sup>, the company is well-positioned to continue to deliver access to medicines in a society which desperately needs it. It maps neatly onto the 'Health & wellbeing' pillar.

These are just two of the many tangible and inspiring ways that each of our companies are contributing to solving the world's human development challenges.

When we group companies together by pillars, we begin to get a picture of where the investee companies of the Global Emerging Markets Sustainability Strategy are contributing most to human development in emerging markets.

We currently own shares on behalf of clients in companies in the portfolio which contribute meaningfully to all of the pillars except for one, 'Water & sanitation'.

The largest concentrations of contributions arise in three areas.

The first is 'Health & wellbeing', and includes companies which are manufacturing drugs and personal care goods, as well as pharmaceutical

retailers and companies providing medical diagnostic services.

The second is 'Income & employment', where a good example would be a company in Brazil which provides enterprise resource planning (ERP) software to half the country's small and medium sized enterprises, thereby supporting the jobs of millions of Brazilians.

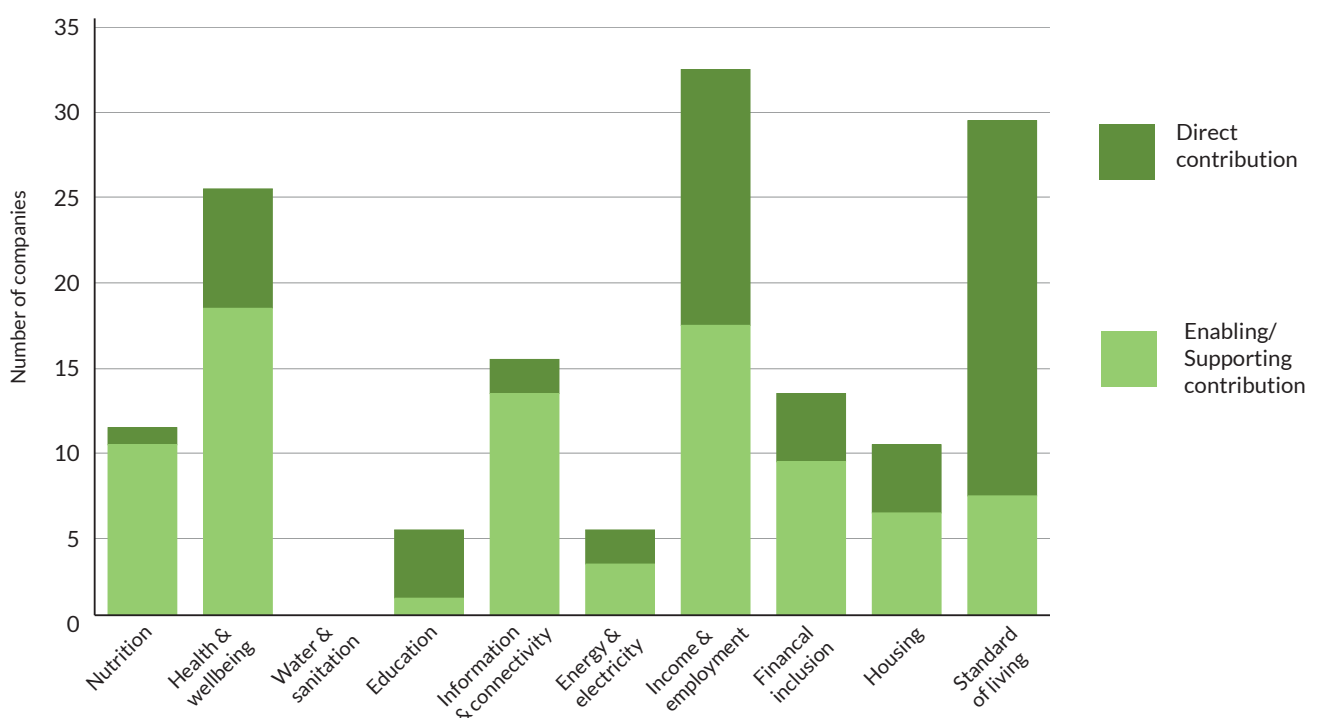
And the third concentration of company contributions is in 'Information & connectivity', and includes businesses like a Czech software company, which provides internet security software to 400m consumers.<sup>9</sup>

When we think about the solutions holistically, we also begin to see how our investee companies' contributions are complementary in their impact on human development.

Take the example of 'Housing'. Population growth and rapid urbanisation has put huge strain on infrastructure and housing stocks in emerging markets cities, and today approximately 880m people globally are classified as slum-dwellers.<sup>10</sup> This is a tragedy, not just for the quality of life for those millions of people, but for society: the ability to get an education, to access employment and to deliver social justice is tightly linked to adequate housing.

We mapped six existing Global Emerging Markets Sustainability strategy holdings onto the 'Housing' pillar.

## HDI Pillars



Source: Stewart Investors, November 2020.

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They included companies providing mortgage financing, one being a company which since 1977 has financed an incredible 7.8m housing units in India, with an average loan size of US\$35,700.<sup>11</sup> Last year, 37% of their loans by volume were in the affordable housing segment, with an average loan size of just \$15,000<sup>11</sup> – loans aimed at helping people upgrade their quality of housing at the bottom of the pyramid (poorest part of society).

The companies mapped onto ‘Housing’ also included companies providing building materials which are central to the construction of safe dwellings. An excellent example is an Indian decorative paint company. In a country where 90% of paint does not comply with regulations on lead content, a company like the one we own shares in for clients – which sells water-based, lead-free and low VOC<sup>12</sup> decorative paint – is well positioned to grow its sales more quickly as a result of its leading position on these issues, as well as save lives in the process.<sup>13</sup> In the developed world, paint is primarily an aesthetic consideration, but in the humid climate of South Asia, paint plays a crucial role in preventing damp and mould, aiding waterproofing and ensuring buildings last longer. Without high quality, non-toxic paint, housing units in tropical climates quickly become unfit for human habitation.

## Sustainable investing as an enabler of human development

Many of the contributions which our companies are making to sustainable human development are not ground-breaking. Most are not eye-catching or headline-grabbing. But they are no less powerful or important for that.

It is the essential medicines in Bangladesh, the first time mortgages in India, the gas cookers in rural China and the safe, low-toxicity paint in India that are helping and will continue to help hundreds of millions of people in emerging markets to live longer, better and healthier lives.

We continue to believe that the best way to allocate capital responsibly and productively over the long term is to find companies which are contributing to and benefiting from sustainable development. With our new frameworks, we have powerful tools to analyse and find such companies, and to communicate their contributions to clients.

We look forward to continuing to do so in coming months and years.

**Jack Nelson**  
December 2020

<sup>1</sup> Raworth, Kate. *Doughnut Economics: Seven Ways to Think Like a 21st-Century Economist*. Chelsea Green Publishing, 2017.

<sup>2</sup> Global Footprint Network, 2019 National Footprint Accounts [www.footprintnetwork.org](http://www.footprintnetwork.org) and <https://data.footprintnetwork.org/#/sustainableDevelopment?cn=all&yr=2016&type=BCpc,EFCpc> Latest country data for the Ecological footprint is 2016.

<sup>3</sup> Source: <https://www.footprintnetwork.org/our-work/ecological-footprint/>

<sup>4</sup> Source: <http://hdr.undp.org/en/content/human-development-index-hdi>

<sup>5</sup> According to 1998 Nobel prize winner, Amartya Sen, freedom is both the primary objective of development, and the principal means of development.

<sup>6</sup> Hans Rosling, *Factfulness: Ten Reasons We're Wrong About The World - And Why Things Are Better Than You Think*.

<sup>7</sup> Source: <https://www.pnas.org/content/115/49/12401>

<sup>8</sup> Figure as of 2017. Source: [https://www.theglobaleconomy.com/Bangladesh/health\\_spending\\_per\\_capita/](https://www.theglobaleconomy.com/Bangladesh/health_spending_per_capita/)

<sup>9</sup> Source: company data.

<sup>10</sup> Source: <https://oxfordbusinessgroup.com/overview/urban-adaptation-rapid-urbanisation-and-young-growing-populations-put-pressure-emerging-2>

<sup>11</sup> Source: company data.

<sup>12</sup> VOC stands for volatile organic compound. VOCs are solvents that get released into the air as paint dries.

<sup>13</sup> Ambit Capital Research, *Bright shades all priced in*, Research tender, November 2020.

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