



## Achieving Sustainability

# Unlocking the “S” in capitalism

[allianzgi.com](https://allianzgi.com)

February 2022

**Social issues have typically been overshadowed by other aspects of the sustainability story such as climate. That’s changing. The Covid-19 pandemic has shone a light on inequalities in access to basic essentials and life opportunities – and the solution calls for a new brand of capitalism.**



**Nicole Papassavvas**  
Senior Sustainability  
Analyst

The “S” in ESG – the environmental, social and governance factors that are a core part of sustainable investing – has long been overshadowed by other aspects of the sustainability story. Yet today, social issues are increasingly coming into focus.

One reason is the Covid-19 pandemic, which has exposed serious problems that can arise when countries or communities lack the resources and opportunities that others take for granted. In the worst situations, these communities may be marginalised from society entirely, experiencing what is known as “social exclusion”. There’s also growing recognition that social issues are firmly interconnected with the “E” in ESG – namely the environment and climate change – and that all these themes should be addressed together.

At Allianz Global Investors, we understand the importance of social issues to today’s world. In fact, it’s a core reason why the concept of “inclusive capitalism” is one of the three thematic pillars of our sustainability focus – alongside climate change and planetary boundaries such as biodiversity. Inclusive capitalism is integral to our goal of working with our clients to drive an inclusive, fairer and more sustainable world. We think it opens up new markets and growth opportunities as companies innovate to resolve inequalities and address the needs of under-served communities.



**Marie Rupp**  
Senior Sustainability  
Analyst

### Key takeaways

- The Covid-19 pandemic shone a light on the weaknesses of the modern just-in-time economy and was a stark reminder that many communities experience inequalities in accessing both life and livelihood essentials
- Recent events have led to a renewed focus on the “S” in ESG – the social issues that can hold back the growth and resilience of economies, and may be exacerbated by climate change and digitalisation
- The concept of “inclusive capitalism” is gaining steam as part of a more inclusive approach to economic growth, and it should be addressed alongside our other sustainability pillars at AllianzGI – climate change and planetary boundaries – with which it is closely interdependent
- By addressing inclusive capitalism via their investments, investors can accelerate the journey to a more equal world while capitalising on significant growth opportunities as new approaches and infrastructure come online

**Value. Shared.**

**Allianz**   
Global Investors

## Why inequality is a growing concern

### Defining inequality

Addressing inequalities is at the heart of the focus on social issues – but what does inequality really mean?

- Income and wealth inequality are one of the main areas that need attention, but we believe financial considerations are not the only way to measure inequality. Around the world there are also big disparities in access to basic needs – the “life essentials” that include food, water and clean air (see Exhibit 1).
- People also lack “livelihood essentials” such as education and infrastructure. These are necessary for people to participate in economic, social and civic processes and lead productive and creative lives. In fact, UNESCO has found that “socially excluded” people who lack these livelihood essentials “find themselves confined to the fringes of society”.<sup>1</sup>

### Covid-19: exposing inequalities

The Covid-19 pandemic has accelerated the problems of exclusion and inequality, with implications beyond health and wellbeing. It’s more obvious than ever that many basic needs, such as food and healthcare, are not guaranteed for many of our communities. Many people also lack access to the kind of education and financial services that would help them build better lives. These shortcomings help explain why during this crisis, progress in fighting poverty has gone

### Covid hits schooling

The closing of classrooms during the pandemic has pushed 101 million children globally below the minimum reading proficiency threshold; seven million are in Western Europe and North America.<sup>2</sup> And according to the World Bank, children affected by learning losses stand to lose USD 10 trillion in future lifetime earnings – equivalent to 8% of global GDP.<sup>3</sup>

into reverse. The rate of extreme poverty rose from 8.4% in 2019 to 9.5% in 2020 – the first global increase since 1998.<sup>3</sup>

These inequalities manifest themselves in various ways. In a survey by our Grassroots Research® team, 27% of French educators cited major issues with online learning during the pandemic, especially for low-income students and those in rural areas who do not have an adequate internet connection or hardware.<sup>4</sup> And since robust technology is increasingly critical to earning a living – particularly with the growth in home working – the “digital divide” between those who have adequate digital infrastructure and those who do not is a significant new driver of inequalities.

## Exhibit 1: life and livelihood essentials explained

|   |   |
|---|---|
|  <p><b>Life essentials</b><br/>(core to existence)</p>                                   | <ul style="list-style-type: none"> <li>Food</li> <li>Health</li> <li>Water</li> <li>Clean air</li> <li>Energy</li> <li>Safety</li> <li>Home</li> </ul>  |
|  <p><b>Livelihood essentials</b><br/>(core to human development in our modern world)</p> | <ul style="list-style-type: none"> <li>Basic citizen services/information</li> <li>Education (basic and life-long learning)</li> <li>Decent work opportunities</li> <li>Wellbeing</li> <li>Infrastructure (transportation and communication)</li> <li>Financial services</li> <li>Digital tools and technology</li> </ul> |

1. UN definition; *Beyond Transition: Towards Inclusive Societies* (unesco.org).

2. *The Sustainable Development Goals (SDGs), 2021* | United Nations

3. WEF Briefing Paper: *Shaping an Equitable, Inclusive and Sustainable Recovery*

4. Source: UN *The Sustainable Development Goals (SDGs), 2021* | United Nations – The extreme poverty rate is the share of world population that is living on less than \$1.90 per day

5. Grassroots Research® *Market Monitor*, Issue 3, 2020

Another major driver is climate change. Local environmental resources are crucial for a high proportion of the poorest populations, and these resources are affected by global warming.

For instance, under the medium scenario for population development, the Intergovernmental Panel on Climate Change estimates that at 1.5°C warming 178 million people – including a high proportion of women, children and the elderly – will be affected by water stress, drought intensity and habitat degradation by 2050. At 2°C warming this figure rises to 220 million people.<sup>6</sup>

### Inequality is a problem for everyone

The Covid-19 pandemic is the most obvious recent example of a global crisis that has brought global inequality into stark relief. But think about the recent financial crises and increasingly regular extreme weather events. Inequalities undermine our capacity as a society to mitigate and overcome the impact of major crises like these, and as such they are a concern for everyone:

- Covid-19 showed how the economy relies on global and tight supply chains and exposed the lack of resilience in the “just in time” model. Broken and delayed supply chains affect everyone.
- Consider the repercussion of a dock workers’ strike on the global supply of goods. Or the effect on the price we would have to pay if the “fair” cost of these goods was applied that includes the social and environmental costs.
- Sustained inequalities often result in heightened political or even geopolitical risks. This environment is typically negative for economic growth, since it raises costs and limits the availability of capital. In many regions of the world, this has led to large-scale refugee crises.

## Bridging the digital divide

Some 2.9 billion people remain offline globally – equal to around 37% of the world population – with 96% of them living in developing countries. Those who remain unconnected face multiple barriers, including a lack of access: some 390 million people are not even covered by a mobile broadband signal.<sup>7</sup>

### Shifting the economic model towards inclusive capitalism

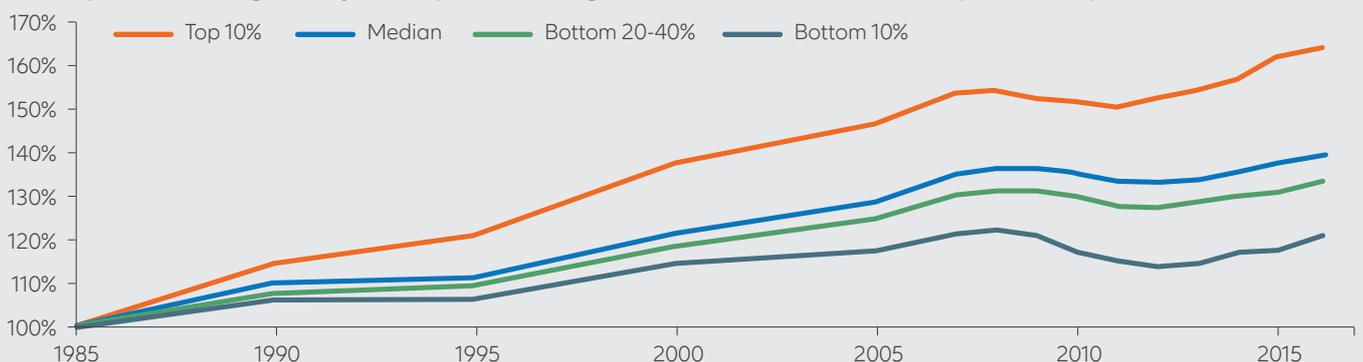
#### It is time for society and economy to move to an inclusive and fair world

A persistent, decades-long rise in gross domestic product (GDP) in many countries has increased overall living standards and lifted many people out of poverty. This is proof of the power of capitalism. However, measuring GDP has its limitations. It cannot shed light on unequal income distribution. Nor does GDP give any insight into other types of societal inequality – including less access to healthcare, education or infrastructure.

According to the Allianz Global Wealth report, the richest 10% of the world’s population together owned more than 84% of total net financial assets in 2020, and the middle class is shrinking.<sup>8</sup> And figures from the OECD show that median incomes grew more slowly than top incomes since the mid-1980s – and the Covid-19 pandemic made this trend worse.

### Exhibit 2: median incomes grow more slowly than top incomes

Real disposable income growth by income position, average for 17 OECD countries, 1985-2016 (1985 = 100%)



Note: Unweighted average for 17 countries for which long-term data are available: Canada, Germany, Denmark, Finland, France, United Kingdom, Greece, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Norway, New Zealand, Sweden and United States. Incomes are disposable incomes, corrected for household size.

Source: Chapter 2, OECD calculations from OECD Income Distribution Database. Data as at April, 2019. StatLink Data

6. Summary for Policymakers – Special Report on Climate Change and Land (ipcc.ch)

7. Measuring digital development – Facts and figures 2021 (itu.int)

8. Allianz Global Wealth Report 2021

This is where the concept of inclusive capitalism is gaining steam as part of a more inclusive approach to economic growth. Consider the World Economic Forum’s (WEF) recently launched Inclusive Growth Framework. In its 2020 Davos manifesto, the WEF upgraded the purpose of a company to encompass all its stakeholders – employees, customers, suppliers, local communities and society at large – in shared and sustained value creation.<sup>9</sup>

Furthermore, over 190 countries have adopted the UN Sustainable Development Goals (SDGs) to support a better and more sustainable future for all. By highlighting priorities such as “zero poverty”, “decent work and economic growth” and “quality education”, the 17 SDGs provide a roadmap for companies to address these issues in the way they run their organisations and through their products and services.

With its focus on reflecting the needs of women, youth and local and marginalised communities in climate-related planning, **SDG 13: Climate Action** is particularly germane to this discussion of inclusive capitalism. SDG 13 highlights how the journeys towards both an inclusive world and a 1.5 degree-aligned world are tightly interwoven. Consider how moving to a low-carbon economy can have social repercussions, for instance if jobs are jeopardised by the shift away from fossil fuels. This is the impetus behind the calls for a “just transition”. At COP26 in November 2021, more than 30 nations signed the Just Transition Declaration

## Social insecurity

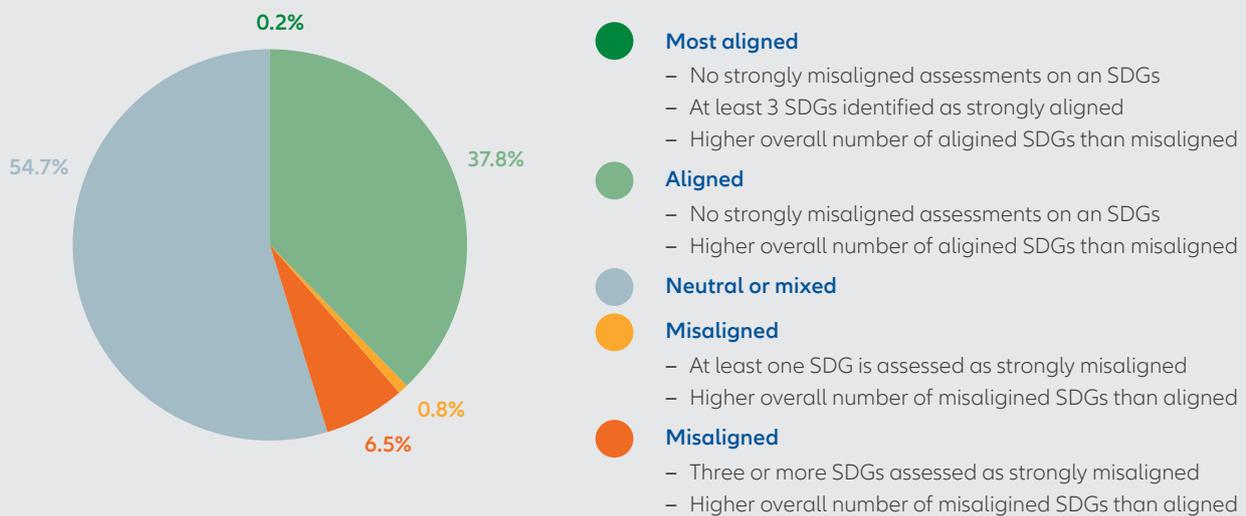
Before the pandemic, informal employment represented 60% of global employment. This means that 2 billion people worldwide worked in jobs characterised by lack of basic protection, including social protection coverage.<sup>10</sup>

acknowledging “the need to ensure that no one is left behind in the transition to net zero economies”.<sup>11</sup> And this is a two-way interdependence, as human capital has to be “unlocked” to secure the skills necessary for climate transition.

Clearly, the SDGs can provide a much-needed roadmap to address some of the world’s most pressing issues related to sustainability. Early results are promising: of the 8,550 companies in the MSCI All Country World Index, nearly 40% have aligned with multiple SDGs (see Exhibit 3). Of those companies, **SDG 5: Gender Equality** was among the top ranked in terms of alignment. But other companies still have work to do: 7% of firms were assessed as “misaligned”, noticeably on **SDG 7: Affordable and Clean Energy**.<sup>12</sup>

### Exhibit 3: companies are grappling with sustainability

Level of corporate alignment with SDGs  
8,550 Companies



This chart displays distribution of companies’ assessment by SDG for a set of 8,550 companies, as at 11 August, 2020  
Source: MSCI ESG Research LLC. Data as at August 2020.

9. WEF Briefing Paper: Shaping an Equitable, Inclusive and Sustainable Recovery

10. The Sustainable Development Goals (SDGs), 2021 | United Nations

11. Supporting the Conditions for a Just Transition Internationally - UN Climate Change Conference (COP26) at the SEC – Glasgow 2021 (ukcop26.org)

12. Assessing Company Alignment with UN SDGs - MSCI



### Closing the gap with climate

While these steps are encouraging, there is still less attention paid to building a more inclusive world than addressing climate change and the environment. The UN’s High-level Political Forum on Sustainable Development – in effect, the SDG equivalent of the climate COP – had only its 13th iteration this year and received scant media coverage.

What could explain this gap? We see both a lack of urgency and a sense that inequalities are happening in more remote countries. In addition, there are intrinsic challenges in managing social factors. Whereas the fight against climate change has a clear and measurable focus – ie, achieving net-zero emissions to stop warming – there is no single unifying quantitative goal for creating a fair and inclusive world. There is also the question of how to measure sustainable development. It encompasses multiple topics – from education, ways of working and retirement to health and financial considerations. Moreover, there are significant cultural and legal differences across countries and regions.

But while the S has been a poor cousin to the E and G of ESG, it is still gaining prominence. Social issues are particularly important to millennials and Generation Z investors. And even though inequalities have increasingly come into focus in the US, this awareness is now being exported to other parts of the world.

### Our framework for inclusive capitalism at Allianz Global Investors

Thanks to their experience with the climate transition, many investors increasingly recognise they have the power to make a positive impact through where and how they invest their capital. This applies equally to the transition to a more inclusive world.

Indeed, as a firm with strong ESG credentials, Allianz Global Investors has been active for several years in integrating people-related sustainability factors in investment processes.<sup>13</sup> As part of our ESG risk assessment, we seek to identify where investee companies may need to enhance

### New skills needed

The shift away from fossil fuels is estimated by the International Energy Agency to displace around 5 million jobs. But about 30 million new workers are needed by 2030 to meet increased demand for clean energy and low-emissions technologies; over half are highly skilled positions.<sup>14</sup>

13. We have also published research on the topic of economic inequality, including this paper: [Allianz Global Investors | Enabling access to markets can help reduce inequality \(allianzgi.com\)](#)

14. [Net Zero by 2050 - A Roadmap for the Global Energy Sector \(windows.net\)](#)

their approach to labour relations or consider more holistically their impact on local communities.

But we know there is more that we – and the industry – can do. By making inclusive capitalism our third sustainability research theme, we are granting proper resources and efforts to identify emerging issues, driving awareness and creating change. With the interdependencies of social, climate change and environment, we will be able to address this topic alongside our other two thematic pillars: climate change and planetary boundaries.

Our analysis in framing and structuring inclusive capitalism led us to distinguish life essentials and livelihood essentials. We also believe that inequalities and exclusions deserve the same level of attention, as exclusions are generally the consequence of inequalities that have been stretched beyond their tipping point, including by the pandemic. This focus will likely lead to product innovation, including new impact-focused investment strategies. It will also inform proxy-voting decisions and define themed engagement projects, which is a proven tool for increasing awareness among corporations. Concerted actions via joint initiatives, including the UN Principles for Responsible Investing, will continue to be another lever to drive change.<sup>15</sup>

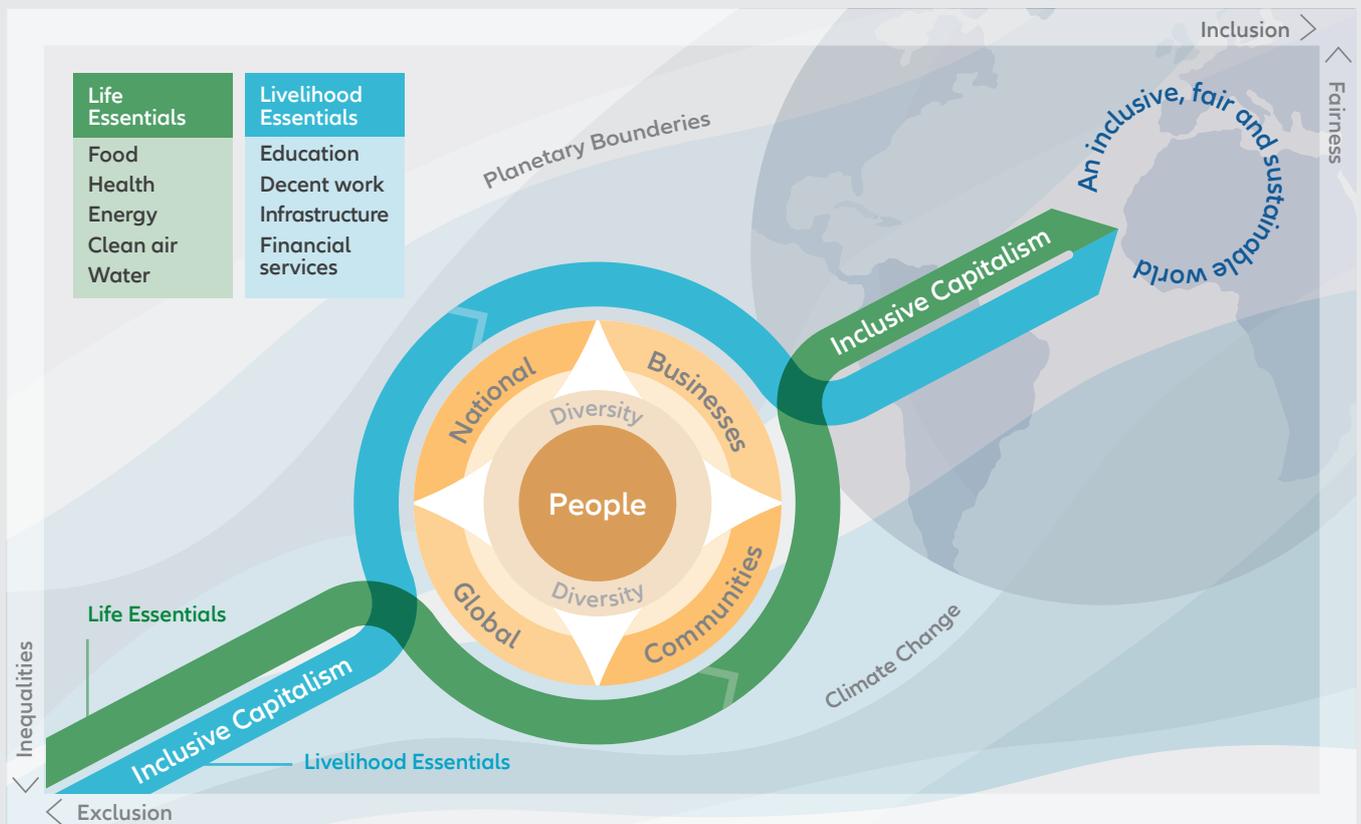
### Vaccine inequality

For every 100 people, around 68 vaccines were administered in Europe and Northern America, compared with fewer than two in sub-Saharan Africa.<sup>16</sup>

### Urgent next steps

The world must take its lessons from the pandemic that revealed the need for a shift of our economic and societal model. Global leaders are setting the tone by addressing social topics. The planned introduction in 2022 by the EU of a Social Taxonomy, the social dimension of US President Joe Biden’s infrastructure plan, and China’s focus on “common prosperity” are strong signs that the tide is turning. We see this as the right moment to take an active stance on inclusive capitalism alongside climate change and the environment. These interwoven priorities, while representing the biggest challenges facing our planet, unlock new opportunities for investors to support the transition to a more inclusive and sustainable world.

Exhibit 4: AllianzGI framework for inclusive capitalism



15. For example, we contributed to the UN PRI paper on Covid-19 recovery: Sustainable and inclusive: Covid-19 recovery and reform | Engagement guide | PRI (unpri.org) | PRI (unpri.org)

16. The Sustainable Development Goals (SDGs), 2021 | United Nations

**Allianz Global Investors** is a leading active asset manager with over 700 investment professionals in 23 offices worldwide and managing EUR 647 billion in assets.

We invest for the long term and seek to generate value for clients every step of the way. We do this by being active – in how we partner with clients and anticipate their changing needs, and build solutions based on capabilities across public and private markets. Our focus on protecting and enhancing our clients’ assets leads naturally to a commitment to sustainability to drive positive change. Our goal is to elevate the investment experience for clients, whatever their location or objectives.

### Active is: Allianz Global Investors

Data as at 30 September 2021

**Investing involves risk.** The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication’s sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of his document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited (“AllianzGI AP”) and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP (Australian Registered Body Number 160 464 200) is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws. This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association and Investment Trust Association, Japan]; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan.