[*The Dialogue Leadership for the Americas*]

Menu

Latin America Advisor

Financial Services Advisor

A Daily Publication of The Dialogue

What's the Future of ESG Investing in Latin America?

Jun 30 2020

Institutional investors have increasingly identified socially responsible investing, such as environmentally friendly initiatives, as a priority. // Image: pxfuel.com.

An overwhelming 96 percent of institutional investors in a May survey by Natixis Investment Managers said they have an important role to play in addressing global challenges, such as climate change, the need for infrastructure development, and social and economic inequality. Sixty percent of respondents in the survey said they would be willing to invest in projects that help address societal challenges as long as they meet their portfolios' long-term goals. How important has environmental, social and governance, known as ESG, investing become in Latin America and the Caribbean? What types of projects in the region are most primed for such investment? How do Latin America and the Caribbean compare to other regions of the world in their levels of ESG investing?

Dominik Rohe, head of Latin America at BlackRock: "The concept of sustainable investing can mean different things. Asset owners and managers often operate with multiple definitions, messages and motivations. For BlackRock, sustainable investing means combining traditional investing with environmental, social and governance (ESG) related insights to improve long-term outcomes for our clients. In our view, companies with strong profiles on material sustainability issues have the potential to outperform those with poor profiles. We believe companies managed with a focus on sustainability should be better positioned versus their less sustainable peers to weather adverse conditions while still benefiting from positive market environments. In general, many Latin American investors are in the early stages of incorporating sustainable investing. Pension funds have historically been first movers in incorporating investment best practices. This holds true for sustainable investing—we are seeing growing interest in sustainable strategies from pension funds across the region, including in Mexico, Colombia and Peru. While institutional investors in Latin America can already access sustainable investment strategies with exposure to international markets, domestic exposures are largely unavailable. In that regard, we are looking forward to launching a new ETF strategy in Mexico that tracks an ESG-optimized index of local companies. Finally, we believe increased awareness about sustainability among consumers and investors will continue to drive change in the region's economy and financial markets, with more companies adopting best practices on sustainability and more investors adopting global principles such as the United Nations' Principles for Responsible Investing."

Roland Potts, partner, and Ravika Rameshwar, associate attorney, both at Diaz, Reus & Targ: "Latin America and the Caribbean are increasingly relying on environmental, social and governance, or ESG, investments to help address their financial needs. The region faces an infrastructure gap and has recently seen financial institutions withdraw, in part due to the region's vulnerability to natural disasters and climate change. While some financial institutions have withdrawn from the region, according to the Climate Bond Initiative, Latin America and the Caribbean saw an increase in the green bond markets in 2019, contributing to 2 percent of green bonds issued globally. With oil and gas markets hitting record lows, the region and global investors may use this opportunity to shift their focus to sustainable and green investments. With the arrival of the Covid-19 pandemic, ESG in Latin America and the Caribbean is needed now more than ever, offering a potential growing market for investors looking at the space. Specifically, Covid-19 revealed gaps in infrastructure globally, including in Latin America and the Caribbean. Pandemic-response bonds are already emerging and are designed to deal with the social and economic repercussions of Covid-19. It would seem that at this point in time, Latin America and the Caribbean present a unique market for ESG investment. Indeed, the region, once heavily associated with corruption, has increased anti-corruption efforts, in part to increase global investment and make the region more inviting to investment dollars on projects other than the exploitation of natural resources. Companies are eager to boast ethically conscious and socially responsible investments in an effort to differentiate themselves and receive attention from international investors."

Andrea Bonime-Blanc, CEO and founder of GEC Risk Advisory: "Latin America, like anywhere else, has companies that care about ESG issues and others that don't. It's important to understand what lens you are looking at ESG through: are you an investor or asset manager, or are you the company's board and c-suite overseeing and implementing an ESG strategy? Any way you look at it, ESG has arrived globally—especially in the investor community—and cannot be ignored locally or regionally by any company. ESG is here to stay and even more so because of the global disruption Covid-19 has wreaked. There are two key factors in whether a company is ESG responsive: 1.) how enlightened and responsible leadership and the board are on these issues, or how superficial, greenwashing-oriented or downright irresponsible they are; and 2.) how committed, proactive or outright activist key stakeholders are—especially investors but also communities, customers, NGOs, suppliers, regulators and employees. Additionally, the seriousness with which ESG is taken also depends on the sector and how immediately exposed that sector is to ESG, or what I call 'ESG&T.' Thus, a company in the mining and extractive industry will or should be much more attuned to environmental and social issues than most (though these also interconnect directly with good, mediocre or poor governance, as we have seen in several notorious scandals in Latin America—Petrobras, Odebrecht, Vale). While other sectors may think they don't have a strong ESG remit or profile, they should think again—for example, the rise of ESG awareness is especially strong in the investor and asset management community globally. Add to the mix we already had pre-Covid-19 (for example, climate change), additional pandemic-induced systemic changes such as supply chain disruption, social and racial inequality, popular unrest, health care and economic failures potentially on a massive scale. Now more than ever is the time for both investors and issuers in Latin America to adopt and fully integrate an ESG or ESG&T agenda as part of their daily business, long-term strategy for value creation, resilience and sustainability. It's a matter of survival, not just competitive advantage, to do so."

Ivonne Cuello, CEO of LAVCA: "ESG has been a growing theme for private capital investors in Latin America over the last decade, with fund managers dedicating new resources to monitor and measure the social and environmental impact of their investments. Since 2014, LAVCA has been tracking deal cases with important environmental, social, governance and gender outcomes. These examples are wide-reaching and range from traditional impact sectors such as financial inclusion and renewable energy to businesses in consumer/retail, IT, agribusiness, financial services, health care, education, real estate and infrastructure. In addition, we have seen a number of traditional fund managers co-investing alongside those with an impact-only mandate in Latin America, indicating that there is an appetite and opportunity to invest in companies and projects that yield tangible social and environmental objectives across sectors and countries. Correlated to an increasing limited partner/general partner focus on climate change, investment in clean tech, alternative and renewable energies in Latin America has gone from $470 million invested across 35 deals in 2014-2016 to $2 billion across 63 deals in 2017-2019, according to LAVCA Industry Data."

Cate Ambrose, CEO of EMPEA: "Climate change and environmental considerations have never been more prominent in investment conversations across emerging markets. More than three-quarters of commercial limited partners (LPs) participating in the latest EMPEA LP survey on emerging markets private capital cited taking such factors into account when making investment decisions. While most LPs do not yet face specific restrictions on their allocation choices, a multitude of factors—including pressure from boards and beneficiaries and increasing evidence of ESG's role in positive investment outcomes—has generated significant momentum behind sustainable investing. One family office that EMPEA surveyed said, 'In recent years, we have been actively divesting our public stock portfolio in developed markets to increasingly focus on private capital in emerging markets for social/charitable purposes.' With a shift in priorities becoming even more obvious in the current world scenario, we are seeing investors better understand their role in maintaining the long-term sustainability of global markets by way of responsible investing."

Share

- *Facebook*
- *Twitter*
- *Email*
- *Linkedin*

Author(s)

- Dominik Rohe
- Roland Potts
- Ravika Rameshwar
- Andrea Bonime-Blanc
- Ivonne Cuello
- Cate Ambrose

Program

- Corporate Program

Issue

- Economics, Finance & Trade
- International Development

Region

- Regional

Type

- Financial Advisor

Tags

- ESG Investing
- Financial Services
- Financial Services Advisor
- Latin America and The Caribbean

Show More

The Dialogue

The Inter-American Dialogue engages our network of global leaders to foster democratic governance, prosperity, and social equity in Latin America and the Caribbean. Together, we work to shape policy debate, devise solutions, and enhance cooperation within the Western Hemisphere.

Inter-American Dialogue
1155 15th Street NW
Suite 800
Washington, DC 20005
P: +1-202-822-9002
F: +1-202-822-9553