Is Socially Responsible Investment Possible in Latin America?*

Antonio Vives
Stanford University, USA

Socially responsible investment offers the potential to contribute to improved corporate practices through the incentive of enabling more responsible companies to access financial resources under better terms. Improved corporate practices are important because of the potential contribution these practices could make to economic development, to the development of financial markets and to the quality of individuals' lives in general. Incentivising these practices through the capital markets requires that there are investors capable of and willing to invest in more responsible companies (i.e. that there is demand for responsibility) and that there are responsible companies for them to invest in (i.e. that there is a supply of responsible companies). This paper analyses the demand and the supply sides of this equation in the major Latin American markets, with a particular focus on Brazil. It concludes that, while both supply and demand are limited at present, there is considerable potential to strengthen both, although this requires policy-makers and investors to play an active role in the creation of the right conditions for responsible investment to flourish and grow.

- **Socially responsible investment**
- **Corporate social responsibility**
- **Sustainability**
- **Stock exchanges**
- **Institutional investors**
- **Latin America**
- **Brazil**

Antonio Vives is Principal Associate, Cumpetere, and Consulting Professor, Stanford University. He is a member of the Advisory Panels on Sustainability Reporting of CEMEX and Abengoa and a member of the Steering Committee of the Global Initiative for Sustainability Ratings. Antonio is former manager of sustainable development at the Inter-American Development Bank, and holds a Master's degree in Industrial Administration (MBA) and a PhD in Corporate Finance and Capital Markets, from Carnegie Mellon University..

9417 Meadow Shire Ln, Great Falls, VA 22066, USA

antoniov@cumpetere.com

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RECENT YEARS HAVE SEEN A significant growth—as evidenced, for instance, by the number of signatories to the Principles for Responsible Investment—in institutional investor interest in corporations that have socially responsible practices. This interest and growth has been most pronounced in developed countries, particularly in Europe, United States and Canada. In developing countries, however, while there are signs of increasing interest in corporate social responsibility (CSR) or sustainability, progress has been slow.

This article analyses the potential for responsible investment in Latin America to grow, and the conditions under which this can happen. This is an important topic given the potential for responsible investment to encourage responsible practices in corporations through the incentive of enabling more responsible companies to access financial resources under better terms than in the traditional markets. Improved corporate practices are important because of the potential contribution these practices could make to economic development, to the development of financial markets and to the quality of individuals' lives in general.

This article begins with a brief presentation on the fundamentals of responsible investment and the mechanisms through which this can influence business practices. It then analyses the specific case of equity markets and institutional investors in Latin America, focusing in particular on the role and potential contribution of pension funds and on the information available to these actors to assess the corporate responsibility performance of the companies in which they might invest. The article also analyses the particular case of Brazil, the most developed country in the region in terms of sustainability and financial market development. Finally, the article offers a number of recommendations to develop and enhance socially responsible investment in Latin America.

Responsible investment: Some reflections on the state of play

For the purposes of this article, responsible investment is taken to refer to decisions to allocate financial resources, taking into consideration the sustainability characteristics or corporate responsibility practices of the corporation that may affect its risks and returns, over the short and, in particular, the long term. These practices include, but are not limited to, respect for national laws and regulations and international agreements related to business practices, the responsible and ethical treatment of employees, customers and suppliers, the provision of responsible products, the protection and enhancement of the environment, the support of community development, ethical and anticorruption behaviour, the fair treatment of all shareholders and lenders and, in general, taking proper account of the welfare of all stakeholders, including shareholders and owners, consistent with the main priority of the corporation to remain a financially viable entity in the short and long run.

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In responsible investment literature, these practices are considered under the rubric of environmental, social and governance (ESG) factors. While there is no 'standard' way of integrating these factors into investment decisions (see, further, Sandberg *et al.* 2009 and Sullivan 2011), two broad approaches have emerged. The first is where these ESG factors are effectively treated as ethical factors to be applied ahead of (or before) financial considerations. Examples include negatively screened funds (e.g. those that simply eliminate companies that operate in certain sectors such as defence, or produce products such as tobacco or alcohol, or operate in countries with particularly poor human rights or labour records), positively screened funds (where the aim is to identify companies that abide by particular ethical or religious values) and funds that seek to invest in companies that make a positive contribution to society (e.g. renewable energy companies). An important characteristic of many of these funds (and a point we return to later in the paper) is that these investors tend not to carry out their own ESG due diligence, but instead rely on the analysis done by specialised rating agencies, such as those that produce sustainability indices (Vives 2011: Chapter V.11), or by socially responsible investment (SRI) institutions. The second, and more mainstream, approach is taken by funds where investors can simply consider ESG issues as an aspect of their overall investment process (where these issues are treated as risk factors or as spreadsheet line items with associated costs and returns).

Quite apart from the specific investment approach adopted, and even the motivations (whether ethical, financial or industry peer pressure) at play, the existence of investors interested in investing in responsible companies could create a market where these companies could have access to financial resources under better conditions. Quite apart from enhancing their attractiveness to socially responsible (or ethical) investors, in principle, these practices should lead to competitive advantages and lower risks thereby making these companies more attractive to investors and, in turn, allowing them to access resources at lower costs and/or longer maturities. However, the empirical evidence in support of this statement remains weak and, despite numerous studies, there is no conclusive evidence that responsible companies are, in general, more profitable or better investments. This is particularly true in developing countries where the market for responsibility is less developed. The strengthening of the relationship between corporate responsibility and investment performance requires the participation in the market of proactive investors that both recognise the potential for responsible practices to contribute to risk reduction and the strengthening of competitive position in the long run, and are willing to bid up the price of the stock. If this were the case, it could lead to a virtuous circle, whereby responsibility leads to financial and stock market performance which in turn leads to responsibility (see Vives and Wadhwa 2012 for a more detailed discussion of these issues).

Therefore, one of the key questions is whether financial markets in developing countries are interested in responsible companies? Do their markets value responsible practices? Are there investable responsible companies? The next section discusses these questions for the case of Latin America.

Financial and capital markets in Latin America

For responsible investment to develop, there is a need for investors capable of and willing to invest in more responsible companies (i.e. there needs to be a demand for responsibility) and for responsible companies for these investors to invest in (i.e. there needs to be a supply of responsible companies). Before these conditions can be met, there first needs to be sufficiently large and diverse equity markets. The reason is that investors generally seek to build diversified portfolios in order to avoid concentration of risks, and, therefore, there needs to be enough companies, in different sectors of economic activity and countries so that sectorial and geographic diversification can happen.

Table 1 presents a simple indicator to assess the depth of financial markets, namely domestic credit as a percentage of GDP; this can be seen as an indicator of the extent of the involvement of the banking system with domestic creditors. It can be seen that, compared with developed countries such as the United States and Spain, the most developed countries in Latin America have a relatively shallow banking sector. Even Brazil and Chile, the countries with the most developed financial system, have only about 40% of the domestic credit as a percentage of GDP that the USA and Spain have.

Table 1 Financial depth
Source: IMF 2012

Country	Domestic credit as % of GDP
United States	231.5
Spain	231.4
Brazil	97.8
México	45.0
Chile	90.3
Argentina	29.2
Perú	18.0
Colombia	65.7

In terms of secondary equity markets, in Latin America there are only six stock exchanges that have a reasonable size in terms of market capitalisation and liquidity: São Paulo, Mexico, Santiago, Bogotá and, albeit to a lesser extent, Lima and Buenos Aires. Even between all six markets there are only about 1,600 companies listed, of which between 10% and 20% have sufficient stock market liquidity.

To assess the depth of the equity markets, Table 2 compares these six stock exchanges with the New York Stock Exchange and the Spanish Exchanges. The comparison highlights the relatively small number of companies listed on these six stock exchanges as well as the low level of transactions and the high concentration in a small number of shares.

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Table 2 Stock exchanges in Latin America, Spain and the United States in 2010
Source: Data collated from the databases of the World Federation of Exchanges

Stock exchanges	Shares listed	Capitalisation (billions US$)	Trading volume (billions US$)	Concentration (% capitalisation of 10 largest companies)
New York	2,300	14,023	17,785	16
Spanish exchanges	3,319	1,242	1,511	38
Total Latin America	~1,600	~2,800	~770	NA
São Paulo	373	1,476	626	55
México	428	449	**82**	**63**
Santiago	231	320	**38**	**48**
Buenos Aires	106	66	**3**	**72**
Lima	246	105	**5**	**66**
Bogotá	85	207	**19**	**73**

São Paulo's stock exchange, BM&FBovespa, is by far the largest market in Latin America. It has more than half the capitalisation and almost 85% of the trading volume in equities. Therefore, if socially responsible investment is to be considered at the level of individual countries, the reality is that it would be possible at some scale only in this market and, perhaps, albeit to a lesser extent, in Mexico and Chile. Of course, if we were to consider all six of the exchanges together, socially responsible investment would be more feasible and more diversified. But even then, the concentration level could be an impediment. In the case of Brazil, the two largest companies have 22% of the market capitalisation, the largest five have 38%, and 75% of the capitalisation is accounted for by only 40 companies. In practice, even in this market, there are no more than 40 or 50 shares with adequate size and liquidity. And the question is: are these companies responsible? We will consider the case of Brazil's market later on.

In terms of listing requirements none of the stock exchanges in Latin America has sustainability reporting requirements,[1] although some do have requirements for corporate governance and transparency in financial reporting. Some, like São Paulo, even have separate markets where companies with particularly good corporate governance can be listed and traded (see Santana *et al.* 2008). This lack of disclosure should not be treated as an argument that listed companies are not responsible; rather it means that it is harder to find out, as we will discuss later on.

In terms of investors interested in SRI, it is still rather difficult to obtain direct evidence, for instance about investment funds devoted to SRI. Indirectly we can make some inferences. Table 3 indicates the number of institutional investors and asset managers that are signatories to the Principles for Responsible

1 It is relevant to note that, in 2012, the São Paulo Stock Exchange introduced a 'comply or explain' sustainability reporting requirement, and there have, however, been many recommendations in this regard. See, for example, Responsible Research 2010.

Investment, as well as the numbers for the six Latin American countries and, for comparison, the UK and Spain. While the relatively few signatories in Latin America (with the notable exception of Brazil) does not mean that responsible investment does not exist in Latin America, these numbers do suggest that there are relatively few investors in the region with formal commitments to responsible investment.

Table 3 Signatories to the Principles for Responsible Investment as at July 2012
Source: Data from the PRI website, www.unpri.org, accessed 1 July 2012

Countries	Investors	Asset managers	Services companies	Total
World	258	651	176	1,085
UK	28	84	27	139
Spain	9	11	3	23
Brazil	18	28	14	60
México	**0**	**0**	**0**	**0**
Chile	**0**	**0**	**0**	**0**
Argentina	**0**	**1**	**0**	**1**
Perú	**0**	**0**	**0**	**0**
Colombia	**0**	**0**	**1**	**1**

Institutional investors, including pension funds

The investor groups most likely to make responsible investments and stimulate responsible practices in companies are institutional investors, a group which includes mutual funds, investment funds and pension funds. The potential supply of resources from these funds is relatively large in Latin America, in particular pension funds, which have been growing rapidly, especially in countries that have private pension funds systems. This growth was stimulated by the introduction in Chile of private pensions in the 1980s, a move that was followed by Mexico, Colombia, Argentina[2] and Peru. In the case of Brazil, the majority of these are public sector pension funds, although they are managed independently of the social security system. All pension funds, in particular those in Mexico, have an obligation to invest a portion of their assets in public sector debt which, in turn, limits their capacity to invest in private companies. There are also restrictions on investing in private companies. Pension funds in Peru and Mexico can only invest up to 30% of their assets under management in this way, which reduces the availability of these funds for responsible

2 Although Argentina subsequently nationalised its private pensions in 2009.

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investments. Chile is the most liberal and allows for up to 80% of pension fund portfolios to be invested in private companies.

Table 4 shows the scale of the available resources in mutual and pension funds in Latin American countries with the largest volumes.[3] Again, it can be observed that Brazil is far larger than all other countries in the region, with its investment funds representing more than 85% of the Latin American total. These mutual funds, in contrast to pension funds that have restrictions on liquidity, sectorial and country allocations and have requirements to invest in public assets, tend to be relatively free of investment restrictions and, as so, are the funds that have the most potential to invest in responsible companies.

Table 4 Institutional investors in selected countries

Source: FIAP 2011; World Bank 2012

Countries	Mutual funds (billions US$)	Pension funds (billions US$)	Total (billions US$)	Pension funds % of GDP
Netherlands	NA	1,020	NA	130
Brazil	865	314	1,179	**15**
México	92	115	200	**11**
Chile	37	125	162	65
Argentina	5	38	43	**10**
Perú	6	26	32	**17**
Colombia	31	51	82	**18**

None of the Latin American pension funds has legal requirements to invest in responsible companies, although they may do so voluntarily. While in most regulations there is no formal requirement to maximise returns, many private pension fund administrators manage their portfolios with that goal. One notable example of a pension fund voluntarily seeking responsible companies in which to invest is the pension fund of the employees of Banco do Brasil (PREVI), the largest in Latin America, which uses ESG criteria voluntarily and also promotes their use in the country. At the country level, the Conselho Monetário Nacional has issued a directive requiring pension funds to report on whether or not they use ESG criteria (but with no obligation to actually use these criteria).

Apart from influencing share prices and cost of capital, the other way that investors could encourage improved corporate responsibility is through engagement: the use of their formal rights as shareholders (e.g. through participating in annual general meetings). Unfortunately, in Latin America, there is very little tradition of investment advocacy, and corporate governance regulations make it very difficult for investors to have resolutions considered and approved (OECD 2011); a notable exception is Chile where pension funds own a significant portion of shares traded and do exercise their ownership rights. On the other

3 The table also includes the Netherlands, the largest pension system in the world as a percentage of GDP (130%). By comparison, the largest in Latin America is Chile with 65%.

hand, in Brazil, different classes of shares are allowed with many large investors retaining control of voting shares. The consequence is that institutional investors have limited ability to influence corporate behaviour.

Rankings and sustainability indices

Another piece of the puzzle for SRI is the lack of information about sustainability in corporations. Table 5 details the number of companies that have filed reports with the Global Reporting Initiative (GRI) for selected countries in Latin America and for two reference countries (Spain and USA, the two largest filers). Once again, with the exception of Brazil (actually the third largest filer in the world), there are very few Latin American companies that publish sustainability reports according to the GRI guidelines. This is not to say that Latin American companies do not produce sustainability reports (as many companies do produce such reports but either choose not to follow GRI's guidelines or not to file them with GRI), but it does provide a useful indication of the paucity of information that is available on the sustainability performance of Latin American companies.

Table 5 Sustainability reports filed with the GRI in 2010
Source: GRI 2011

Countries	2010 Sustainability reports filed with GRI
United States	190
Spain	169
Brazil	134
México	35
Chile	26
Perú	21
Argentina	18
Colombia	17

Important sources of information, besides companies' own reporting, are the reports of specialised agencies. In this section we comment on two of them: sustainability rating agencies and sustainability indices.

Sustainability ratings refer to the assignment of a rating for the quality of responsible practices (for useful overviews of these ratings, see Ceres 2011 and SustainAbility 2011). In light of the multitude of responsible practices that can be considered, some agencies choose what they consider to be the most relevant practices within certain aspects such as labour, environment, community, human rights and governance, and make an assessment based on their own proprietary standards to assign individual grades that are combined into

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an overall rating. The aggregation in general is achieved through a weighted average, where the weights can be determined statistically or subjectively. It can also be a simple average in the case that the rating agency does not want to or cannot consider the relative importance of the different practices. This last case is the most common. The selection of the individual responsible activities to consider and their aggregation is a key determinant of the rating, in a sense influenced by the preferences of the rater, as there is a wide range of opinions on what is important and what is not for a given company (see, for example, Hedesström *et al.* 2011).

These ratings can be used to select companies to be included in SRI portfolios and in sustainability indices (e.g. the FTSE4Good or the Dow Jones Sustainability Index[4]). These indices can be used as benchmarks to evaluate the performance of the sustainability market, of SRI portfolios or of individual funds. They can also be used to construct funds to replicate the index. There are a large variety of indices in the market: some are general, such as those mentioned above; some can cover a single stock market such as BM&FBovespa ISE; and others cover specific responsible practices, such as climate change, governance, renewable energy and the like.[5] Obviously, individual ratings can also be used to construct tailor-made indices, or to identify 'responsible companies'.

In any case, before using a company rating or an index, care must be exercised to understand the rating or the index methodology, as all ratings and indices use different ones. This has implications for the selection of responsible investments but, unfortunately, in many cases the methodology is private and cannot be known in any detail. In a 2011 worldwide study (albeit one biased towards Western Europe and the USA and Canada) it was found that there are 108 sustainability raters (SustainAbility 2011). The study did not report on any in Latin America and the very few known SRI funds that use ESG criteria, mostly in Brazil, use their own methodology. According to the World Federation of Exchanges (2011) there are more than 50 indices in its member stock exchanges, with many of the more recently created indices specialising in energy and climate change companies. There are many more private indices not associated with a stock exchange; see, for example, those produced by MSCI ESG Indices.[6]

A recent study by the International Finance Corporation (IFC 2011) identified 17 indices in emerging markets. In Latin America there are only two sustainability indices associated with stock exchanges, BM&FBovespa of the São Paulo Stock Exchange, created in 2005 and the Bolsa Mexicana de Valores, launched in late 2011. The case of Mexico is illustrative of the problem. During 2010–2011, the Bolsa Mexicana de Valores was attempting to create a sustainability index and, in its first try, it could only find 11 companies that would qualify. Eventually, before the index was launched in late 2011, 23 companies were found.

4 www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp and www.sustainability-indexes.com, respectively (accessed 14 January 20130.

5 For a more detailed description of the uses and construction of sustainability indices, see Vives 2011 and Vives and Wadhwa 2012.

6 See www.msci.com/products/indices/thematic/esg, accessed 14 January 2013.

In summary, the information required to support the operation of SRI in Latin America is rather scarce, suggesting that investors seeking to implement a responsible investment strategy could incur high transaction costs.

The case of SRI in Brazil[7]

As can be seen from the preceding discussion, Brazil is the country in the region where SRI is most likely to develop, not only because of the size and development of its financial markets, but also because of the wide acceptance of sustainability as a country and business strategy. Even though Chile has a more developed pension fund system, its financial markets are relatively small. Mexico is also a good candidate to develop the SRI industry given its recent development of a sustainability index, although its financial markets are relatively small and trading in its stock exchange is limited to a few large companies. Argentina, Colombia and Peru are further down the list of possible candidates to develop an SRI industry of their own.

The market for SRI in Brazil and its sustainability index[8]

The São Paulo Stock Exchange had a total market capitalisation at the end of 2011 of around US$1,500 billion, the same size as India's National Exchange, one-third of the Shanghai Stock Exchange and one-eighth of the New York Stock Exchange. It has 380 stocks listed and an annual turnover of about 55% of total capitalisation. Its derivatives market is the largest in the world in terms of the number of transactions, tied with the Chicago Board Options Exchange.

SRI started in Brazil in 2001 with the creation of its first fund, ABN AMRO's Ethical Fund. Later, when the BM&FBovespa sustainability index was launched in 2005, eight more funds were created, providing a big boost for the SRI industry. Nevertheless the initial interest faded and these eight funds failed to grow. By 2010, these represented only 30% of all the funds that considered themselves as SRI funds. The other 70% were funds that existed before the launch of the index.

At the end of 2010, the funds classified under 'sustainability' and 'governance' had US$1,070 million in assets, although these represented only 1.03% of equity funds and 0.084% of the stock market capitalisation. Even acknowledging their relative development, these funds represent a very small part of equity investments in Latin America. Moreover, the classification of these funds is relatively generous as it includes all funds that choose to call themselves SRI, including funds that use simple negative screening.

7 Most of the discussion in this section is derived from an evaluation of the sustainability index, carried out by a team led by the author for the IFC (see IFC 2010).

8 See also Vives and Wadhwa 2012.

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Brazil's sustainability index, a key factor in the development of SRI, has been in operation since 2005 and it is one of the oldest in emerging markets (only Johannesburg's, which has been in operation since 2004, predates it). In its latest (i.e. for 2011–2012) iteration, of the 183 companies that were invited to apply and complete the questionnaires, only 53 responded and 34 were selected. This low rate of response is related to the cost of completing the process and, to a lesser extent, to questionnaire fatigue. It must be pointed out that the process of selection is based on positive screening and it is very rigorous. The universe of qualifying companies would be expanded considerably if these very strict requirements were relaxed. The questionnaire develops 68 indicators for seven dimensions. It has around 170 questions, with a smaller number for companies with low environmental impacts. Supporting documentation must also be provided. The information collected in this process is considered by the firms and the SRI industry as very helpful in promoting responsible practices.

Impact of the index on SRI

SRI funds in Brazil use ESG criteria, but these are not uniform. Each fund has its own criteria and, in general, these tend to be much more relaxed than those of the index. Some use the index as a reference and tend to incorporate its members without any further sustainability due diligence, but they also incorporate companies that are not in the index for several reasons: the need to diversify further; the need to enhance financial returns; and the view that some companies (such as the largest two in the country) must be included even if they are not in the index (one of the companies has been going in and out of the index and the other one was included in 2011 for the first time). Probably the only consistent criterion used by these funds is to exclude companies that are known to have irresponsible practices.

None of the SRI funds uses the index as a benchmark to assess its own performance and there is no fund that tries to replicate the index. The index has not stimulated foreign portfolio investment in sustainable companies. In this sense, the index has not achieved some of the expectations of its creation. While it has stimulated interest in sustainability practices in companies as well as in the SRI industry, it has not lived up to its potential in capital markets development.

Some of the problems are structural, related to the large concentration of stock market capitalisation in a few companies. Others are related to the marketing of SRI: analysts have no incentives to push the products, which creates a vicious circle, decreasing their demand. Others relate to the rigour of the index methodology, with firms reluctant to commit the time and resources to completing the questionnaire. There is also a technical issue relating to the fact that relatively few companies are members of the index, some of which have a large capitalisation; the consequence is that the yearly changes in the index produce very pronounced changes in the percentages of each stock in the index, resulting in large transaction cost for funds that seek to track the index. This is not the case in, say, the Dow Jones Sustainability Index or the FTSE4Good

Index, both of which have several hundred members, none of which represent a large percentage of the index.

Furthermore, neither in Brazil nor in other markets has it been shown that investing in sustainable companies improves financial returns in a systematic fashion (Margolis *et al.* 2007). Some SRI funds may beat the market, some of the time. In Brazil, as in many other countries, there is the perception that by investing in sustainable companies one has to be willing to accept lower returns. While this perception has also not been proven, given that the exact performance depends on the definition of sustainability adopted, on the ESG criteria used to construct the portfolio, and on the different levels of risk of sustainable and non-sustainable portfolios used for comparison, among other factors, these perceptions have not been effectively countered or challenged by the SRI industry in Brazil, leading to very low demand. Unfortunately, since its inception, the index has returned, on average, 2% a year less than the overall index. While there are reasons for this underperformance—the index is not very well diversified, some sectors have dragged its performance down and the comparison covers a period of only six years which is probably not enough to provide a robust assessment of performance—the effect has been to compound perceptions about the financial performance of SRI.

Impacts on responsible practices

Most of the companies participating in the index had expectations that membership would have an impact on their financial performance, by enhancing demand for their shares, leading to enhanced liquidity in the stock market and better access to capital, hopefully reducing the cost of capital. While these companies felt that this benefit had not been seen, this has not dented the interest of companies in continuing to participate in the process. The reason is that the process of participating in the index (questionnaires and feedback) gave companies a roadmap for improving their sustainability policies, strategies and practices. The need to provide supporting documentation led to an enhancement of internal information systems. This process also led to more support for internal champions to implement practices, providing them with better guidance and sometimes more resources for their job. The fear of being excluded from the index served as an additional incentive for companies, even though the actual removal seemed to have only a temporary effect, if any, on reputation (see, further, Vives and Wadhwa 2012).

Is responsible investment possible in Latin America?

From the preceding discussion it can be concluded that, at the time of writing (late 2012), the conditions for the development of responsible investment in most Latin American countries are not favourable. The number of companies

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that meet the requirements of sustainability or ethical indices and that trade with the required liquidity is still very small in most markets. In addition, the information available to investors on the corporate responsibility performance of companies remains limited. There are also wider structural and cultural issues at play: the investment industry is unwilling to change its practices, there is scepticism about the financial performance of SRI, and—while not covered in detail in this article—the legal and institutional frameworks needed to support responsible investment are not well developed in the region. In spite of the relatively pessimistic assessment presented above, it is possible in the medium and long term to develop the necessary conditions for responsible finance and investment in Latin America, but this would require significant legal and institutional developments.[9] A series of practical measures that would enable significant progress to be made are:

- **Promote responsible practices in companies.** The virtuous circle of SRI that stimulates responsible practices that in turn allows for SRI can only start with the companies themselves. Investors, with very few exceptions, expect to find responsible companies; it is a matter of supply. To enable this, governments must have supporting policies, supported by society at large, business organisations, civil society, the media and educational institutions. Besides the regulatory function outlined above, governments can set an example by incorporating responsible procurement practices in their substantial purchases, and they can facilitate dissemination of good practices, among other actions

- **Require disclosure on the responsible policies and practices of companies and financial institutions.** The availability of this information facilitates the process and the reporting obligation of companies, institutional investors and financial institutions about their policies allows society to favour or shun such companies and institutions, which can, in turn, act as an incentive for the adoption of responsible policies and their implementation

- **Facilitate stock market listing.** In many countries, the transactions cost of listing shares on the stock exchange are a deterrent, and the consequence is that only large companies that can amortise those costs choose to list. Listing tends to lead to more transparency and market discipline, to comply with legal requirements, which in turn may lead to better access to the financial and capital markets and more interest on the part of SRI investors. It is possible to facilitate this process as many countries have already done by creating parallel stock markets for smaller and newcomer companies to list, with a reduced set of requirements. Eventually some companies graduate to the major stock market. It is not a matter of lowering requirements; it is a matter of eliminating obstacles

- **Educate financial analysts and institutional investors.** Financial analysts and institutional investors in most countries, but particularly in Latin America,

9 For proposals to promote SRI in developed countries see World Economic Forum 2011.

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have as the foremost goal of their investments to maximise benefits. That is where their incentives and remuneration lie. Furthermore, they have the perception that responsible investment implies a reduction in benefits. Old habits die hard. While it is yet to be proven that responsible investments yield better returns, in the long run, there is a reasonable body of evidence that they do not reduce returns and can contribute to a better quality of life. Financial analysts and institutional investors need to be made more aware of the contributions to returns to society of responsible investments and avoid acting on the basis of old biases and conventions

- **Promote information, regulation and control institutions.** This is not a call for more regulation and control. Rather, it is a matter of educating society, consumers, media and public institutions to be aware of the benefits of responsible investments so that they become an effective part of the transmission mechanism that converts responsible practices into competitiveness for the companies and in turn leads to more demand for their securities. If the media are indifferent, if consumers do not know or do not care, if regulatory institutions do not do their job efficiently, this transmission mechanism breaks down. The smooth flow of reliable information on responsible practices is a key to the functioning of this mechanism
- **Promote the development of the 'market for responsibility'.** Even though this may also appear obvious, it is important to reiterate. A significant portion of the development of corporate responsible practices and the corresponding SRI in developed markets is a consequence of a developed 'market for responsibility', a market where informed consumers exercise their choice, where the media denounce bad practices and praise good ones, where civil society monitors and informs on irresponsible practices, where financial markets reward good corporate behaviour, where government provides a conducive environment for business, regulates what is fundamental behaviour and supports responsible companies, where educational institutions provide education and training for responsibility and where employees and managers do their best to implement responsible practices. This market is where all stakeholders assume their part of responsibility for corporate responsibility
- **Develop a Latin American Sustainability Index.** While sustainability indices are not the solution to the paucity of SRI, nevertheless, they represent an important part of the ecosystem required for responsible finance and investment. Such an index would provide a valuable source of sustainability information for the financial and equity markets, would provide incentives for the implementation of responsible practices in corporations and would facilitate the process of foreign portfolio investment in the region, by providing a benchmark for a well-diversified and responsible portfolio. A regional index would avoid many of the problems highlighted for individual country indices, as it would draw on a larger pool of companies, and could have more members, with geographical and sectorial diversification. The rebalancing following periodic revision of the index would not be as costly as is the case

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with individual country indices. It would also mitigate the problem of heavy concentration in a few stocks. Such a regional index could be built on the two existing indices (Mexico and Brazil) and could add companies from the other four markets (Argentina, Colombia, Chile and Peru).

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