América economía

March-April 2018

# *Redirecting Capital to Sustainable Investment*

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We are living at an unprecedented time in human history. Never before have consumers been so empowered to influence corporate behavior and firms' impact on society and the environment. New market incentives driven by selective consumer groups such as millennials and women have begun to redirect capital towards enterprises the importance of being good corporate citizens.

To be a good corporate citizen is consonant with high standards of ESG (environmental, social, and governance). Many investors consider look for ESG-oriented firms, believing they generate higher financial returns in the long term. More and more available information validates this correlation. For example, the Institute of Sustainable Investing's extensive study of mutual funds found that sustainable investments in most cases equal or exceed the financial performance of traditional investments.

This has generated a search for sustainable investments and transactions of "green capital" and a proliferation of funds focused on sustainable investment. For example, the market for green equities reached a new historical record of over $200 billion in total issues in 2017. According to Bank of America, $21.4 trillion of global stocks embody ESG criteria.

There presently exist diverse strategies for selecting investments that incorporate ESG. In many funds, the selection process is based on monitoring sustainability indices. These indices compile a list of enterprises and score them based on ESG criteria. In the case of Latin America, the Inter-American Development Bank utilizes *Index Americas*, the first index to be launched by a multilateral development bank. Index Americas selects 100 enterprises that are both the most sustainable and have the largest presence in the region.

It is noteworthy that the Latin American financial system has slowly embraced this worldwide tendency, and increasingly pension funds and other investment funds are incorporating sustainability investments in their portfolios. The leading stock market in Brazil already has an index of corporate sustainability, and the stock markets in Argentina, Chile and MILA (the integrated stock exchanges of Colombia, Chile, Mexico and Peru) are in the process of developing similar criteria. At the same time, Latin American businesses are more and more cognizant of the importance of incorporating ESG in their operations. Firms such as FEMSA, Cemex and Banco Itaú are industry leaders in attaining high standards of ESG.

These enterprises do not only allocate resources to improve their technological systems and internal processes but also invest in broadening their knowledge base of sustainability. In response to this need, various universities have incorporated sustainability into their MBA programs.

Attaining high standards of ESG brings multiple benefits to companies and helps firms achieve larger goals in many instances. Recognizably, however, the proliferation of rankings and standards requires significant resources in the generation of reports, scorecards and audits. Additionally, obtaining results will invariably require the reconfiguration of internal processes or investment in costly equipment and technologies.

Nevertheless, enterprises that are able to integrate ESG principles in their business models and continually improve their sustainability are those that will be able to generate long-term economic benefits while engaging in behavior that is healthy and beneficial to people, the environment, and society at large.

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