



SRI in Latin America: Trends and Potential Strategies

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INCAE/CLACDS

- Private, regional graduate business school founded in 1964,
- Ranked 1 in Latin America
- Strong development focus
- Environmental programs since 1970's
- About 90% of all research programs directed to sustainable development issues

- 380 million people
- Very high concentration of resources
 - fresh water (30% of all renewable)
 - energy (20% of potential hydro)
 - biological diversity (approx 35%)
 - cultural diversity (hundreds)
- GDP per capita: 1,000 to 10,000 PPP
- Trends:
 - macroeconomic stability
 - trade integration (CAFT, NAFTA, ALCA)
 - populism (Vz, Ecuador, now Bolivia)

Limited SD Action

- Little awareness of opportunities
- Immature regulatory systems
 - decent laws, weak institutions
- Fiscal and monetary policies create perverse incentives
- Financial sector policies, practices and regulatory systems deter SD investment
- Lack of business sustainability skills
- Extremely high cost of understanding market trends and accessing markets

- Trade integration (with world)
 - raise environmental and social standards
 - more “strings attached” to major financial flows (WB, IDB, OPIC)
- Rapid urban growth
- New market dynamics favor what Latin America has to offer
 - tourism
 - agriculture
 - energy
 - genetic information



Latin America Financial Markets

- Commercial banking
 - Stock markets
 - Asset management=pension funds
 - Microfinance (formal and informal)
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- No venture capital
- Few investment funds

- Only 3 “large” markets (SP, BA, MX)
- Immature
- Highly concentrated
- Not very transparent
- Companies closely held => minority shareholder interests and rights
- Represent trivial part of region’s total finance

Pension Funds

- Long tradition of public funds
 - New development is private funds (last 3 to 8 years)
 - Large amounts of excess liquidity (\$2 to 4 billion)
 - Most investment in government bonds (90%?)
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- No talk of SRI filters (or even “standard” investments, like forestry)
 - Regulatory problems (banking oversight)

Commercial Banks

- Backbone of financial system
 - 80% of all formal financing?
 - Very “traditional” operations
 - Almost all in future “client crisis”
 - Tightly regulated, few degrees of freedom
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- Generally unaware of sustainability trends
 - Increasing interest in environmental and social risks (IFC, INCAE, CAF, others)
 - SRI action will be in this sector



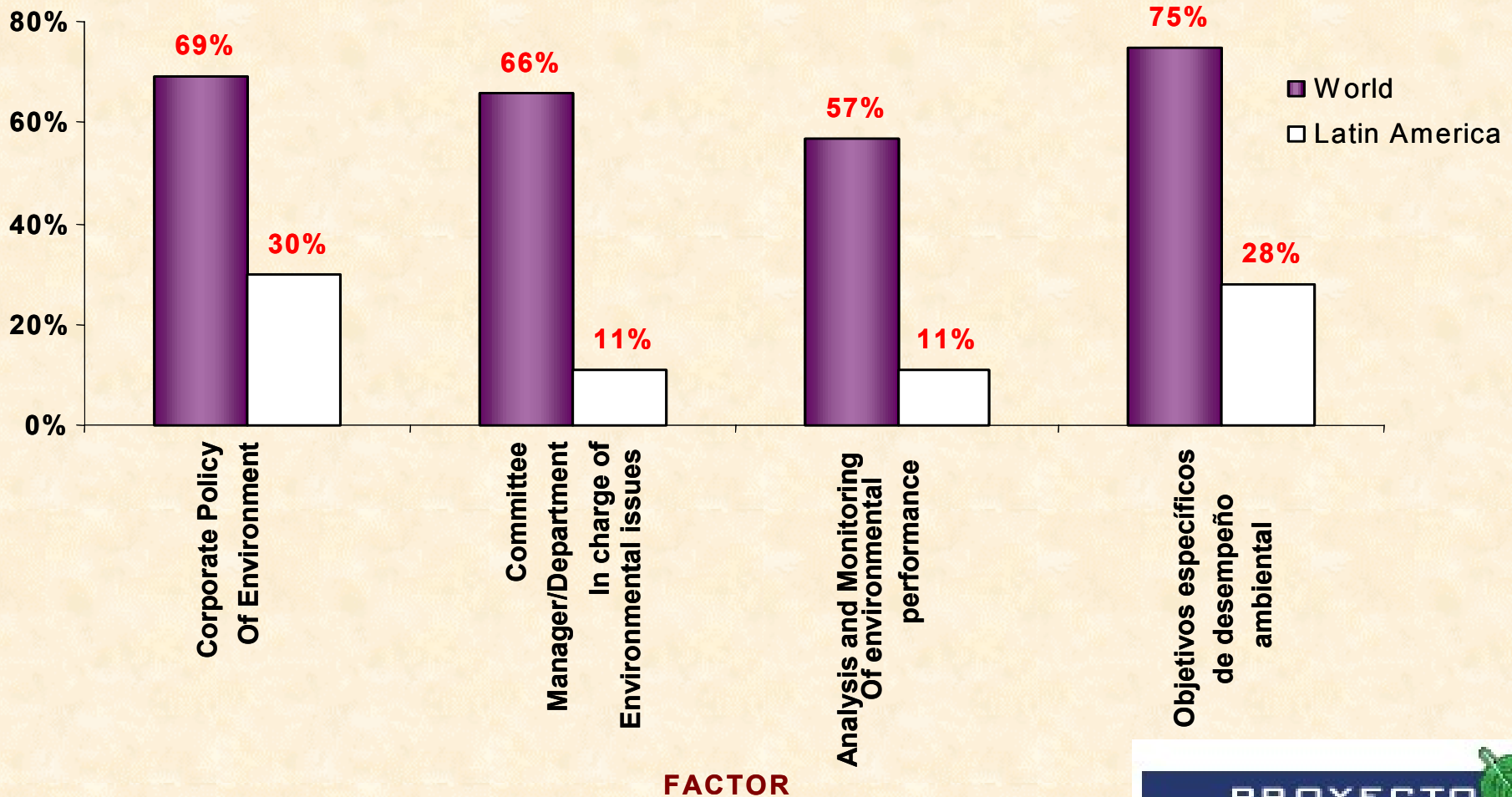
Survey CLACDS-UNEP

	UNEP	L.A.
Corporate Enviro Policy	69%	30%
Enviro Manager/Dep't	66%	11%
Corporate Credit Procedures	71%	22%
Env Analysis in Project Finance	61%	33%
Green Financial Products	55%	23%

UNEP: 1998 Survey

LP: 2002

Figure 10
Comparative analysis – environmental management controls



Where are the SRI Investment Opportunities?

- A number of leading publicly traded companies
 - international ecoefficiency funds (not enough depth locally)
 - interventionist strategies
- Bulk is in smaller privately held companies or start-up opportunities
 - sustainable agriculture
 - tourism (eco, anthro, cultural)
 - forestry
 - aquaculture
 - renewable energy (wind, geothermal)



Where are the SRI Investment Opportunities? (2)

- Sustainable livelihood processes
- Many others
 - clean production
 - industrial conversion,
 - sustainability conversion



Investment Strategies

- **Commercial banking!**
 - Client base
 - regulatory systems favor them
 - much of SRI can be covered with credit
- **Venture capital** (\$1MM to 10MM)
 - lots of creativity and opportunities
- **Mezzanine financing** (\$2MM to \$30MM)
- **Targeted “mission” funds** (i.e. clean production) to “size down”
- **Pension fund capital** for long-term, low-risk (forestry, energy)

Latin America presents many exciting opportunities

- Mostly about new businesses and “conversion”
 - great opportunities, few are easy
 - conversion to access or maintain markets
- “Filtering” of limited value (lack of depth of equity markets)

Criteria Issues (2)

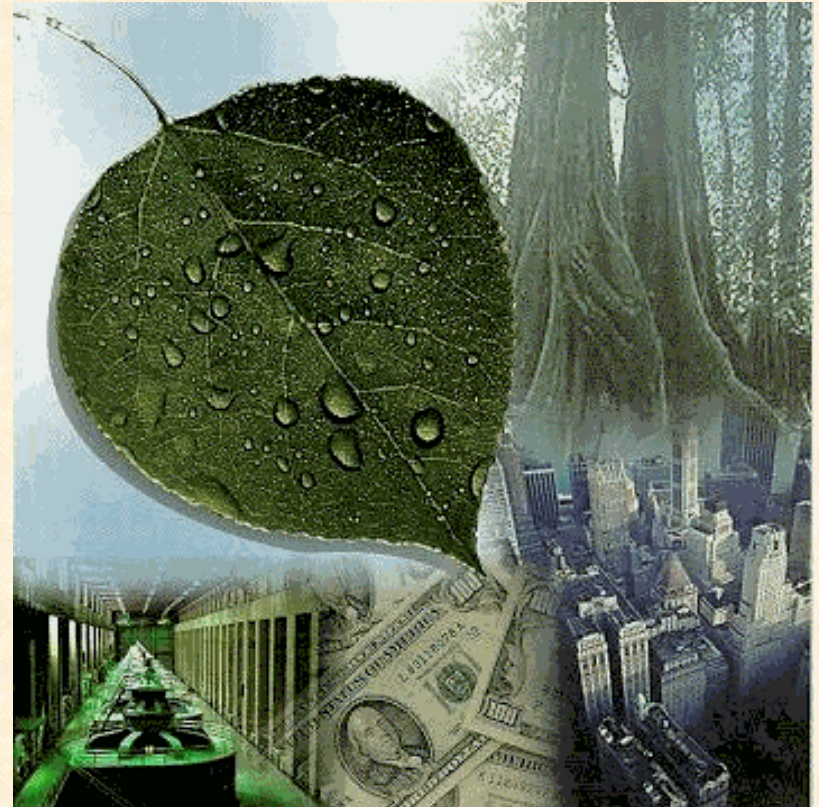
- Cross-cultural issues
 - Strategies and value drivers can be different
 - UBS, SAM criteria, for example
 - European obsession with paper and seals
- Importance of commercial banks
 - local knowledge of clients and framework conditions
 - strong presence in market
 - lack SD knowledge
 - very limited instruments



Proyecto Ecobanking

Mission

Improve the competitiveness of the Latin American Financial Sector through improved environmental management, reduction of environmental risks and the design of innovative financial products.



Centro Latinoamericano para la Competitividad y el Desarrollo Sostenible

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Financial Sector Issues

**Need to changes attitudes and practices,
and give useful tools to thousands
==> active “skills” program**

**The Ecobanking Project www.ecobanking.com
Partner with InWent, and UNEP-FI**

- Building awareness and consciousness (survey/benchmarking)
- On-line training program “global best practices”
- Training programs in different countries
- Internships (North south -- south north)