

Enhanced Analytics

A New Approach to Looking at ESG risk at the Country Level – Using Brazil as an Example

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RepRisk AG (www.reprisk.com) is a leading provider of dynamic ESG business intelligence on environmental, social and governance (ESG) risks.

There is a sense of hope and excitement in South America's largest and most populous country. Vibrant and dynamic, Brazil's economy spans a wide range of sectors and is tipped to become one of the five largest in the world. Rapid growth, however, frequently comes hand-in-hand with volatility, and striking the balance between opportunity and risk can be tricky – often more so when it comes to environmental, social and governance (ESG) risks. With a significant economic gap between rich and poor and a fast pace of development, Brazil has seen its fair share of social unrest and multinational corporations doing business there have often found themselves caught up in this unwittingly. Moreover, Brazil's rich natural heritage has come under constant and substantial pressure from multinationals looking to capitalize on its abundant resources.

ESG issues, such as environmental degradation, poor labor conditions, and corruption, have increasingly come into the spotlight over the last years as stakeholders – from shareholders to investors to customers – are ever more aware of and concerned with the potential impacts of their business and consumer decisions. Information technology and accompanying trends such as social media have created an increasingly transparent and inter-connected world that serves to amplify these issues, placing them on the global agenda. With access to information that was previously kept behind closed doors, stakeholders of all types are more likely to be cognizant about the social and environmental impacts associated with a particular company.

As in all investment decisions, but even more critical when emerging markets are concerned, comprehensive research and timely information about what's happening on the ground are key. Companies like Swiss-based RepRisk, a global provider of business intelligence on ESG issues, have developed solutions that address the need of capturing and quantifying ESG risk. Born as a due diligence tool in the Investment Banking industry, RepRisk runs the most comprehensive database on ESG risks associated with companies and projects. As of this month, RepRisk has captured criticism, controversy and negative incidents on over 38,000 companies, both listed and non-listed, from all sectors and all countries.

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To facilitate the assessment of country-specific ESG risk, RepRisk recently launched its Country ESG Risk Index which builds upon the seven years of data gathered since January 2007. Developed in collaboration with a research team from the Zurich University of Applied Sciences, the index is an indicator of the ESG risk as well as the associated reputational, compliance and investment risk at the country level. Not only does it take into account the macroeconomic and political risks of a particular country, related to factors such as rule of law and political stability, it also works from the bottom up by incorporating RepRisk's ESG data on companies operating in respective countries. Updated daily, the index provides accurate, dynamic information on what really happens on the ground and how it affects companies who do business or invest there.

“RepRisk's new Country ESG Index offers an innovative perspective for addressing ESG risks at the country level by coupling a top-down approach with a bottom-up one – offering the user an accessible tool to assess ESG issues when making business decisions,” says RepRisk CEO, Philipp Aeby.

When looking at Brazil in RepRisk, ESG issues such as negative impacts on communities and the environment, labor issues, and land use controversies feature heavily in Brazil's economic environment. Brazil's biggest industry is agriculture, contributing much of the global coffee supply and a significant amount of beef exports. Recently palm oil production has also taken off, and it is now the world's third largest producer, after Indonesia and Malaysia. Land acquisition for these activities has been controversial, as crops are being produced to supply international corporations where locals would have once farmed food for their own populations. The monoculture plantations in which palm oil is produced have also been depleting local biodiversity.

The utilities sector has also attracted negative attention. The construction of the Belo Monte dam on the Xingu River in Pará has been suspended twice. The dam project ignited indigenous protests over compensation disputes and the alleged pollution of the river. It has been criticized for altering the complex river ecosystem on which the communities depend, as well as the clearance of 5,000 hectares of rainforest.

These are just a handful of numerous examples of the ESG issues that are impacting and will continue to impact the people, environment and economy of Brazil. Companies investing or doing business there and in similar countries will benefit from being equipped with the right information at the right time, such as that offered by RepRisk – ultimately, with the goal of striking that perfect balance between opportunity and risk. 