
BRIEF 4

Winds of Change? SUSTAINABILITY REPORTING PRECEDENTS IN BRAZIL, CHILE, AND MEXICO

by Monica Araya
EMPRESA INFORMA FORUM

IN the recent past, Mexico, Brazil, and Chile have established positive precedents in the region. A key conclusion of this overview is that Brazil has made the most significant progress in Latin America regarding non-financial reporting practices.

Brazil

Influenced by social accounting developments in Europe in the 1970s and 1980s, Brazil began experimenting with voluntary social reporting in the 1980s and launched a formal model—the *Balanço Social*—in 1997. Under this model, companies are asked to publish quantitative information such as employee benefits, profits distributed among employees, ratio of the highest paid executives' compensation to that of the lowest paid employees, and expenditures on community and environmental projects.¹

Also, by the end of the 1990s, the Ethos Institute, a leading business responsibility organization, created

guidelines for measuring and reporting social and environmental performance.² Since 2002, to further promote best practices, several financial and business responsibility organizations have offered awards to the best reporters of social and environmental information in the country.³ Another signal of the growing interest in the topic is the launch of the magazine *Relatório Social*, which focuses exclusively on non-financial reporting issues in Brazil.

But perhaps the most eye-catching development is the decision of Brazil's main stock exchange, Sao Paulo-based Bovespa, to launch a *corporate sustainability index* by December 1st, 2005.⁴ The first one of this kind in Latin America, the index will allow Bovespa to

² See <http://www.ethos.org.br>

³ *Aberje* - Associação Brasileira de Comunicação Empresarial; *Apimec* - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais, *Fides* - Fundação Instituto de Desenvolvimento Empresarial e Social, *Ibase* - Instituto Brasileiro de Análises Sociais e Econômicas, *Instituto Ethos* de Empresas e Responsabilidade Social. See <http://www.premiobalancosocial.org.br>

⁴ See <http://www.bovespa.com.br> (Go to "Destques" and then "ISE.")

¹ See <http://www.balancosocial.org.br>.

create a portfolio of about 40 Brazilian companies that exhibit best practices in addressing economic, social, environmental, and corporate governance issues.

The questionnaire behind the index was created through a interesting multi-stakeholder dialogue involving partners who, especially in Latin America, rarely interact: The working group in charge of the Index is comprised of Bovespa, Associação Brasileira das Entidades Fechadas de Previdência Complementar (Abrapp), Association of Capital Market Analysts and Professionals (Apimec), National Association of Investment Banks (Anbid), the Brazilian Institute of Corporate Governance, (IBGC), Instituto Ethos, International Finance Corporation (IFC), and the Ministry of Environment. A public hearing was held in August 2005.

The institution in charge of developing the methodology was the Centro de Estudos em Sustentabilidade, hosted at São Paulo's business school Fundação Getulio Vargas.⁵

The institutional developments described above, together with the growing momentum for and experience with corporate reporting, might explain why three Brazilian companies – Natura, Aracruz and Banco Real-ABN Amro (a Dutch affiliate) – are the only Latin American firms that joined the Top 100 Best Reporters ranking.⁶

⁵ See <http://www.ces.fgvsp.br>

⁶ For more information see SustainAbility, UNEP, and Standard & Poor's (2004) *Risk and Opportunity: Best Practice in Non-Financial Reporting*. London: Sustainability. The report is available at

Chile

Several Chilean companies have also started to adopt sustainability reporting practices. An interesting precedent took place in this country when in 2000 Chile's securities commission published requirements (Circular 1501) that public companies must follow when preparing annual reports and the notes attached to the financial statements. Note 41 asks companies to reveal environmental expenditures, indicating items and amounts incurred during the reporting year or expected to take place in the future. Companies that consider themselves unaffected by the contents of the note are required to express so explicitly in the report.⁷

Both in Brazil and Chile, corporate responsibility organizations, such as Brazil's Instituto Ethos,⁸ Ibase,⁹ and the Business Council for Sustainable Development,¹⁰ as well as Chile's Acción RSE,¹¹ Fundación Pro-Humana,¹² and Vincular¹³ from Chile, play a key role in bringing global reporting developments to the attention of local business people.

By organizing technical workshops and dialogues that bring together company managers, academics, and consultants, these business-responsibility groups encourage a domestic discussion on best practices that governments and environmental groups have failed to create.

<http://www.sustainability.com>

⁷ See <http://www.svs.cl>

⁸ See note 2.

⁹ See <http://www.ibase.org.br>

¹⁰ See <http://www.cebds.org.br>

¹¹ See <http://www.accionrse.cl>

¹² See <http://www.prohumana.cl>

¹³ See <http://www.vincular.org>

Mexico

While Mexico has lagged behind in the corporate responsibility debate compared to Brazil and Chile, it has established positive precedents.

In 2002, the government created a *mandatory system of public pollution disclosure*. The mandatory reporting rule was formally published in Mexico's Diario Oficial on 3 June 2004.¹⁴ The focus of the model is on pollutant release and transfer reporting. Clearly, this law marks a watershed in a country where corporate opacity has been traditionally high. Inspired by the U.S. Toxics Releases Inventory, the Mexican disclosure model was, to a great extent, the result of years of cooperation with, and pressure from, the North American Commission of Environmental Cooperation, which is in charge of implementing the environmental agenda of the North American Free Trade Agreement.¹⁵

Another development came about in 2004 when Mexico became the first country in the world to adopt a voluntary reporting platform—the *Greenhouse gas protocol*, which the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) developed to increase voluntary emission disclosure.¹⁶

Drawing Lessons

Will reporting developments in Brazil, Chile, and Mexico spread to the rest of Latin America? The answer is yes, but the diffusion of ideas and practices is likely to be slow.

One transfer mechanism is *business-to-business* interaction—especially likely to occur in industries where reporting practices are more advanced, such as mining, steel, oil and gas. Regional initiatives such as *Forum Empresa*¹⁷—which involves most business associations working on business responsibility issues in Latin America—and the UNEP's Latin American Task Force on Sustainable Finance¹⁸ could promote regional dialogues among practitioners that address how companies that adopt credible and comparable sustainability reporting practices benefit from increased transparency.

Many of the best reporters today, such as Shell, Nike and Gap Inc., had to confront severe public criticism over their environmental and /or social practices. They all responded by becoming more forthcoming about their policies and behavior.

Latin American corporations operating in highly-polluting sectors are already encountering growing public scrutiny over their operations.

Take, for example, the hurdles that Peru faced in financing the controversial Camisea natural gas project, such as a refusal by the U.S. Export-Import Bank in 2003 to grant a \$213 million loan guarantee.¹⁹

¹⁴ See <http://www.cec.org/trio/stories/index.cfm?ed=13&id=149&varlan=english>

¹⁵ See <http://www.cec.org>.

¹⁶ See <http://www.ghgprotocol.org>

¹⁷ See <http://www.empresa.org>

¹⁸ See http://www.unepfi.org/regional_activities/latin_america/index.html

¹⁹ M. Davis "Export-Import Bank denies Funding for Natural Gas Project in Peru Rain

The temporary closing of a 1.3 billion cellulose plant in Chile due to public accusations of high environmental impacts is also noteworthy.²⁰

Finally, as Latin American non-governmental groups fashion alliances with their northern counterparts, the exposure of conspicuous companies in the region is likely to increase, along with the pressure for more disclosure of non-financial performance.

Forest” Knight Ridder Tribune Business News (Aug. 29, 2003).

²⁰ EIU ViewsWire. “Chile’s Regulations: The Perils of Environmental Politics” New York, (July 13, 2005).

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