

ESG and the Circular Economy in Brazil

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ESG became prominent in Brazil around 2020, taking centre stage in the agendas of executives, investors, and top management of large corporations across many sectors. Inequality and environmental destruction have become more evident during the COVID-19 pandemic, shedding light on the importance of ESG. In Brazil, demands from corporations and the community have driven the country's focus on ESG. In an open letter to the government, business leaders asked for carbon neutrality goals to be brought forward from 2060 to 2050, in a push to link the economy and the environment (Pinto, 2021). The ESG agenda is of central importance in Brazil, given Brazil's role in the world economy as a producer of agricultural products and mining exports. The importance of protection for the Amazon forest, and the pressure this attracts from other governments and NGOs, also helps promote the development of effective ESG practices in Brazil (Pinto, 2021).

All the executives from the 20 largest FMCG (fast-moving consumer goods) companies in Brazil interviewed in a study by Bain & Company considered ESG a priority. They identified waste management, reduction of greenhouse gas emissions, water resources management, and social diversity and inclusion as important areas for ESG focus (Bethônico, 2021). However, only 5% said that their companies were successful in implementing ESG practices for their brands and products. The main challenge cited was how to keep prices competitive for consumers within an ESG context (Bethônico, 2021).

In a study comparing ESG practices at the six companies ranked best for ESG in Brazil and the five best-ranked foreign companies, ESG areas given higher importance across these two groups of companies were found to be largely the same (Schutz Garcia and Iemini Lamosa, 2021). Nevertheless, the study identified that while the five foreign companies focus more on environmental factors, companies in Brazil give relatively more importance to governance factors. In particular, the six companies in Brazil have a relatively stronger focus on human rights and society, anti-corruption policies, and transparency, while the five foreign companies give relatively more attention to greenhouse gas emissions, energy management, and climate change. None of the Brazilian companies ranked in the top 1% on the S&P 500 Sustainability Index, although one fell into the top 1% to 5%, and two were in the 5% to 10% category.

In terms of investments, the pandemic forced a diversification in fund portfolios in search of higher returns. As Brazilian investors are less used to risky assets than foreign ones, ESG investment funds were deemed a good option, and grew by 15% in 2020 (Briquet, 2021). By

February 2021, ESG funds equity had doubled year on year, reaching R\$307.9 million (~ USD 62 million) (Briquet, 2021).

New skills are needed to implement ESG practice, but Brazil has historically lagged behind the world in education. More than a challenge, improving education in Brazil is an opportunity to get the country back on its feet for a post-COVID economic recovery. Given that both government investment and private higher education institutions will take at least half a decade to catch up on current needs and deliver work-ready ESG graduates, companies that invest in their own in training will have a competitive advantage for the future (Dutra, 2021).

Consumers in Brazil are also concerned about social and environmental sustainability, as Future Consumer Index research, conducted by EY in March 2021, shows (Duarte, 2021). In this research, 49% of respondents reported giving priority to environmental and climate change issues in their lifestyle and the products they buy, while 26% stated that valuing sustainability would be their most important criterion for choosing products within the next three years. In addition, 56% said they are more willing to buy products from companies with a track record of positive social impact and 38% are more willing to buy from companies with a value proposition that can benefit society, even if their products are more expensive.

Brazil is moving to adopt the technical standard for the circular economy developed by the International Organization for Standardization (ISO). The National Confederation of Industry – Brazil (CNI) has proposed a gradual transition, with the expectation that the technical standard will be fully adopted in 2023 (IstoÉ, 2021). A 2019 CNI study with 1,261 companies, of which 71% were SMEs (small and medium-sized enterprises), revealed that even though 70% of respondents had not heard of the term “circular economy”, more than 76% were working on at least some initiatives related to it. Notably, 56% said they were working on process optimisation, 37% on circular materials, and 24% on the reutilisation of resources (IstoÉ, 2021).

Excitement about ESG and a circular economy is palpable in Brazil, as demonstrated by the attitudes of society and business in a country very rich and diverse in both natural and human resources. A dynamic evolution of challenges and opportunities is occurring, with general agreement that this is the way to overcome current problems and achieve a more prosperous and desirable future.

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