Opinion: Responsible ESG investing in the Global South requires overcoming the Global North's savior complex

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ESG standards (Environment, Social and Governance) are metrics designed to guide responsible investing. The "S" in ESG has evolved into the financial innovation of social impact investing (SII), which promotes social benefits such as environmental protection, gender equality and human development, and also generates profits for beneficiaries and investors.

As rosy as this seems, how to get it done is far from settled. SII in the Global South is difficult, resulting in a paradox where—despite the best of altruistic intentions—the egos and savior complexes of investors benefit more than intended beneficiaries. Recent research offers some ways to mitigate this paradox.

ESG culture wars

ESG was co-opted into the culture wars when conservative politicians became concerned that businesses had become too focused on progressive social issues.

On one side, there are those who believe ESG promotes sustainability and value creation for firms. On the other side of the debate, it is maintained that ESG will not save the planet and that it amounts to empty virtue signaling.

The ESG culture war exposes the paradox of ego versus altruism.

SII promoters cast themselves as saviors with the moral vision to solve worldwide suffering, but this does not always translate into promised results in the postcolonial Global South.

Ironically, SII investors often bask in the glory of a victory lap, whether they deliver social impact or not. What is so difficult about the Global South that authentic, altruistic motivations can go so woefully wrong?

Why the Global South is so challenging

Even if ESG and SII can succeed within the Global North, it is different when investing from the Global North to the Global South. Given the sums involved, it is important to understand the Global South contexts. SII is worth US$1 trillion with 92 percent of the investors based in the Global North and 59 percent of the investments made in the Global South.

Doing business in the Global South involves having to account for cultural biases and historical context, for example, in the postcolonial behaviors of former colonizers and their subjects. Failing to do so fully results in strategies based on imagined rather than actual contexts, reflecting an incomplete understanding of how advanced standards are adopted in developing contexts. We are often left with the ill-fitting propagation of neoliberal assumptions on what success means.

It is important to get SII right in the Global South. We already know that decades of crusading development and aid programs under the banner of the "white man's burden" did not work. Handouts failed to alleviate long-term poverty.

Taking over from the failed development initiatives, what can be done to make SII better? Maybe we can start by straightening out the ego versus altruism paradox.

Mitigating the ego versus altruism paradox

My recent research on SII ventures in the Global South recommends three solutions for mitigating the ego versus altruism paradox:

- Investment narratives should be more self-aware in balancing ego with altruism. Third-party scrutiny of results should ensure that marketing of SII does not overstate or misrepresent social impact . One's pride in their efforts to alleviate social challenges should not eclipse the results delivered.

- Ensure that the money is going where you want it to. Ownership structures based on local and Indigenous sensibilities is more effective at getting investment into the right hands. The SII process usually follows the neoliberal, accounting-based conventions of Global North capital markets which continue a "process of colonization and value capture". Alternatively, unique structures aligning qualitative or quantitative measures to constructs can be created based on active discussions with beneficiaries.
- Take postcolonial power imbalances into consideration. Making people less poor is not a win by itself, as they remain very poor. Financial metrics should be complemented with other indications of human dignity and flourishing. This requires SII investors to make the extra effort to build direct relationships with beneficiaries, and avoid outsourcing impact activities through local intermediaries who may be exerting power over the beneficiaries.

SII investors should reflect on and declare their invisible power and neoliberal privilege to create a space where issues of equality and power-sharing can be discussed with beneficiaries. Engage with beneficiaries not just as business partners, but as equal human beings to avoid an inadvertent, but dehumanizing colonial gaze.

Optimism for the way forward

There continue to be real opportunities for SII directed to the Global South. It is still possible to contribute to the "revolution from the bottom " imagined over a decade ago.

Witnessed by proposals during COP26, business plays an important role in redressing imbalances between the Global North and Global South and finding whole-planet solutions for whole-planet problems, including climate change.

Rather than giving in to the cynicism around ESG, we can improve our toolkit. SII remains a well-intentioned and important initiative. We do not have many other options and time is of the essence.