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FEATURED Q&A

What's the Outlook for ESG Investing in Latin America?

Investments focusing on environmental, social and corporate governance goals are gaining market share globally, including in Latin America. // File Photo: pxhere.com.

Q: Asset managers around the world are expected to increase investment levels in holdings related to environmental, social and corporate governance, or ESG, to $33.9 trillion by 2026, up from $18.4 trillion in 2021, PwC said in a report last October. ESG products globally are gaining market share, including in Latin America, where they account for $25 billion in assets under management, the report said. What is the outlook for ESG investment in Latin America this year as the region, according to the International Monetary Fund, faces slowing economic growth and weakening consumer and business confidence? To what extent will ESG investments continue to grow in importance as the region? How are political factors in the region affecting ESG investments and to what extent is a backlash from conservative politicians in the United States over ESG investments echoing in Latin America?

A: Devry Boughner Vorwerk, member of the Advisor board and CEO of DevryBV Sustainable Strategies: "While Latin America is pegged for weaker growth in 2023, JP Morgan's annual outlook deemed the region a '(relative) bright spot' for investors. No matter the year-on-year investment climate, ESG will continue to play a prominent role in the region. Investors do not disregard assessment of ESG risks when the economy takes a dip. It doesn't work that way. ESG risk factors are high in the LAC region, and investors are looking to mitigate risks by calling them out and either ignoring risky investments (known as 'negative screening') or investing in companies that deploy strong ESG frameworks and policies to manage the risks. Last December,

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TODAY'S NEWS

POLITICAL

Death Toll Rises to 21 After Colombia Coal Mine Blast

Twenty-one people are now confirmed dead following an explosion in an adjacent series of coal mines near the town of Sutatausa in central Colombia.

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ECONOMIC

Colombia's Petro Sends Congress Labor Reform

Colombian President Gustavo Petro presented lawmakers with a labor reform that would enforce an eight-hour work day, set the normal work week at 42 hours and guarantee at least one day off every seven days.

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POLITICAL

El Salvador Assembly Extends Gang Crackdown

Salvadoran lawmakers for the 12th time extended special powers for authorities to crack down on gangs. President Nayib Bukele first proposed the emergency measures a year ago.

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Bukele // File Photo: Salvadoran Government.

POLITICAL NEWS

Death Toll Following Colombia Coal Mine Blast Rises to 21

The death toll rose to 21 on Thursday following an explosion earlier this week in a series of adjoining coal mines in central Colombia when 10 workers who had been missing were found dead, Reuters reported. The blast happened late Tuesday near the town of Sutatausa, about 46 miles north of Bogotá. "I have been in communication with Governor Nicolás García, who just informed me that despite all the efforts of rescue teams, unfortunately 21 people lost their lives in the tragic accident in Sutatausa," Colombian President Gustavo Petro said in a posting on Twitter. García, the governor of Cundinamarca province, said nine workers survived the explosion and had been hospitalized but later released, the Associated Press reported. Family members of the miners who were killed were receiving psychological help, the governor added. All of the workers who were present at the mine at the time of the explosion have now been accounted for, according to local officials. The blast was the result of methane inside the mine, Colombian Minister of Mines Irene Vélez said Thursday, the AP reported. The complex would remain closed as authorities investigate the causes of the explosion, she added. Colombia has seen frequent mining accidents, with the National Mining Agency registering 117 last year across the country. In those incidents, 146 workers were killed, according to the agency. The deadliest mining accident in recent years in Colombia happened in June 2010, when a mine explosion caused 73 deaths, Reuters reported.

El Salvador's Legislative Assembly Extends Crackdown

El Salvador's Legislative Assembly for the 12th time extended special powers for authorities to crack down on gangs, the Associated Press reported today. Legislators' vote late Wednesday was expected; the lawmakers have extended the emergency rules consecutively for a month each time since they were first put into place in March of last year at the request of President Nayib Bukele. The crackdown has led to more than 65,000 arrests as well as thousands of alleged abuses of human rights, the AP reported. Opinion polls show that nine of 10 Salvadorans approve of Bukele's policies to fight crime. Lawmakers' latest extension of the emergency measures came on the same day that authorities transferred 2,000 people under arrest to a large new prison constructed specifically for gang members, the AP reported. In sending the prisoners to the new facility, the country's justice minister said "they will never return" to the streets, the wire service reported. Images in a video that the government released showed prisoners being forced to run handcuffed and barefoot, wearing only white shorts. The prisoners were also forced to sit close together in tight groups with their legs shackled, the AP reported. In a posting on Twitter, Bukele mocked comments on social media about the prisoners being shoeless. "Right now we'll take money away from the children's hospitals to buy them shoes! What brand do you think they would like?" Bukele said. Amid the crackdown, murders in El Salvador fell 56.8 percent last year, the government said in January, Reuters reported. In 2022, the country registered 496 homicides, down from 1,147 the year before.

ECONOMIC NEWS

Colombia's Petro Presents Labor Reform to Congress

Colombia's government on Thursday presented a labor reform bill to Congress that aims to reduce working hours and increase overtime pay, Reuters reported. The bill is the latest in a string of reforms being pushed by President Gustavo Petro, the country's first leftist president, who seeks to tackle poverty. "It is pre-

NEWS BRIEFS

Argentine Central Bank Hikes Key Interest Rate to 78% as Inflation Soars

Argentina's central bank raised its benchmark rate Thursday for the first time since September in an effort to rein in inflation, according to a monetary policy statement, Bloomberg News reported. Inflation surpassed 100 percent last month, marking the first time it reached triple digits since 1991. The central bank increased its benchmark Leliq rate by 300 basis points to 78 percent. Consumer prices rose 102.5 percent in February, adding pressure on an economy that is expect fall into recession this year ahead of the October presidential election.

Developing Nations Set to Miss Out on Green Tech Economic Benefits: U.N.

A majority of developing nations, including ones in Latin America, are set to miss out on the economic benefits of booming green technologies, undermining their climate goals and widening the gap between rich and poor countries, a United Nations report warned on Thursday, the Associated Press reported. "We are at the beginning of a technological revolution based on green technologies," said Rebeca Grynspan, the secretary-general for the U.N.'s agency for trade and development.

Scotia Group Jamaica to Offer Loans for Energy Products

Scotia Group Jamaica is planning to offer several types of energy-related loans that customers will be able to use to buy sustainable energy products such as hybrid and electric vehicles, Loop News reported Thursday. The offerings include home equity and secured loans, the news site reported. The bank, a unit of Canada's Scotiabank, did not disclose the maximum loan amounts or interest rates, but it did say the loans will vary by product.

cisely the reduction of salaries, job instability, which have not allowed the growth of productivity in Colombia," Petro told a crowd in Bogotá before the bill was formally presented to Congress. Critics, however, are wary of the bill stifling job creation. "[The bill] forgets about the unemployed, the opportunity to access

Petro // File Photo: Colombian Government.

work and the possibilities for informal workers to get formal work due to the high costs," Jaime Alberto Cabal, president of merchants' association Fenalco, told journalists earlier on Thursday. The measure would enforce an eight-hour work day, set the normal work week to 42 hours, down from a current 48 hours and guarantee at least one day off every seven days. It needs the approval of lawmakers as well as the Constitutional Court to be made law. Congress has already approved a significant tax reform and is now debating a health care reform that sparked widespread protests—both in support in opposition to it. The government is expected to present a pensions reform proposal next week, the wire service reported.

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S&P Global Market Intelligence published a report identifying the three main drivers of ESG risk for investors in Latin America: 1.) violence against activists tied to land rights and human rights, 2.) community disputes related to resources, human rights, contamination, land rights, extractive industries and Indigenous protections, and 3.) deforestation. Worldwide, there are pockets of backlash to ESG, mainly because it's misunderstood, and harmonization of standards is nonexistent. Political backlash on ESG is happening in countries including Brazil as a tool to discredit political leaders like Lula who are implementing more rigid laws and regulations to protect people and the environment. Regardless of backlash, governments, generally supported by business, are moving forward on ESG. For example, Brazil, Chile, Mexico and Colombia are working to impose regulations on climate disclosure for asset managers, pension funds and insurance companies. What is happening in Latin America on ESG is on trend, as governments worldwide are increasingly implementing laws and regulations requiring companies to disclose climate risks in their portfolios. It should be expected that ESG investment levels in the region will continue to grow, in line with global estimates."

A **Andrea Bonime-Blanc, CEO of GEC Risk Advisory:** "While ESG investment and internal corporate ESG risk and resilience-building activities remain robust and growing everywhere, including in Latin America, unproductive distractions casting ESG as a political football in the largest market of all—the United States—have muddied the waters. But only temporarily. Cooler, more rational heads will prevail both in the United States and internationally. We're already seeing signs of this. For example, watch the 2023 U.S. proxy season and the voices of the world's largest pension funds. Even in the United States, due to the Inflation Reduction Act of 2022, which allocated the greatest investment in climate solutions in world history, the polarized rhetoric can't drown out the reality of the enormous associated business opportunities not only in

> **"Cooler, more rational heads will prevail both in the United States and internationally"**
> **— Andrea Bonime-Blanc**

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BUSINESS NEWS

Santander's Mexico Unit to Launch Digital Lender in '24

Banco Santander's Mexico operation is planning to launch digital lender Openbank in the country by March of next year, the head of the Spanish bank's Mexico unit said Thursday, Reuters reported. "We need to 'tropicalize' it and make it fit for the Mexican market and regulation," the executive, Felipe García, told the wire service in an interview. Openbank will offer checking accounts, credit cards and other services, said García. He added that the new digital unit will not be starting from scratch as it already operates in Argentina and in some European countries. Mexico has a low level of banking penetration as compared to other countries in Latin America as well as a young population, making it an attractive location for Openbank's expansion, said García. He did not specify how much Santander would invest in bringing Openbank to Mexico. "Mexico is one of the most attractive markets for retail banking and payments growth in Latin America," Barbara Kotschwar, executive director of the Visa Economic Empowerment Institute, told the Dialogue's biweekly Financial Services Advisor in a Q&A published March 8. "It has a large population and a still-untapped market for financial services. Cash dominates the payments landscape, accounting for more than half of the overall payment transaction volume in 2022," she added. Last month, Santander valued its Mexican unit at approximately 8.1 billion euros ($8.6 billion) as part of a voluntary tender offer to acquire shares of the operation that it does not already own, Reuters reported. That move is a step toward delisting the unit. The Santander division is Mexico's third-largest bank by credit-portfolio size and managed approximately 810 billion pesos ($43.23 billion) at the end of 2022, according to data from Mexico's national banking regulator, the wire service reported.

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the United States but also in Latin America and elsewhere. ESG—or whatever we call these key issues, risks and opportunities in the future—is destined to continue and increase in importance everywhere, even exponentially. Why? Because we are talking about long-term existential issues. When it comes to climate, for example, no place on earth exhibits the existential importance of deploying climate solutions more than Brazil and the other Amazon countries. At this point, about 17 percent of the Amazon (often called the 'lungs of the Earth') has been destroyed, and scientists expect an existential collapse of the biggest rain forest in the world if 25 percent destruction is reached. Whatever you think of President Lula, with him in place, for now at least there is hope that there will be no continuing destruction. Politics unfortunately will have a meddling role in how quickly we can move these opportunities forward both in Latin America and the United States. While we may be in for a couple of years of ESG zigzagging for both economic and political reasons in the Americas, the global ESG train has left the station, its long-term trajectory bends toward growth and progress and it would be foolhardy for Latin American governments and businesses to miss this train."

A **Eileen Gavin, principal analyst for global markets and the Americas at Verisk Maplecroft:** "We see ESG debt as a key trend, regardless of U.S. political noise. Latin American sovereigns and regional multilateral development banks increasingly see thematic bonds as a way to secure scarce capital. Strong demand for these issuances underlines the growing appetite for impact investing by funds taking a longer-term perspective on risk. Backed by the Inter-American Development Bank, Ecuador in January 2020 issued the world's first sovereign 'social bond,' raising $400 million for housing. Belize in November 2021 completed a $533 million debt-for-nature swap to conserve its coral reef zone. In October 2022, the International Finance Corporation backed plans by Ecuador's Banco Internacional to issue the region's first private sector 'blue bond,' underscoring the growing interest in these instruments. Sovereign blue bonds have also been mooted as part of a potential debt-for-nature swap of up to $800 million, with the proceeds funding a vast extension of the Galapagos marine reserve. Though Ecuador's sovereign bonds are well above the 'distress level' at some 1,400 points, such an issue would likely still be attractive to ESG-focused investors. Uruguay issued a $1.5 billion sustainability-linked bond last October using an innovative two-way pricing structure, via a step-down coupon to incentivize environmental improvement and a step-up to penalize underperformance. This successful issue sets a positive precedent for other sovereigns, as investors row in behind the idea that stronger environmental outperformance can mean lower credit risk. A deforestation-linked mechanism is the obvious route for Brazil, which has yet to issue a sovereign 'green' bond."

"Strong demand for these issuances underlines the growing appetite for impact investing..."

— Eileen Gavin

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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Gene Kuleta
Editor

Lara Kovandova
Reporter

Anastasia Chacón
Reporter

Leticia Chacón
Reporter

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