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FEATURED Q&A

Is Mexico Ensuring the Intended Use of ESG Investments?



Some have expressed skepticism about the use of money invested in sustainable bonds in Mexico. // File Photo: Markus Spiske via Unsplash.

Q Mexico last year issued \$910 million of sovereign sustainable bonds, also known as ESG bonds, amid some skepticism that investors' money will actually be used with environmental, social and governance considerations in mind, Bloomberg News reported in December. Are there sufficient controls in place in Mexico to guarantee that such investments in effect go toward initiatives with intended positive results? To what extent is "greenwashing," a term some employ to characterize the use of vague goals of improving the planet in order to raise money more cheaply, a concern for investors when deciding to buy ESG bonds in Mexico and elsewhere in Latin America? How much capital will ESG bonds in the region attract this year and beyond?

A Guillermo Uribe, partner at Holland & Knight: "Although there are international regulations of voluntary adoption, such as the 'Green Bond Principles,' published by the International Capital Market Association, that are used by many issuers of securities, Mexico lacks specific regulations for the issuance of ESG bonds. There is no guarantee that the proceeds obtained will be used for environmental, social and/or corporate governance purposes. It all depends on the issuers and the transparency they are willing to provide. However, the market is not lost; the reputation of the issuer is the game. The absence of widely recognized criteria for issuing ESG bonds has made it very difficult to distinguish between true sustainable investments and 'greenwashing.' It is obvious that some issuers are taking advantage of the bonds to achieve better results in the rate, in the offering or to

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TODAY'S NEWS

POLITICAL

Mexican Gov't Release of Dossier Threatens Drug Cooperation: U.S.

The Mexican government's release of a confidential dossier on the case of a former Mexican Defense Secretary threatens information sharing on antidrug efforts with the United States, the Justice Department said.

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BUSINESS

Brazil Approves AstraZeneca Covid-19 Vaccine

Brazil's health regulator approved the Oxford/AstraZeneca Covid-19 vaccine.

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POLITICAL

Biden Plans Major Immigration Bill on First Day

Joe Biden, who takes office Wednesday as U.S. president, is planning to quickly unveil major immigration legislation that would provide an eight-year path to citizenship for undocumented immigrants.

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Biden // File Photo: Facebook page of Joe Biden.

POLITICAL NEWS

Biden Plans Major Immigration Bill on First Day

Joe Biden, who takes office Wednesday as president of the United States, is planning to unveil major immigration legislation on the first day of his administration, the Associated Press reported. The bill would provide an eight-year path to citizenship for some 11 million people without legal immigration status in the United States, the wire service reported. The legislation would mark a sharp reversal from the restrictive immigration policies of outgoing U.S. President Donald Trump. Biden's plans, however, do not include stronger border security measures, which many Republicans favor, putting its passage in a sharply divided U.S. Congress uncertain. The legislation, which is expected to be hundreds of pages, is to be unveiled shortly after Biden is inaugurated Wednesday at noon, the AP reported, citing an unnamed person familiar with the legislation. During his campaign for the presidency, Biden called Trump's stance on immigration policy an "unrelenting assault" on U.S. values, saying he would "undo the damage" while also continuing to enforce U.S. law at the country's borders. Under Biden's plan, people living in the United States without legal status as of Jan. 1, 2021 could have a five-year path to a green card, or temporary legal status, as long as they pass background checks, pay taxes and adhere to other requirements, the AP reported. After those five years, they would have access to a three-year path to citizenship if they want to pursue it. The timeline could be shorter for some immigrants, including the so-called "Dreamers," who were brought to the United States illegally as children. Immigrants working in agriculture in the United States and people who are currently in the United States under Temporary Protected Status could qualify for green cards more quickly if they are in school, working or meet other provisions. Meantime, on Monday, police and soldiers in Guatemala broke up a caravan of migrants that had set off

days earlier from Honduras, the AP reported. The migrants, who had sought to reach the United States, had spent two nights at a roadblock along a rural highway. Some members of the group threw rocks at Guatemalan authorities, while the soldiers and police shot tear gas at the crowd and pushed migrants back with riot shields. The caravan contained about 2,000 people when it crossed into Guatemala late Friday. A senior member of Biden's transition team said there is no truth to the view that the incoming administration will allow all asylum seekers to enter the United States as soon as Biden takes office, NBC News reported. "The situation at the border isn't going to be transformed overnight," the transition official told NBC News. Some 9,000 Hondurans are fleeing their native country amid the scarcity of food in Honduras, which has suffered the devastation of two hurricanes, economic hardship and drought. [Editor's note: See [Q&A](#) on potential U.S. immigration changes under Biden in the Jan. 6 issue of the Advisor.]

Mexico's Release of Dossier Threatens Cooperation: U.S.

The U.S. Justice Department has said Mexico's release of a confidential dossier on the case of former Mexican Defense Secretary Gen. Salvador Cienfuegos has raised doubts as to whether the United States can share information on Mexican drug cartels, bringing bilateral antidrug cooperation to its lowest point in years, The Wall Street Journal reported Sunday. Mexico's move "calls into question whether the United States can continue to share information to support Mexico's own criminal investigations," the Justice Department said late Friday, adding that the release of the Cienfuegos dossier was a violation of bilateral treaty obligations on information sharing. The U.S. government's statement came after Mexican President Andrés Manuel López Obrador accused the Drug Enforcement Administration of fabricating drug charges against Cienfuegos on Friday, according to the report. The president's comments came days after the Mexican

NEWS BRIEFS

Powerful Earthquake Rattles Western Argentina

A 6.4 magnitude earthquake shook Argentina's western San Juan province late Monday, sending items flying off store shelves and causing power outages, the Voice of America reported. There were no immediate reports of casualties from the earthquake, which was centered 29 kilometers west-southwest of the town of Pocito, according to the U.S. Geological Survey. The quake struck at a depth of 20 kilometers, the USGS added.

Remittances to El Salvador Rebound to Record High of \$5.92 Billion

Remittances to El Salvador have bounced back following a 40-percent plunge at the start of the Covid-19 pandemic, the country's central bank said Monday, the Associated Press reported. The level of money transfers that Salvadorans abroad sent home recovered by the end of the year, registering a record high of \$5.92 billion. Remittances in 2020 were up 4.8 percent as compared to the previous year, the central bank said. Remittances account for 23 percent of El Salvador's gross domestic product and benefit around 360,000 households.

Total's Suriname Unit Awards Maersk Contracts for Deepwater Rigs

French energy company Total's Suriname unit has awarded Danish shipping firm Maersk two drilling contracts for deepwater rigs for Total's exploration and appraisal project in the South American nation's Block 58, World Oil reported Monday. The two rigs, known as Maersk Developer and Maersk Valiant, will be employed for an estimated combined total duration of 500 days. The first is expected to begin operations this month. [Editor's note: See related [Q&A](#) in the Jan. 17, 2020 issue of the Dialogue's weekly Energy Advisor.]

attorney general's office announced it would not prosecute Cienfuegos, who was arrested in Los Angeles in October and subsequently released by the Justice Department after Mexico threatened to end cooperation with the United States on antidrug efforts over U.S. authorities' arrest of Cienfuegos, which it alleged was a violation of its sovereignty. The attorney general's office said there was no evidence that Cienfuegos had been involved in the trafficking of drugs into the United States. [Editor's note: See related [Q&A](#) in the Nov. 30 issue of the Advisor.]

BUSINESS NEWS

Brazil's Health Regulator Approves AstraZeneca Vaccine

Brazilian health regulator Anvisa has approved the Oxford/AstraZeneca vaccine against Covid-19, as well as China's Sinovac vaccine, allowing one of the hardest-hit countries in the region to begin its immunization program, which has been tainted by delays and political spats, the Financial Times reported Sunday. Anvisa announced that its board had unani-

“Our best chance in this war has to be by changes to social behavior. Without this, even with a vaccine, victory will not be achieved.”

— Antônio Barra Torres

mously voted to grant emergency use approval to both vaccines. “There is only one enemy. Our best chance in this war has to be by changes to social behavior. Without this, even with a vaccine, victory will not be achieved,” Antônio Barra Torres, the head of the agency, said during the event. Shortly after the presentation, Brazil inaugurated its inoculation program, with

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create a better reputation in the market and obtain short-term benefits. The investors and market associations should identify and provide support only to issuers who are willing to make a real difference. Market authorities must scrutinize the way issuers disclose the ESG information in connection with the use of proceeds and analyze the necessity of establishing a legal framework for it. It is uncertain how much activity ESG bonds will attract in Mexico in 2021. The pandemic is still going strong, and midterm federal elections are around the corner. However, I believe the ESG bond market will continue to grow, both in Mexico and elsewhere in Latin America, as in previous years.”

A Eduardo Atehortua, head of Latin America at the U.N.-supported Principles for Responsible Investment: “It is important to note that the Mexican government's decision to issue this sustainable debt is positive and an example for other countries in Latin America. As to whether there are sufficient controls, it will be important to follow up on the SDG Sovereign Bond Framework governing the instruments and to ensure that the Mexican government produce a report explaining the use of resources this year. The possibility of greenwashing is not only a risk in Latin America, but in general. Around the world, investors fear that resources are not being used to develop the environmental and social projects as expected. Therefore, reports of resource usage and verification by an independent third party are very important. As it already happened with the green bonds that Chile issued in 2019 and 2020,

a 54-year-old nurse from São Paulo receiving the first injection. Health Minister Eduardo Pazuello said Brazil could eventually vaccinate as many as one million people per day. The country has the second-highest death toll in the world, at more than 210,000, according to Johns Hopkins University. Elsewhere in the region, Bolivia announced it has signed a contract with India's Serum Institute for five million

we expect the Mexican government to follow that same path. Countries such as Colombia and Peru have also announced new ESG bonds. Such instruments are therefore

“The possibility of greenwashing is not only a risk in Latin America, but in general.”

— Eduardo Atehortua

expected to become increasingly in demand from both international investors as well as Latin American investors. The interest of Latin American investors in such instruments will continue to grow in the coming years, so if demand is there, we will most likely see a growing supply of ESG bonds in the region.”

A Graham Stock, partner and senior sovereign strategist for emerging markets at BlueBay Asset Management: “BlueBay believes that Mexico's 750-million-euro issue of SDG sovereign bonds was a very robust exercise. We first discussed it with the government in February, and it refined it further before coming to market. We liked the bonds for many reasons. The detailed framework showed thought and planning. The materiality and alignment with the SDGs showed through in project selection, with spending targeted at the poorer southern states of Mexico. Likewise, the process for monitoring and reporting on the subsequent expendi-

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doses of the AstraZeneca vaccine, in addition to a recent deal to buy 5.2 million doses of Russia's Sputnik V vaccine, Reuters reported. Paraguay has also joined Bolivia, Argentina and Venezuela in approving emergency use of the Sputnik V vaccine. [Editor's note: See [Q&A](#) on the progress of Covid-19 vaccine rollouts in Latin America in the Jan. 12 issue of the Advisor.]

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tures looked rigorous. The framework itself had already been evaluated by an independent third party, and the U.N. Development Program will act as observer for the annual impact report, which should contain a lot of granular data. We therefore do not see this exercise as 'greenwashing.' Having said that, committing to allocate 750 million euros to sustainable development out of a federal government budget of approximately 260 billion euros for 2021 is not very ambitious. We see plenty of headroom for the government to increase its issuance of such bonds while still complying with the SDG bond framework. The challenge for Mexico and others is to make more of its budget sustainable, and to change course in areas that are problematic. In Mexico's case, the carbon-intensity of the energy mix in general, and the poor environmental record of state oil company Pemex in particular, are a concern. So, while we welcome the SDG bonds, we are also engaging with the Mexican authorities to urge them to move faster on the 'E' as well."

A **Andrea Bonime-Blanc, CEO and founder of GEC Risk Advisory:** "There is bad news and good news about what global investors are looking for from an ESG standpoint. The bad news is that with any frenzied rush to investments, there is bound to be corner-cutting, fraud and possibly other types of misrepresentation that can result in 'greenwashing' and therefore poorly considered and protected investments. There is good news, too, because together with the skyrocketing increase in global ESG investments, especially over the past several years, there is also a strong push for greater standardization and rigor in how to measure ESG. In a sense, the ESG investment wave is leading to ESG investment targets having to up their game as investors can instead turn to better alternatives in safer environ-

ments. The risk of greenwashing is just as great (potentially greater) coming from government bond issuers as it is coming from corporate bond issuers—governments, at least in theory, have more power. Add to that layers of geopolitical and political risk analysis and, depending on the country and the particular government in charge, one's skepticism could grow about the attractive-

“ The ESG tsunami requires investors to apply an even greater sense of 'let the buyer beware...' ”

— Andrea Bonime-Blanc

ness of sovereign 'ESG' bonds issued in a country with a poor environmental, social and/or governance track record, both at the government level as well as the business level. In Latin America (where it varies greatly by country), investors rushing into ESG investments must maintain the rigor they apply to such investments in the highest-performing countries and businesses anywhere. They should avoid simply 'believing' ESG stories and instead dig deep into their own due diligence protocols when they are considering government or corporate bonds, requiring the same transparency they would require anywhere. The ESG tsunami requires investors to apply an even greater sense of 'let the buyer beware' as ESG investments make claims that non-ESG investments don't. That said, the world needs ESG investment to save the planet, to satisfy purpose and to make profit, and Latin America should be at the forefront."

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