Responsible Business Conduct in the Financial Sector in Latin America and the Caribbean

Please cite this publication as:
OECD (2022), *Responsible Business Conduct in the Financial Sector in Latin America and the Caribbean,* OECD Publishing, Paris

Funded by
the European Union

Foreword

This report provides an overview of sustainable finance policies, practices and regulations in the Latin American and Caribbean region and identifies opportunities for financial institutions, parties to voluntary initiatives and regulators to embed the OECD Guidelines for Multinational Enterprises (OECD Guidelines) and supporting due diligence guidance frameworks. The OECD is uniquely positioned to analyse the progress of institutional investors and corporate lenders in embedding key environmental, social and governance (ESG) risks including climate risk and responsibilities to mitigate adverse impacts on people, the environment and society. This report draws on the framework developed to drive responsible business conduct (RBC) in the corporate lending sector and in institutional investment, to take stock of current practices along with challenges and opportunities to further embed RBC in the Latin American and Caribbean region. The countries covered in this report are Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama and Peru. The report will be complemented by country spotlight reports *Responsible Business Conduct in the Financial Sector in Panama* and *Responsible Business Conduct in the Financial Sector in Costa Rica*.

This report is published in the context of the project on "Responsible Business Conduct in Latin America and the Caribbean" (RBCLAC), implemented by the OECD in partnership with the International Labour Organization (ILO) and the Office of the United Nations High Commissioner for Human Rights (UN OHCHR) and funded by the European Union. The project seeks to promote smart, sustainable and inclusive growth in the region by supporting responsible business practices in line with the international RBC instruments of the three implementing organisations. The activities of the OECD taking place within the project are structured around three mutually reinforcing pillars: (i) reinforcing government policies for RBC, (ii) helping businesses to conduct due diligence in priority sectors, and (iii) facilitating access to remedy through the strengthening of the network of National Contact Points for RBC.

Three key challenges to ensuring that institutional investors and corporate lenders act in line with the OECD Guidelines are identified in the report. Firstly, there is a need to elevate the responsibilities of financial institutions to mitigate "environmental" and "social" impacts at a time when the integration of climate risk is at the top of the agenda for regulators, governments and investors. The OECD Guidelines and supporting due diligence guidance frameworks call on financial institutions to identify and mitigate their adverse impacts on people (e.g. workers, communities, indigenous communities, etc.) and the environment (e.g. biodiversity, climate change) – this can be distinct from the integration of sustainability issues, like climate risk, which is often determined to have a financially material impact for financial institutions. Secondly, there is a need to enhance the accountability structures of (voluntary) sustainable finance protocols – such as those adopted in all nine focus countries – using periodic reporting and de-listing mechanisms for investors or lenders that do not comply with these initiatives. Finally, there is an opportunity to involve civil society organisations, including non-governmental organisations and trade unions, more formally into sustainable finance initiatives to bridge the gap between investments and lending and their impact on communities, workers and indigenous groups.

The data and analysis comprised in this report are based on desk research and interviews conducted with the banking associations of Brazil, Colombia and Mexico, along with United Nations Environment Programme Finance Initiative (UNEP-FI) and Principles for Responsible Investment officials over the course of 2020-2021. Country spotlight reports *Responsible Business Conduct in the Financial Sector in Panama* and *Responsible Business Conduct in the Financial Sector in Costa Rica* also informed this regional overview.

The analysis focuses on institutional investors and corporate lending institutions in the countries that are included in the RBCLAC project. The institutional investment and corporate lending sectors were selected for analysis because the OECD has developed RBC due diligence guidance for both financial industry activities.

Under the OECD Guidelines, "**responsible business conduct**" (RBC) means that businesses should: i) make a positive contribution to economic, environmental, and social progress with a view to achieving sustainable development; and ii) avoid and address adverse impacts through their own activities and seek to prevent or mitigate adverse impacts directly linked to their operations, products, or services by a business relationship.

The term "**environmental, social and governance**" (ESG) criteria refers to a set of criteria that have typically been used to assess the sustainability performance of a company, in the case of an investment. "**Environmental and social**" (E&S) risk more commonly describes the criteria used when assessing the sustainability performance of a client (in the case of a loan). In this report, ESG is used as a term to describe the integration of sustainability issues into both institutional investment and lending as a result of an increasing convergence across the financial sector.

The scope of RBC and ESG/E&S criteria are highly related. Both relate to understanding and quantifying the impacts of business activities on E&S issues. However, RBC is specific to the standards and recommendations set out in the OECD Guidelines and other international instruments. RBC pertains primarily to impacts to the environment and society, independent of financial materiality. While no formal, widespread definition exists for "ESG" and "E&S risk" and its diversity with respect to how these concepts are instrumentalised by financial institutions and intermediaries, they often pertain primarily to E&S risks which can also pose financial risks.

In this report, the term "ESG" is used in reference to both institutional investment specifically and the financial sector more broadly. When banking- and lending-specific topics are discussed, the term E&S is used.

Acknowledgements

This publication has been prepared by the OECD Centre for Responsible Business Conduct, led by Allan Jorgensen. The report was supervised by Froukje Boele, Manager for Latin America and the Caribbean at the Centre. It was drafted by Hughes Létourneau, Associate Director and Leader of Responsible Investment at SHARE. The report also benefitted from the guidance of Barbara Bijelic and Tyler Gillard from the OECD RBC Centre. The report benefitted from comments by representatives of the UN Office of the High Commissioner for Human Rights and the International Labour Organisation and by officials from Panama. Further contributions were received from Germán Zarama, Inmaculada Valencia, Jorge Gálvez Méndez, Duniya Dedeyn and Valeria Patiño, also at the OECD RBC Centre.

This report was produced with the financial support of the European Union in the context of the Project on "Responsible Business Conduct in Latin America and the Caribbean". The views expressed herein should in no way be taken to reflect the official opinion of the European Union.

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Abbreviations and acronyms

AFORE	Retirement Fund Administrators (*Administradoras de Fondos para el Retiro*)
AFP	Pension Fund Aministrators (*Administradoras de Fondos de Pensiones*)
AGM	Annual General Meeting
AMEC	Association of Capital Market Investors of Brazil (*Associação de Investidores no Mercado de Capitais*
CMN	National Monetary Council of Brazil (*Consejo Monetario Nacional*)
CNV	National Securities Commission of Argentina (*Comisión Nacional de Valores*)
CSO	Civil Society Organisation
E&S	Environmental and Social
EP	Equator Principles
ESG	Environmental, social and governance
EU	European Union
FEBRABAN	Brazilian Federation of Banks (*Federação Brasileira de Bancos*)
FELABAN	Latin American Federation of Banks (*Federación Latinoamericana de Bancos*)
FSB	Financial Stability Board
GHG	Greenhouse Gas Emissions
GRI	Global Reporting Initiative
IFC	International Finance Corporation
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MINAM	Ministry of the Environment of Peru (*Ministerio del Ambiente)*
NAP	National Action Plan on Business and Human Rights
NCPs	OECD National Contact Points for Responsible Business Conduct
NGO	Non-Governmental Organisation
OECD Guidelines	OECD Guidelines for Multinational Enterprises
PRB	Principles for Responsible Banking
PRI	Principles for Responsible Investment
PSI	Principles for Sustainable Insurance
RBC	Responsible Business Conduct
SBP	Superintendency of Banks of Panama (*Superintendencia de Bancos Panamá*)
SBS	Superintendency of Banking and Insurance of Peru (*Superintendencia de Banca, Seguros y*

	AFP)
SDGs	Sustainable Development Goals
SFC	Financial Superintendence of Colombia (*Superintendencia Financiera de Colombia*)
SUGEF	General Superintendency of Financial Institutions of Costa Rica (*Superintendencia General de Entidades Financieras*)
SUGEVAL	General Superintendency of Securities of Costa Rica(*Superintendencia General de Valores*)
TCFD	Task Force on Climate-related Financial Disclosure
UNEP-FI	United National Environment Program – Finance Initiative
UNGPs	United Nations Guiding Principles for Business and Human Rights

Executive summary

The adoption of sustainable finance initiatives, policies and practices has accelerated around the globe in recent years. Policymakers and regulators are recognising the role that the financial sector needs to play to accelerate the transition to a low carbon economy and meet the objectives of the 2015 Paris Climate Agreement. The role of financial institutions in causing, contributing to and/or being directly linked to adverse human rights impacts has also come under increasing scrutiny with the adoption of the UN Guiding Principles for Business and Human Rights (UNGPs), the update of the OECD Guidelines for Multinational Enterprises (OECD Guidelines) in 2011, along with the adoption of modern slavery disclosure and mandatory due diligence legislation. The COVID-19 pandemic has also drawn attention and renewed investor considerations to social issues.

Financial institutions and policymakers in Latin American and the Caribbean (LAC) are responding to these growing expectations by changing their practices, creating initiatives, and adopting new regulations that focus on environmental, social and governance (ESG) integration. While some countries were early adopters in ESG regulation (e.g. Brazil in 2009, with ESG disclosure requirements for pension funds), most of the regulation touching on the ESG duties of investors and corporate lenders has been adopted since the adoption of the Paris Climate Agreement in 2015, with an increase in momentum since 2020. Institutional investors and corporate lenders have also responded to growing expectations around sustainability by improving their policies and by creating and joining voluntary initiatives. For instance, investors in the region are beginning to carry out shareholder engagement and to publicise their efforts (e.g. Mexico's *Consejo Consultivo de Finanzas Verdes*, coordinated an investor statement signed by 91 institutional investors asking for Mexican issuers listed to improve climate risk disclosures in 2020) and sustainable finance protocols focused on the banking sector have been adopted in 7 out of the 9 focus countries for this publication.

There are some key challenges to ensuring that institutional investors and corporate lenders act in line with the OECD Guidelines to make positive contributions to people and the planet while reducing adverse environmental and social impacts. Firstly, there is a need to elevate the responsibilities of financial institutions to mitigate "environmental" and "social" impacts at a time when the integration of climate risk is at the top of the agenda for regulators, governments and investors. The OECD Guidelines and the RBC due diligence framework call on financial institutions to identify and mitigate their adverse impacts on people (e.g. workers, communities, indigenous communities) and the environment (e.g. biodiversity, climate change) – this can be distinct from the integration of sustainability issues, like climate risk, which is often determined to have a financially material impact for financial institutions. In LAC, some of the key adverse environmental and social impacts that investors and lenders may be exposed to include threats to the lives of human, labour and indigenous rights defenders in extractive or large infrastructure projects, reliance on informal sector workers in agriculture, or contributing to ecological degradation (i.e. deforestation) by pushing the agricultural frontier. Secondly, there is a need to enhance the accountability structures of (voluntary) sustainable finance protocols – such as those adopted in all nine focus countries – using periodic reporting and de-listing mechanisms for investors or lenders that do not comply with these initiatives. Finally, there is an opportunity to involve civil society organisations (CSOs), including non-governmental organisations (NGOs) and trade unions, more formally into sustainable finance initiatives to bridge the gap between investments and lending and their impact on communities, workers and indigenous groups. The Dutch Pension Covenant, a tripartite agreement could serve as an example here.

This report provides an overview of sustainable finance policies, practices and regulations and identifies opportunities for financial institutions, parties to voluntary initiatives and regulators to embed the OECD RBC due diligence framework. Firstly, it provides an overview of OECD standards on responsible business conduct (RBC) and their relevance and importance for the financial sector. Secondly, it gives an overview of some key drivers behind the development of sustainable finance. Thirdly, it delivers an overview of the institutional investment and corporate lending (i.e. banking) landscape in the LAC region. Chapter 4 analyses 1) the key ESG risks in the LAC region, 2) the policies and practices adopted by institutional investors and corporate lender in the region, 3) the voluntary ESG initiatives in which investors and lenders are participating and 4) the regulatory landscape around the duties of investors and lenders to carry out due diligence in LAC countries.

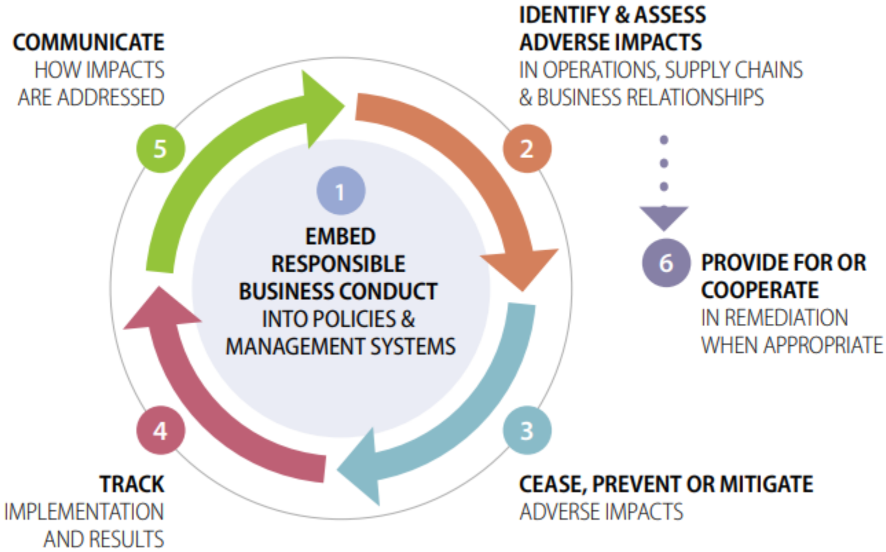
1 The relevance of OECD RBC instruments for the financial sector

Financial institutions are facing growing expectations from governments, clients and civil society to make positive contributions to sustainable development and to mitigate the adverse impacts of their investments and lending practices on the environment and society. The OECD Guidelines and supporting due diligence guidance provide practical recommendations on due diligence to identify, prioritise, manage and report on critical environmental and social impacts such as climate change, biodiversity loss or labour rights violations in global supply chains. Effective RBC due diligence practices amongst financial institutions can contribute to broader global efforts to meet the Paris Climate Agreement objectives, the UN Sustainable Development Goals (SDGs) and to uphold the UNGPs.

The OECD Guidelines are the most comprehensive international standard on RBC. They reflect the expectation from governments to businesses on how to act responsibly. They cover all key areas of business responsibility, including human rights, labour rights, environment, bribery, consumer interests, as well as information disclosure, science and technology, competition, and taxation. The OECD Guidelines were adopted in 1976 and last updated in 2011. A stocktaking exercise is taking place in 2020-2021 to assess their implementation and account for key developments, achievements and challenges. To date, 50 countries have adhered to the OECD Guidelines, of which seven are part of the LAC region: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru and Uruguay.

Under the OECD Guidelines, multinational enterprises – including most financial institutions – regardless of their legal status, size, ownership structure or sector have a responsibility to carry out risk-based due diligence. Risk-based due diligence is a key element of RBC through which businesses identify, prevent and mitigate their actual and potential adverse impacts on the environment and society. It is a 6-step process described in Figure 1.1. These steps are all inter-related, dynamic and iterative; learnings from each element feed and build into one another. The process should be an integral part of business decision-making and risk management systems. It concerns adverse impacts caused or contributed to by enterprises as well as adverse impacts that are directly linked to their operations, products or services through a business relationship.

Figure 1.1. Due Diligence Process and Supporting Measures



Source: OECD (2018), Due Diligence Guidance for Responsible Business Conduct, http://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm

The OECD Guidelines have a built-in non-judicial grievance mechanism through the National Contact Points (NCPs). NCPs are established by Adherents to the OECD Investment Declaration and have the mandate of furthering the effectiveness of the OECD Guidelines. They do this by undertaking promotional activities, handling enquiries and contributing to the resolution of issues that arise relating to the implementation of the OECD Guidelines in specific instances (cases) filed by parties. Any individual or organisation can bring a specific instance against an enterprise to the NCP where the enterprise is operating or based regarding the enterprise's operations anywhere in the world. NCPs facilitate access to consensual and non-adversarial procedures, such as conciliation or mediation, to assist the parties in dealing with the issues. Complaints handled by NCPs (known as 'specific instances') are not legal cases and NCPs are non-judicial bodies.

Between 2000 and 2021, a total of 67 specific instances (19 in LAC countries) have been filed with NCPs concerning activities of the financial sector. These cases have raised a wide variety of issues and in some instances have helped to clarify RBC expectations of practitioners in this sector. Examples of cases are provided in Box 1.1.

Box 1.1. Examples of submissions filed with OECD National Contact Points Involving the Financial Sector

Australian and New Zealand Banking Group Limited (ANZ Group) financing of Phnom Penh Sugar: In 2014, NGOs Equitable Cambodia and Inclusive Development International submitted a case on behalf of 681 families in relation to ANZ's involvement with Phnom Penh Sugar, the developer of a sugar plantation and refinery project in Cambodia. The project was alleged to have forcibly displaced the families and dispossessed them of their land and productive resources. The NCP concluded that in this case, it was difficult to reconcile ANZ's decision to take on PPS as a client with its own internal policies and procedures as the potential risks associated with this decision would likely have been readily apparent. In February 2020, the parties reached an agreement in which ANZ Bank agreed to compensate the impacted families by paying them the profits it earned from the loan, setting a precedent for provision of remedy in the banking sector.

ING climate risk management and disclosure: In 2017, the NGOs Oxfam Novib, Greenpeace, BankTrack and Friends of the Earth Netherlands submitted a case to the Dutch NCP concerning ING, a Dutch bank. The submitters argued that the bank did not report the levels of greenhouse gas emissions (GHG) caused by its lending activities and had not yet announced whether it intended to do so in the near future. In addition, they argued that the bank had not set a target to reduce GHGs in its lending. In April 2019, the case was concluded and the parties reached an agreement in which ING committed to align its portfolio with the Paris Agreement.

Credit Suisse relationship with companies involved in the North Dakota Access Pipeline*:* In April 2017, the Swiss NCP received a submission from the Society for Threatened Peoples concerning the business relationship of Credit Suisse with companies involved in the construction of the Dakota Access Pipeline in the United States (US). The submitter claimed that despite international criticism about the project, Credit Suisse has increased its business relations with enterprises involved in the construction of the pipeline. On September 2019, the parties reached an agreement on several points. One outcome from the agreement includes the inclusion of Free Prior Informed Consent in Credit Suisse's internal sector specific policies for Oil & Gas, Mining and Forestry & Agribusiness.

Source: OECD Database of Specific Instances

The OECD has developed guidance documents to reflect the core expectations of the OECD RBC framework for two types of financial sector activities: institutional investment (OECD, 2017[1]) and corporate lending (OECD, 2019[2]). The sector specific guidance documents explain how banks, through lending practices, and institutional investors, through investments, can mitigate the key adverse impacts of their activities on society and the environment (see Table 1.1). These resources complement the OECD Due Diligence Guidance for Responsible Business Conduct (OECD, 2018[3]) which provides practical support to enterprises on the implementation of the OECD Guidelines. The three due diligence guidance documents have been approved by 50 governments and developed in partnership with business, trade unions and civil society through a multi-stakeholder advisory group.

The OECD RBC framework calls on companies to identify and mitigate their adverse impacts on people (e.g. workers, communities, indigenous communities) and the environment (e.g. biodiversity, climate change). Under this approach, RBC risk is considered independently of its financial or commercial impact (OECD, 2019[2]). The financial relevance and impact of environmental and social factors is dynamic and evolving. Many environmental materiality issues will become financially material over time and contribute to long-term (financial) value, as the physical impacts of climate change become more widespread, damaging and costly, and as climate regulation becomes more ambitious. With respect to social issues, one example of dynamic materiality could be a company's reliance on suppliers that rely on forced labour to manufacture goods and export them around the world. In this instance, the purchasing multinational company would be causing an adverse human rights impact. If the company's largest export market was to adopt and enforce legislation prohibiting the import of products that are manufactured using forced labour, or mandate due diligence, this could cause a material social risk for the company.

Table 1.1. Due Diligence Process: Application in Corporate Lending and Institutional Investment

Due Diligence Step	Application in corporate lending	Application in institutional investment
1. Embed RBC into policies and management systems	Describe approaches to due diligence and assign roles to relevant business units.	Adopt a policy which includes a commitment to relevant RBC standards and maintain management systems which enable investors to consider RBC risks in investments.
2. Identify actual and potential adverse RBC impacts	Develop a *first* screen and *second* screen for enhanced identification, and develop a process for assessing a bank's involvement with an adverse impact.	Integrate RBC risk identification into existing processes to inform risk evaluation prior to investment and screen investment portfolios.
3. Cease, prevent or mitigate adverse impacts	Incorporate RBC expectations in contractual documents or written agreements, engaging with clients, and well as collaborating to address systemic issues.	Integrate RBC requirements in investment mandates and decisions and engage with a company to exert leverage to mitigate adverse impacts
4. Track implementation and results	Request clients to report on issues and in high risk cases, require third party review of compliance.	Track investee and own performance against RBC commitments.
5. Communicate how impacts are addressed	Publicly communicate on RBC policies and number of corporate lending transactions subjected to enhanced due diligence.	Publicly communicate on RBC policies, engagements, and proxy votes to prevent and mitigate or remediate actual or potential impacts at investee companies.
6. Provide for or cooperate in remediation when appropriate	Seek to use leverage to encourage clients to provide for or co-operate in remediation and enable access to remediation by establishing a bank-level grievance mechanism.	Establish operational-level grievance mechanism and cooperate with judicial or state-based non-judicial mechanisms.

Source: OECD (2019), Due Diligence for Responsible Corporate Lending and Securities Underwriting, http://mneguidelines.oecd.org/due-diligence-for-responsible-corporate-lending-and-securities-underwriting.pdf; OECD (2017), Responsible business conduct for institutional investors, https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

Institutional investors and financial institutions employ a different set of tools to integrate ESG issues into their operations.

Some of the main strategies used by **institutional investors** globally to integrate ESG issues include the following: 1) active ownership and engagement, 2) ESG screening, 3) exclusion or avoidance and 4) thematic ESG focus. *Active ownership* implies using the tools associated with share ownership such as proxy voting at annual general meetings (AGMs) and shareholder engagement to improve ESG practices of issuers as well as direct engagement with management of companies on ESG issues. *ESG screening* applies a positive screen to broad (full ESG score) or specific issues, such as carbon emissions or human rights abuses, and implies building portfolios with highly ranked assets. *Exclusion or avoidance* strategies apply a negative screen and often exclude controversial sectors or carbon intensive industries (divestment). Finally, *thematic ESG focus* relies on a portfolio tilt in favour of an investment theme and includes green, sustainable and social bonds and microfinance funds.

The main strategies to integrate ESG issues in **corporate lending** practices include 1) risk screening and identification and 2) exclusion policies. Environmental and social *risk screening and identification* has typically been used for project finance transactions but a growing number of lenders are instituting such practices to mitigate risks in general corporate loans. *Exclusion policies* refer to the exclusion of loans to industries or activities that may be black-listed or that surpass the risk thresholds identified by banks.

The recommendations developed in chapter 4 are informed by the OECD RBC due diligence framework in the broader context of sustainable finance practices. The report focuses primarily on risks associated with the human rights, employment and environment chapters of the OECD Guidelines. Climate risk is also discussed, given its key role in the development of sustainable finance policies and practices.

2 Key drivers of sustainable finance practices in institutional investment and corporate lending

The adoption of sustainable finance practices is on the rise globally, including in the LAC region. The movement to embed sustainability issues into the practices of financial institutions has gained pace since the 2003 launch of the Equator Principles (EP) and the 2006 launch of the Principles for Responsible Investment (PRI), aimed at banks and institutional investors, respectively. The 2011 adoption of the UNGPs and review of the OECD Guidelines led to a series of NCP cases which clarified the responsibilities of institutional investors and corporate lenders under international frameworks (see Box 1.1). The mainstreaming of climate risk, particularly since the 2015 Paris Climate Agreement has further accelerated a shift in the practices of corporate lenders and institutional investors. This section analyses the main drivers behind the integration of ESG issues in the corporate lending and institutional investment sectors.

For the remainder of the document, the term ESG is used to describe the integration of sustainability issues into both the corporate lending and institutional investment sectors (see Box 2.1)

2.1 What is driving the adoption of ESG in institutional investment

Key drivers behind the integration of ESG issues in institutional investment include expanding views of fiduciary duties, shifting expectations from clients and beneficiaries, global sustainability agendas along with growing regulatory interventions.

The introduction of **global sustainability agendas** have played a role in enhancing expectations of institutional investors with respect to ESG integration. In 2015, the Paris Agreement and the SDGs were adopted. The role of the financial sector is explicitly referenced in the Paris Agreement, which states as one of its primary objectives "[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (United Nations, 2015[4]). Indeed, the Paris Agreement is cited in institutional investor focused initiatives in Chile, Colombia and Mexico (see Table 4.1).[1]

The expanding views of **fiduciary duties or equivalent legal obligations** are increasingly enabling investment decision markers to integrate ESG issues into investment frameworks. In the last 15 years, there has been a shift in the characterisation of ESG issues. In 2005, the "Freshfields Report" argued that "integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions" (Freshfields Bruckhaus Deringer, 2005[5]). This report was an important driver the 2006 creation of the UN-backed PRI. By 2015, a follow up report concluded that "Failing to consider all long-term investment value drivers, including ESG issues, is a failure of fiduciary duty" (PRI et al., 2015[6]).

Retail and institutional investors[2] are increasingly inclined to ask for investment products that **embed sustainability factors** and are in line with their values. According to Morningstar, sustainable index funds assets and products have doubled in the past three years (2020[7]). Likewise, a study conducted amongst members of a Dutch pension fund found that 66.7% of participants favoured investing their pension savings in a responsible manner (Bauer, 2018[8]). According to surveys, Latin American retail investors are also increasingly demanding that ESG issues be integrated into their investments (Natixis, 2019[9]).

The acceleration in the adoption of **ESG regulations and laws** is another important trend impacting institutional investors. The PRI identified 124 new or revised sustainable finance policy instruments in 2020, 32 more than in 2019; moreover, 95% of policies have been developed since 2000 (PRI, 2021[10]). Some governments, like that of the UK, are proposing to mandate climate disclosure aligned with the Taskforce on Climate-Related Financial Disclosures (TCFD) framework for their asset management industries (see Box 2.1). Other jurisdictions have adopted broader ESG disclosure regimes which go beyond climate risk. This is the case with the Sustainable Finance Disclosure Regulation of the European Union (EU), which mandates firm and product level disclosures on principal adverse impacts – and which reference the OECD Guidelines.[3]

Box 2.1. Task Force on Climate Related Financial Disclosures

The TCFD was created by the Financial Stability Board (FSB) in December 2015. It followed a request by the G20 to FSB in April 2015 to design a set of recommendations to encourage climate disclosure by both financial and non-financial institutions and assess the type of information that should be released to shift financial flows towards a low-carbon economy. The TCFD framework has gained momentum and is increasingly being implemented by several institutional investors worldwide. The TCFD recommendations focus on the financial materiality of climate change, while the OECD due diligence approach and the present paper consider the social and environmental materiality of climate change. However, the structure of the TCFD disclosure recommendations (on governance, strategy, risk management, metrics and targets) are closely related to key steps of OECD due diligence approach.

2.2 What is driving ESG risk management in corporate lending practices

In corporate lending, some of the drivers behind the growing global attention to ESG issues include demand from governments, investors, pressure from civil society, and increasing understanding of the material impact of ESG on the financial performance of corporates. In LAC, some of the drivers cited in the adoption of ESG risk screening in lending practices include the transition to a low-carbon economy, ecological degradation and social conflicts.

An increasing number of **governments are mandating ESG due diligence in lending and project finance portfolios**, in company supply chains and considering ESG performance in export credit agency loans. Environmental and social risk due diligence in project finance has gained popularity since the adoption of the Equator Principles in 2003. On the other hand, the adoption of ESG due diligence in corporate lending portfolios more generally - and beyond project finance - is a more novel approach for financial institutions (OECD, 2020[11]). Brazil and Peru have mandated ESG due diligence for some corporate lending operations and in 2021 the European Commission began exploring how to integrate ESG factors into risk management, lending and prudential supervision (BlackRock Financial Markets Advisory, 2021[12])

Shareholders in publicly-listed lending institutions are increasingly demanding that those entities embed sustainability issues in lending portfolios. According to OECD country headquartered banks interviewed in 2020, those demands were a leading driver for ESG integration in the lending practices of financial institutions (OECD, 2020[11]). Furthermore, a 2019 S&P survey of bank officials found that 86%

agreed that heightened investor demand was making it critical to consider ESG factors more fully in credit risk analysis (S&P Global Market Intelligence, 2020[13])

Pressure from civil society to embed sustainability in corporate lending is also growing. Data from Sigwatch, an organisation which tracks NGO campaigning activity globally, has found that the number of campaigns targeting the financial sector have nearly doubled over the last eight years (Sigwatch, 2019[14]). Furthermore, there has been a rise of submissions involving the financial sector to the NCPs, the grievance mechanism attached to the OECD Guidelines.[6] During 2018-2020, 16% of all new submissions targeted the financial sector, compared to less than 10% in 2000-2015 (see Box 2.1).

Environmental and social issues are increasingly being embedded into credit rating frameworks. This is primarily driven by concerns about physical and transition risks related to climate change. In seven of the last ten years, the global costs of natural disasters have exceeded the 30-year average of USD 140 billion per year (Reuters, 2018[15]). Analysis by the European Systemic Risk Board has found that costs associated with climate change are inevitable and that to date, financial markets only price this risk in a limited way (ESRB, 2020[16]).

In Latin America more specifically, the transition to a low-carbon economy, ecological degradation and social conflicts are cited in the adoption of ESG risk screening in lending practices. The need for lending institutions to respond to climate change is cited in 7 out of the 9 voluntary banking sector sustainability protocols (see Table 4.2).[4] Deforestation in the Brazilian Amazon was one of the drivers behind the adoption of the first green protocol in the region in 2009 (Banco do Brasil, 2013[17]). The Peruvian banking regulator cited social conflicts in the development of extractive projects as a driver behind the adoption of its mandatory ESG risk due diligence regulation (SBS, 2015[18]).

Mounting interest, scrutiny and expectations drove the incorporation of sustainability issues into corporate lending and institutional investors over the past 20 years. As the pace of adoption of sustainable finance regulation and laws accelerates, many financial institutions are adapting their voluntary ESG commitments to respond to mandatory rules. In countries where regulations have yet to be adopted, the voluntary adoption of an RBC due diligence framework by corporate lenders and institutional investors can help bring practices in line with peers in other OECD countries. Furthermore, it can help financial institutions update their practices quickly and efficiently should new regulations be adopted.

3 Banking and institutional investment in Latin America and the Caribbean

This section analyses the institutional investment and banking sectors of the LAC region, generally and in focus countries more specifically. This helps to frame the analysis of sustainable finance policies and practices in the LAC region that follows in Chapter 4. This overview focuses on banking and institutional investment following the development by the OECD of RBC due diligence guidance for these two specific sectors. The institutional investors that are in scope are asset managers (or investment fund managers), pension funds and retirement savings vehicles along with insurance companies; the corporate lending institutions analysed are banks.

The LAC region is composed of 33 countries[5] whose financial development ranges from some of the world's lowest (e.g. Haiti) to highest (e.g. Brazil) levels according to the International Monetary Fund's (IMF) Financial Development Index (IMF, n.d.[19]).[6] Nine countries are included in the RBCLAC project: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama and Peru. These are the focus countries for this regional overview. The countries with the largest financial sectors in the region are Brazil, Mexico, Chile and Colombia.

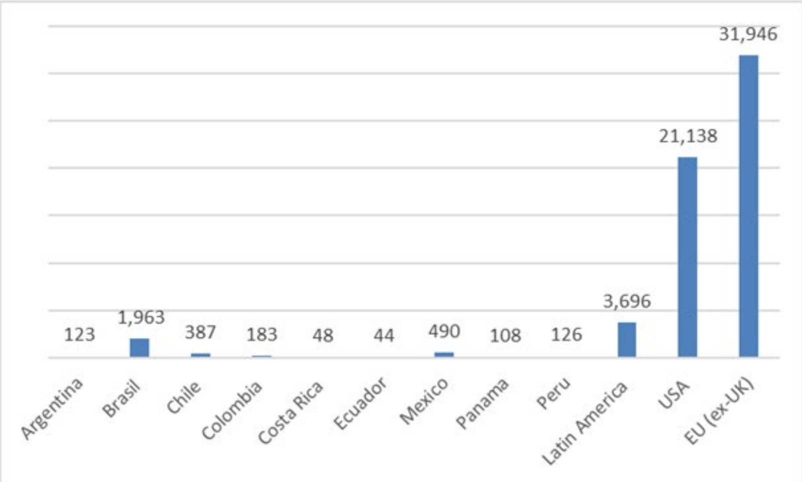
3.1 The Banking Sector in Latin America and the Caribbean

The banking sector in LAC is composed of institutions that cater to a wide group of stakeholders ranging from large multinational companies all the way to low-income rural workers. The banking ecosystem in the region is made up of large financial conglomerates alongside microfinance institutions and cooperatives. These lending institutions carry out a variety of operations ranging from general corporate lending, project finance, asset-based finance (e.g. loans for corporate real estate) along with credit lines for individuals or microloans for small producers or businesses operating in the informal sector. This analysis focuses on the key lenders in the region, which are regulated banks, because these institutions are the target audience for the OECD's Due Diligence for Responsible Corporate Lending and Securities Underwriting guidance (OECD, 2019[2]).

In the banking sector, Brazilian entities account for 53% of regional assets[7] followed by Mexico (13%), Chile (10.5%), Colombia (4.9%), Peru (3.4%) and Argentina (3.3%) (FELABAN, 2020[20]). Panama (2.9%) and Costa Rica (1.3%) rank seventh and eigth respectively; Ecuador (1.2%) ranks tenth, below El Salvador (FELABAN, 2020[20]). Latin America's banking sector is nearly six times smaller than the US and nearly nine times smaller than the EU's banking sectors (see Figure 3.1).

Figure 3.1. Banking Sector Assets in LAC Focus Countries (USD Bln)

At end of March 2020



Note: Latin America includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic and Uruguay.
Source: FELABAN (2020), *Indicadores Felaban* (database), https://indicadores.felaban.net/indicadores_homologados/index.php, FDIC (2021), *Quarterly banking profile* (database), https://www.fdic.gov/bank/analytical/qbp/; ECB (2020), https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200827~fc0ef2fcb0.en.html

The region's largest banks comprise a mix of local and foreign ownership. The four largest banks in Latin America – ranked by assets – are Brazilian headquartered. Two of those entities are privately-owned (Itaú Unibanco, Banco Bradesco) while Banco do Brasil is partly state-owned and Caixa Econômica Federal is fully state-owned. The remainder of the region's top 10 banks are private and they include the Brazilian and Mexican subsidiaries of Spain's Banco Santander (fifth and tenth largest, respectively), the Mexican subsidiary of Spain's BBVA (sixth), Mexico-domiciled Banorte (seventh), Colombia's Grupo Aval (eight) and the Mexican subsidiary of Citibank (S&P Global, 2019[21]). Aside from the Brazil headquartered banks, the region's largest banks tend to have a footprint across multiple markets. For instance, Banco Santander has a presence in countries like Brazil, Mexico, Chile and Argentina; Grupo Aval is present across Central America through BAC Credomatic; Canada's Scotiabank notably has operations in Central America, Chile and Peru. Two Costa Rican and two Panamanian entities are included in the region's top 50. LAC headquartered banks are relatively small in relative terms. Only three entities figure amongst the world's largest banks– all of which are from Brazil: Itaú Unibanco (79th), Banco Do Brasil (92nd) and Banco Bradesco (97th) (S&P Global, 2021[22]).

3.2 Institutional Investment in Latin America and the Caribbean

The institutional investment industry comprises multiple entities, including asset managers, which manage investment funds along with asset owners, including pension funds and insurance firms. Brazil, Mexico and Chile have the largest insurance, pension and investment fund industry in the region; Costa Rica and Panama have mid-size institutional investment industries (see Table 3.1) Brazil dominates the region's investment fund industry, with 80% of the region's invested assets, followed by Mexico and Chile (IIFA, 2021[23]).

Table 3.1. Invested Assets by Institutional Investor Type in LAC Focus Countries (USD Mln)

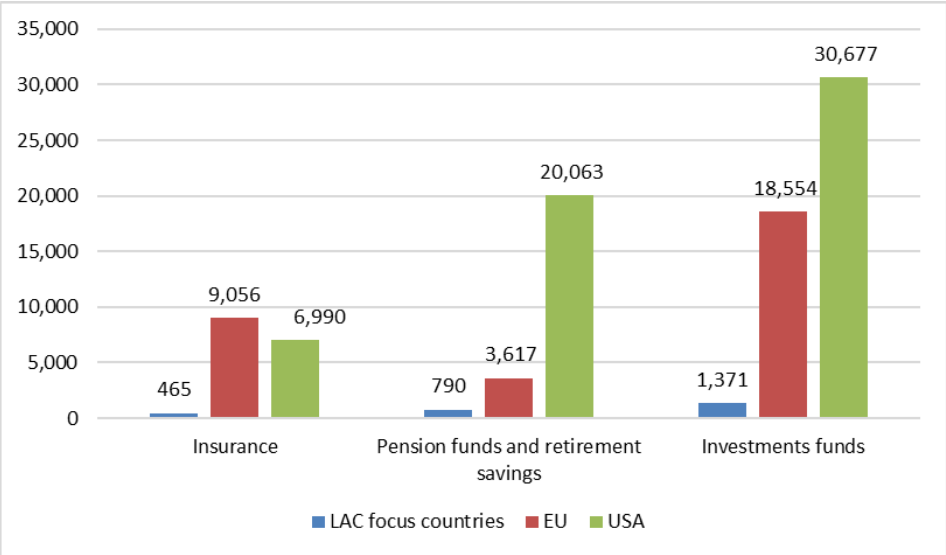
Country	Insurance firm investments	Pension fund and retirement saving vehicle investments	Investment fund manager investments
Argentina	14,992	NA	24,149
Brazil	276,337	187,751	1,102,036
Chile	62,946	208,482	66,242
Colombia	18,952	86,742	32,617
Costa Rica	3,644	21,657	3,287
Ecuador	1,073	NA	NA
Mexico	71,319	236,096	124,834
Panama	1,749	1,385	2,471
Peru	13,775	48,040	14,872
LAC focus country total	464,787	790,153	1,370,508
USA	6,990,000	20,063,229	30,677,427
EU	9,056,343	3,617,222	18,554,126

Note: Pension fund investment figures drawn from Pension Funds in Figures June 2021 (figures for end of 2020) except for figures for Panama drawn from AIOSFP (Q2-2020); insurance investment figures for end of 2019 drawn from OECD Insurance Statistics except for figures for Panama, which are drawn from Superintendencia de Seguros y Reaseguros de Panama (Q4-2019); Investment fund asset figures drawn from IIFA total net assets (excluding funds of funds) for worldwide regulated open-end funds for Q1-2021 except for figures for Panama (Q3-2020, Colombia (Q1-2021) and Peru (Q1-2021) drawn from FIAFIN

Source: OECD (2021), *Pension Funds in Figures - June 2021*, http://www.oecd.org/finance/pensionmarketsinfocus.htm; AIOSFP (2021), Monthly statistics, https://www.aiosfp.org/estadisticas/estadisticas-periodicas/estadisticas-mensuales.html ; OECD (2021), *OECD Insurance Statistics* (database), https://doi.org/10.1787/data-00326-en; Superseguros Panama (2021), *Inversiones IV trimestre 2019*, https://www.superseguros.gob.pa/estadistica-financiera/inversiones/#1602104803944-03f067bc-f0b9 ; IIFA (2021), *Industry statistics*, https://iifa.ca/page/industry_statistics, FIAFIN (2021), *Estadísticas por país*, http://www.fiafin.org/estadistica/showPaisTipo

The LAC focus countries, combined, have a small institutional investment sector compared with the US and the EU. The region's insurance, pension and investment fund industries are more than 16 times smaller than those of the US; its insurance and investment fund industry is more than 10 times smaller than the EU's (Figure 3.2).

Figure 3.2. Invested Assets by Institutional Investor Category: Regional Comparisons (USD Bn)



Note: Pension fund investment figures drawn from Pension Funds in Figures June 2021 (figures for end of 2020) except for figures for Panama drawn from AIOSFP (Q2-2020); insurance investment figures for end of 2019 drawn from OECD Insurance Statistics except for figures for Panama, which are drawn from Superintendencia de Seguros y Reaseguros de Panama (Q4-2019); Investment fund asset figures drawn from IIFA total net assets (excluding funds of funds) for worldwide regulated open-end funds for Q1-2021 except for figures for Panama (Q3-2020, Colombia (Q1-2021) and Peru (Q1-2021) drawn from FIAFIN.

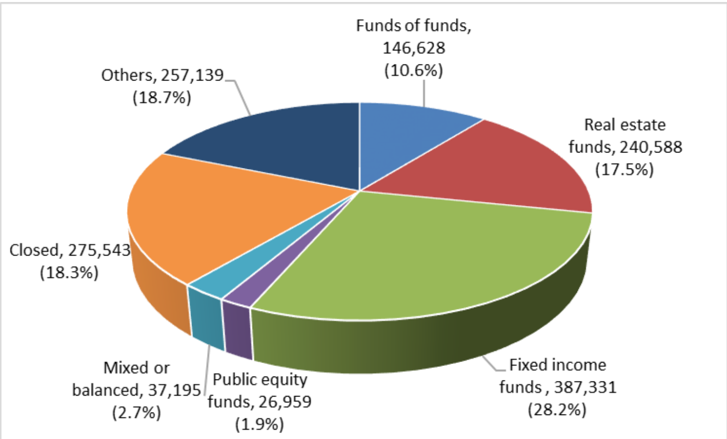
Source: OECD (2021), *Pension Funds in Figures - June 2021*, http://www.oecd.org/finance/pensionmarketsinfocus.htm ; AIOSFP (2021), *Monthly statistics*, https://www.aiosfp.org/estadisticas/estadisticas-periodicas/estadisticas-mensuales.html ; OECD (2021), *OECD Insurance Statistics* (database), https://doi.org/10.1787/data-00326-en ; Superseguros Panama (2021), *Inversiones IV trimestre 2019*, https://www.superseguros.gob.pa/estadistica-financiera/inversiones/#1602104803944-03f067bc-f0b9 ; IIFA (2021), *Industry statistics*, https://iifa.ca/page/industry_statistics, FIAFIN (2021), *Estadísticas por país*, http://www.fiafin.org/estadistica/showPaisTipo

The **investment fund** industry comprises various types of vehicles (or products) that are managed by asset managers. Investment funds include, but are not limited to, mutual funds, exchange traded funds, private equity funds and hedge funds. According to data from the International Investment Funds Association, Brazil has the largest investment fund industry in Latin America and is the 11th largest in the world.[8] The fund industry is concentrated; in 2018 the top five fund managers managed approximately 66% of the predominant fund structure (IMF, 2018[24]). Out of the five largest asset managers, four are locally owned (BB DTVM, Itaú Unibanco, Bradesco AM, Caixa) and the fifth largest manager (Santander Brasil) is Spanish-owned (Investidor Institucional, 2020[25]). Mexico is the second largest market for investment funds. In that country, foreign ownership is dominant among the largest fund managers: four of the five largest asset managers are foreign-headquartered entities (BlackRock, BBVA, Santander and Scotiabank); Banorte, the fourth largest, is Mexico-based.[9] The largest Latin America headquartered asset managers globally are Brazil's Itaú Asset Management (109th), Colombia's Sura Asset Management (127th), and Brazil's BRAM Bradesco (134th) (IPE, 2020[26]).

Fixed income (i.e. debt, bonds) is the most popular asset class among the region's investment funds (see Figure 3.3).[10] The asset class is the recipient of 28% of capital invested by regional investment funds; public equities (share ownership in publicly-listed corporations) account for a significantly smaller share, approximately 2%, while real estate funds attract a larger share of investment (17.5%). The remainder of assets are invested in closed funds, mixed or balanced funds - which tend to include a mix of fixed income and public equity - and funds of funds (FIAFIN, 2021[27]).

Figure 3.3. Net Assets by Type of Investment Vehicle in LAC Countries (USD Mln)

At the end of March 2021



Note: Data provided by FIAFIN is only available in aggregated form and includes data reported by fund manager associations in the following Latin America countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Peru, Dominican Republic and Venezuela; aggregated FIAFIN data also includes data reported by fund manager associations in two European countries: Spain and Portugal.

Source: FIAFIN (2021), *Estadísticas por categoría – trimestral (Q1-2021)*, http://www.fiafin.org/estadistica/showCategoriaTrimestral

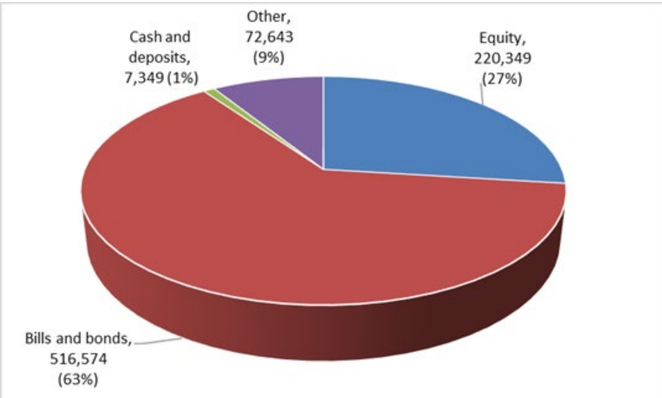
An important feature of **pension systems** in Latin American countries is the role of privately managed, individual pension accounts. Policy decisions dating back to the 1980s created the Pension Fund Administrators (*Administradoras de Fondos de Pensiones*, AFP), the private pension fund manager system which manages individual pension accounts and administers pensions.[11] All focus countries with the exception of Brazil, Argentina and Ecuador operate an AFP system.[12] Countries count a handful of AFPs (e.g. 10 in Mexico, three in Panama, six in Chile) and they tend to be controlled by insurance firms (Chile's AFP Provida owned by Metlife), banks (Peru's AFP Profuturo owned by Scotiabank) or financial conglomerates (Colombia's AFP Porvenir owned by Colombia's Grupo Aval).

The AFPs have a mix of local and foreign ownership including American (Mexico's Citibanamex Retirement Fund Administrators -*Administradoras de Fondos para el Retiro,* AFORE- owned by Citibank; Mexico's Principal AFORE owned by Principal Financial Group), Canadian (Peru's AFP Profuturo owned by Scotiabank) and Singaporean (Colombia's AFP Skantia owned by CMIG) financial groups. Some Latin America domiciled financial institutions have also acquired AFPs beyond their own borders. For instance, Colombia's Grupo SURA controls AFPs in Colombia (Proteccion), Peru (AFP Integra) and Mexico (Afore Sura). Some AFPs are state-owned (e.g. Pension ISSSTE in Mexico, BN Vital in Costa Rica).

Pension funds in the LAC focus countries have a heavy exposure to fixed income investments. Indeed, 63% of the region's pension assets are invested in this asset class while 27% are invested in public equities (see Figure 3.4).[13] Allocations to fixed income range from 51.5% (Peru) to 84.5% (Costa Rica).[14] In comparison, US pension funds allocate 27% of assets to fixed income and 34% to public equities.[15]

Figure 3.4. Pension fund investments by asset class for LAC focus countries (USD Mln)

Current at End of December 2019



Note: Includes data for Brazil, Chile, Colombia, Costa Rica, Mexico, Panama and Peru
Source: OECD (2021), *Pension Funds in Figures - June 2021*, http://www.oecd.org/finance/pensionmarketsinfocus.htm; AIOSFP (2021), Monthly statistics, https://www.aiosfp.org/estadisticas/estadisticas-periodicas/estadisticas-mensuales.html

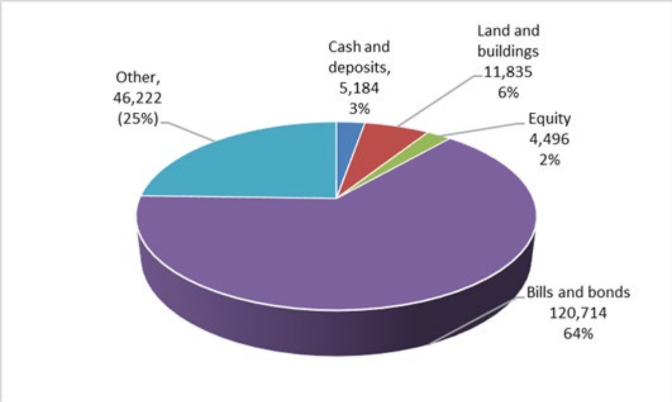
The third type of institutional investor profiled in the study are **insurance firms**. Insurance firms invest the policy premiums they receive from selling life and non-life insurance products in financial markets. The top 25 insurance groups in Latin America by premium volume comprise a mix of local (36%), European (36%) and American (24%) owned firms (Fundación MAPFRE, 2020[28]). The five largest groups are Bradesco and Brasilprev from Brazil, Mapfre (Spain), Zurich (Switzerland) and CNP Assurances (France). Within the top 10, all entities are private entities except for Brasilprev, which is 75% owned by Banco do Brasil, itself controlled by the Brazilian federal government. There are no Costa Rican or Panamanian entity in the top

25 list of insurance groups in Latin America (see also country spotlight reports *Responsible Business Conduct in the Financial Sector in Panama* and *Responsible Business Conduct in the Financial Sector in Costa Rica*).

Fixed income is also the largest asset class in the investment portfolio of LAC focus country insurance companies (see Figure 3.5). It makes up 64% of insurance companies' investment portfolios – this is the same proportion as fixed income holdings for the US insurance sector (NAIC, 2020[29]).

Figure 3.5. Insurance company investments by asset class for LAC Focus Countries (USD Mln)

Current at End of December 2019



Note: Figures include Argentina, Colombia, Chile, Costa Rica, Ecuador, Mexico, Panama and Peru; Brazil is not included because a large allocation of assets (USD 224,098 million) skewed the data; "other" category includes collective investment schemes, private equity funds, hedge funds, structured products and others.
Source: OECD Insurance Statistics (database), https://doi.org/10.1787/data-00326-en ; Superseguros Panama (2021), Inversiones IV trimestre 2019, https://www.superseguros.gob.pa/estadistica-financiera/inversiones/#1602104803944-03f067bc-f0b9

Key takeaways from this overview of banking and institutional investment in the LAC region include the important role of the private pension system in the region's largest financial markets, the relatively low asset allocations to public equities and important idiosyncrasies across countries when it comes to the profile of the largest lenders and institutional investors.

Countries with private pension systems (e.g. Mexico, Colombia, Chile) tend to have a relatively small number of AFPs that wield an important investment footprint, either directly or via external asset managers. These institutions are well placed to integrate ESG factors and RBC due diligence frameworks into their investments.

The lower asset allocations to public equities, as evidenced by the important bias toward fixed income in the capital invested by regional investment funds (28% vs. 2% for public equities), may have an impact on the types of ESG practices that can be adopted by investors and render popular strategies, like shareholder engagement with companies, less feasible.

Finally, the different characteristics of financial institutions across countries underscores the importance of country specific strategies to promote ESG integration and RBC in the financial sector. For instance, the existence – or not – of an AFP system entails a different degree of involvement for pension funds in sustainable finance strategies. Another difference is the role of state ownership and headquarter domicile for financial institutions: engaging with Brazilian asset managers on ESG issues may entail collaborating with government actors given the partial state ownership of some of the country's largest lenders; on the other hand, the largest asset managers in Mexico are private, foreign headquartered financial institutions which may entail engaging with a head office outside of Mexico when it comes to ESG issues.

4 Sustainable finance in Latin America and the Caribbean

This chapter provides an overview and analysis of the sustainable finance landscape in Latin America and the Caribbean. Firstly, it describes key ESG risks to which the region's institutional investors and corporate lenders are exposed. Secondly, it reviews common ESG integration practices and policies adopted by financial institutions and assesses how these compare with the OECD RBC due diligence framework. Thirdly, it evaluates the ecosystem of sustainable finance voluntary initiatives which financial institutions participate in at the country, regional and international levels and identifies options to improve the impact of those initiatives. Finally, it compares sustainable finance regulation in the region and identifies opportunities for regulators to further embed RBC due diligence.

4.1 Key ESG Risks in Latin America and the Caribbean

Key ESG risks in LAC include environmental and social impacts on workers, communities, indigenous peoples emanating from the extraction of natural resources and agricultural commodities. Furthermore, climate risk emanating from the transition to a low carbon economy has established itself as a separate risk from the typical "environmental" risks (e.g. biodiversity loss, waterway pollution) in line with global trends. Some LAC countries' poor performance in terms of the protection of human rights defenders also enhances the potential for financial institutions to contribute to adverse human rights violations and underscores the role of an effective RBC due diligence framework. Finally, this section discusses the impact of the Covid-19 pandemic on the sustainable finance movement.

4.1.1 Climate risk

Climate risk is establishing itself as the most important cross-cutting risk across industry sectors, as demonstrated by the focus of regulators, trade associations, international initiatives and increasingly, financial institutions. Green taxonomies – which categorise the environmental impact of specific economic activities – are either being developed or under consideration in seven out of the nine focus countries. The development of taxonomies to categorise different corporate sectors and activities according to their sustainability and climate-risk profile is important to help investors channel capital into greener or more sustainable activities. In Mexico and Colombia, public authorities made a commitment in 2020 to start developing classification systems for green finance while the matter is under consideration in Chile[16]; in Costa Rica, the banking regulator, the General Superintendency of Financial Institutions (*Superintendencia General de Entidades Financieras,* SUGEF) developed a classification system to identify "green" credits and is updating reporting requirements to collect data from regulated entities.[17] In Brazil, the Brazilian Federation of Banks (*Federação Brasileira de Bancos,* FEBRABAN) carried out public consultations in 2020 and will publish a taxonomy (FEBRABAN, 2020[30]). In Panama, the *Grupo de Trabajo de Finanzas Sostenibles*, a finance-led multi-stakeholder initiative is the driving force behind the development of a taxonomy for the country (GTFS, n.d.[31]). In its 2021, Green Finance Roadmap, Peru's Ministry of the Environment (MINAM), alludes to the development of a green taxonomy (MINAM Peru, 2021[32]).

While the practices of LAC financial institutions on climate risk are still at an early stage, there are some examples of action. In September 2020, a coalition of 80 institutional investors in Mexico sent a letter to all issuers of equity and debt in the Mexican financial market to adopt a strategy to reduce GHGs and to report against the TCFD framework (CCFV, 2021[33]). Financial institutions and industry associations surveyed in Brazil and Mexico cited the oil and gas sector as a high risk sector for transition risks.

Climate risk in the region is not confined to the transition away from fossil fuels because an important part of GHG emissions come from land use change and agriculture where social and environmental issues are closely intertwined with climate risk.

4.1.2 Environmental and social risks

Environmental and social risks in LAC are often linked to the continent's important role as a producer and exporter of agricultural commodities and extractives. The main export products of the LAC region are soybean, coffee, sugar, oil, iron ore and copper (IDB, 2020[34]). According to a survey of banking associations in Mexico, Brazil and Colombia, some of the economic sectors facing high ESG risks include agriculture and forestry, oil and gas, utilities, metals and mining, construction (including infrastructure) along with manufacturing.[18] Important manufacturing activities in the region include the automotive industry in Mexico along with the textile industry in Mexico, Central America and Brazil.

Some of the key ESG risks associated with these activities are interrelated and cut across various industries. For instance, land-use change induced by forestry, agriculture or mining can feed into deforestation, amplify social conflicts with indigenous communities and rely on informal sector workers in precarious conditions.

Agriculture, energy and land use change and forestry are the largest contributors to Brazil's GHG emissions (Government of Brazil, 2020[35]). In 2018, Brazil's FEBRABAN published a study which provided guidance for lending institutions to mitigate deforestation risks stemming from cattle farming, soybean and palm culture along with the pulp and paper industry (FEBRABAN, 2018[36]). FEBRABAN has also updated its self-regulation standard on social and environmental risk management to strengthen rural lending risk analysis.[19]

Agriculture and rural sector economic activity are also rife with informal sector employment. The average informality rate in the LAC region is 54% (ECLAC/ILO, 2020[37]) and is particularly high in rural areas, where it stands at 76% (ILO, 2020[38]). Workers in the informal sector lack social security protections such as health insurance for work related injuries, unemployment insurance and do not pay into pension systems. In Ecuador, the Asobanca is part of an initiative to write 12 sectoral guides to mitigate social and environmental issues in agricultural sectors that are considered high risk, including banana culture, flower production, coffee and cocoa, shrimp and cattle raising (Asobanca, n.d.[39]). The Peruvian Responsible Investment Programme (*Programa de Inversión Responsable)* also produced a discussion paper on the links between informality and investments (PIR, 2015[40]).

Key ESG risks triggered by the development of extractive projects include social conflicts, community displacements, indigenous rights violations and artisanal (informal) mining. Peru's mandatory ESG risk due diligence regulation was designed in the context of social conflict of logging and mining projects like Conga and Tia Maria (SBS, 2015[41]). In Brazil, the 2019 Brumadinho tailings dam collapse triggered an international investor response and expanded supervision of impacts on the national financial system by the Central Bank of Brazil (Government of Brazil, 2020[42]).

Large infrastructure projects, including utility, renewable power and road development have a history of contributing to human rights violations in the region – and in some cases, financial institutions have a direct link to those adverse impacts. Human rights defenders (e.g. trade unionists, indigenous and land rights defenders and environmental conservation activists) are exposed to risks of retaliation and the region occupies the highest rank in terms of danger levels - with six LAC countries in the top 10 ranking of countries with the most human rights defenders fatalities in 2020 (Front Line Defenders, 2021[43]). In the case of Honduras' Agua Zarca hydroelectric dam, the UN Special Rapporteur on the Rights of Indigenous Peoples noted that despite "the threats, acts of aggression and deaths committed by military agents, people linked to the company or project sympathisers (…) investment banks never saw any reason to question their support for the project" (UN Human Rights Council, 2016[44]). Two of the project's lenders, FMO and FinnFund, the Dutch and Finnish development finance institutions, withdrew their loans for the project in July 2017 (FMO, 2017[45]).

Likewise, the OECD Working Party on Responsible Business Conduct has expressed concerns at alleged incidents of undue pressure for human rights defenders submitting cases to the NCPs (OECD, 2020[46]).

4.1.3 COVID-19 and ESG

The COVID-19 pandemic is generally seen to have provided an impetus to ESG integration in the region. In July 2020, the Latin American Federation of Banks (*Federación Latinoamericana de Bancos, FELABAN)*, reiterated a commitment to integrating climate risk in the post-COVID-19 era (FELABAN, 2020[47]). Regulators in Colombia and Peru have noted that the pandemic elevated the importance of these issues (SFC, 2020[48]; SBS, 2021[49]). The PRI added 98 new signatories in LAC focus countries over the course of 2020 and 2021, or 67% of its signatory base in those countries. On the other hand, the pandemic also suspended or delayed sustainability focussed projects. In Mexico, interviewees indicated that certain credits originally destined for sustainable projects had to be cancelled or re-channelled to respond to pandemic-related priorities

The adoption of the OECD's RBC due diligence framework would help LAC financial institutions identify actual and potential adverse ESG impacts, such as the ones cited above, in lending and institutional investor portfolios. The identification of adverse impacts extends beyond the financial materiality of a given ESG issue and it accounts for financial institution impacts on people, the environment and society. Practices specific to institutional investors and corporate lenders are further developed in the next section.

4.2 ESG practices of financial institutions in Latin America and the Caribbean

Institutional investors and corporate lenders employ a different set of tools to integrate ESG risks, such as the ones described earlier. This section reviews the current ESG practices of both types of financial institutions in the LAC. Furthermore, it draws on the OECD's RBC Due Diligence Framework to recommend improvements in the ability of the financial sector to prevent and mitigate adverse impacts.

4.2.1 ESG practices of institutional investors

Some of the main strategies used by institutional investors globally to integrate ESG issues include the following: 1) exclusion or avoidance, 2) ESG screening, 3) active ownership and engagement and 4) thematic ESG focus. Exclusion or avoidance strategies apply a negative screen and often exclude controversial sectors or carbon intensive industries (divestment). ESG screening applies a positive screen to broad (full ESG score) or specific issues, such as carbon emissions or human rights abuses and implies building portfolios with highly ranked assets. Active ownership implies using the tools associated with share ownership such as proxy voting at AGMs and shareholder engagement to improve ESG practices of issuers as well as direct engagement with management of companies on ESG issues. Finally, thematic ESG focus relies on a portfolio tilt in favour of an investment theme and includes green, sustainable and social bonds and microfinance funds.

The main ESG practices amongst LAC investors who have already made ESG commitments – by signing onto the PRI - are **engagement and the incorporation of ESG issues in public equity and fixed income** (see Box 4.1). This points to an opportunity to raise awareness around the OECD RBC risk due diligence. It also highlights the popularity of shareholder engagement as an ESG strategy, despite the low allocation to public equities in LAC investor portfolios: seven investors report an allocation of 50% or more of their portfolio to fixed income and public equity holdings account for less than 20% of total portfolio holdings for eight (out of 10) investors.[20]

Box 4.1. Practices of the ten largest PRI signatories in Latin America and the Caribbean

An analysis of the ten largest Latin American-headquartered PRI signatories reveals that[21]:

- Nine of the ten largest LAC PRI signatories report engaging and/or voting, and incorporating ESG issues into their public equity portfolio and incorporating ESG issues.
- Nine out of the ten largest LAC PRI signatories report engaging and incorporating ESG issues into their fixed income portfolios.
- Only one LAC signatory – Afore Banorte – reports screening its public equity portfolio based on the UN Global Compact and International Finance Corporation (IFC) Performance Standards norms; none reported using the OECD Guidelines to inform their screening activities.

Source: Data drawn from an analysis of 2020 PRI Transparency Reports of the ten largest PRI signatories (by assets under management), including asset owners and managers, in the LAC. The ten institutional investors analysed were: Afore Banorte (Mexico), BB DTVM (Brazil), Bradesco AM (Brazil), BrasilPrev (Brazil), Caixa Economica Federal (Brazil), Itau (Brazil), PREVI (Brazil), Banco BTG (Chile0< Bnachile (Chile), Bancolombia (Colombia). See here: https://www.unpri.org/signatories/reporting-and-assessment/public-signatory-reports

Country level studies indicate that institutional investors are at an early stage in the adoption of ESG tools – beyond those that have already made ESG commitments. In Chile, none of the pension funds and 17% general fund managers surveyed in 2019 reported using a methodology to evaluate the implication of climate change for their portfolios (Government of Chile, 2019[50]) – this started to improve with the adoption the *Acuerdo Verde* in 2019 (Government of Chile, 2021[51]). In 2019, the Colombian financial regulator concluded that the financial sector had yet to integrate climate risk strategically based on a survey of institutional investors (SFC, 2019[52]). Similarly, 85% of Mexican institutional investors surveyed in 2019 were either unfamiliar or only learning about TCFD recommendations (Banco de Mexico/UNEP Inquiry, 2020[53]).The use of transparent proxy voting practices to foster improved ESG practices is still limited. In Colombia and Costa Rica, pension funds are prohibited from voting at shareholder meetings (OECD, 2020[11]). In Mexico, only 11% of 38 investors surveyed in 2019 published their proxy voting records (Banco de Mexico/UNEP Inquiry, 2020[53]).

The low-level of norms-based screening amongst the ten largest PRI signatories in the LAC combined with the early stage of ESG commitments and practices in the region suggests a low level of awareness around the OECD's RBC due diligence framework across the LAC region – and a potential to raise awareness amongst investors.

Recommendations for LAC institutional investors, in line with the RBC due diligence framework, are as follows:

- Embed RBC into policies and management systems: Adopt a policy which includes a commitment to relevant RBC standards – including the UNGPs and OECD Guidelines - and maintain management systems which enable investors to consider RBC risks in investments.
- Identify actual and potential adverse RBC impacts: Integrate RBC risk identification into existing processes to inform risk evaluation prior to investment and screen investment portfolios.
- Cease, prevent or mitigate adverse impacts: Integrate RBC requirements in investment mandates and decisions and engage with a company to exert leverage to mitigate adverse impacts.

- Track implementation and results: Track investee and own performance against RBC commitments.
- Communicate how impacts are addressed: Publicly communicate on RBC policies, engagements, and proxy votes to prevent and mitigate or remediate actual or potential impacts at investee companies.
- Provide for or cooperate in remediation when appropriate: Establish operational-level grievance mechanism and cooperate with judicial or state-based non-judicial mechanisms.

4.2.2 ESG practices of corporate leading institutions

The integration of ESG issues into corporate lending has its roots in the evaluation of environmental and social risks in project finance. Borrowing from the framework developed under the EP, some banks have developed due diligence systems to rate, categorise and mitigate ESG risks tied to corporate loans. Some banks also adopt exclusion lists for specific sectors (e.g. logging in protected areas) or risks (e.g. the use of child labour). More recently, banks have been under increasing pressure to account for their exposure to climate risk through financed emissions – the extension of corporate loans to companies and/or projects with a high carbon intensity.[22]

In Latin America, some of the most common ESG risk integration practices include the development of ESG risk management systems and exclusion lists. In a 2019 UNEP-FI survey of 78 Latin American banks, 67% of respondents (compared to 18% in 2010) had an internal ESG policy to evaluate and categorise clients and projects (UNEP-FI/CAF, 2020[54]). For example, in Colombia, power and mining had the highest prevalence of high risk categorisation in projects evaluated by Bancolombia under its application of the EP (Bancolombia, 2020[55]). Some of the reasons that led the bank to issue an unfavourable result to a finance request for a mining project included risk of community conflict, missing environmental permits, presence of artisanal miners in the area and impact on water sources. Some of the gaps in the application of E&S risk analysis is that it tends to be mostly qualitative (88% of banks) and lacking in depth (Banco de Mexico/UNEP Inquiry, 2020[53]).

Latin American banks fared more poorly on their integration of climate risk in lending portfolios. Only 12% of banks surveyed by UNEP-FI had advanced knowledge of TCFD recommendations (UNEP-FI/CAF, 2020[54]). As a result, UNEP-FI concluded that climate risks (physical and transition risks) remain largely unmanaged due to a knowledge gap around the financial impact of climate change and the absence of regulatory demands.

The important role of commodities and resources – and the associated ESG risks – poses key challenges for banks that wish to carry out ESG due diligence for corporate loans. In 2020, FELABAN pointed to this and emphasized the role of governments in issuing “favorable or unfavorable” opinions for such projects (FELABAN, 2020[47]). The OECD Due Diligence for Responsible Corporate Lending and Securities Underwriting is the first government-backed international framework that aims to improve E&S risk mitigation in corporate lending portfolios (and go beyond a project finance focus). The framework can thus help lending institutions in the LAC identify and mitigate adverse environmental and social impacts.

Recommendations for LAC corporate lenders, in line with the RBC due diligence framework, are as follows:

- Embed RBC into policies and management systems: Describe approaches to due diligence and assign roles to relevant business units.
- Identify actual and potential adverse RBC impacts: Develop a first screen and second screen for enhanced identification, and develop a process for assessing a bank’s involvement with an adverse impact.

- Cease, prevent or mitigate adverse impacts: Incorporate RBC expectations in contractual documents or written agreements, engaging with clients, and well as collaborating to address systemic issues.
- Track implementation and results: Request clients to report on issues and in high risk cases, require third party review of compliance.
- Communicate how impacts are addressed: Publicly communicate on RBC policies and number of corporate lending transactions subjected to enhanced due diligence.
- Provide for or cooperate in remediation when appropriate: Seek to use leverage to encourage clients to provide for or co-operate in remediation and enable access to remediation by establishing a bank-level grievance mechanism.

4.3 Financial Institution Participation in Voluntary Sustainable Finance Initiatives

The sustainable finance and ESG practices of investors and lending institutions in the LAC region are also shaped by their participation in voluntary initiatives at the national, regional and international levels. These initiatives can help prepare financial institutions for the adoption binding rules and regulations around ESG investor and banking duties (i.e., due diligence in investments and lending) given the accelerating interest from policymakers for sustainable finance.

In the corporate lending sector, sustainable finance protocols have been adopted in eight out of nine focus countries and the commitments made by signatory institutions are very similar. Meanwhile, investor focused country initiatives have been more disparate and range from stewardship codes to green finance focused investor taskforces.

4.3.1 Institutional Investors

Investor focused ESG initiatives have been adopted in 5 of the 9 focus countries. At the international level, the main voluntary initiative to which LAC investors participate are the PRI, the UN-supported network of investors.

Country-level initiatives range from stewardship codes (Brazil), taskforces (Colombia, Mexico, Peru) and protocols (Chile) (see Table 4.1). Climate change is a key driver cited behind the creation of four initiatives – in Chile, Mexico, Colombia and Peru – and the SDGs are cited two times. Human rights are only cited as a priority issue in the Declaration in Favour of Responsible Investment from the Taskforce on Responsible Investment in Colombia, but it does not elaborate on due diligence (GRI, 2020[56]).

Table 4.1. Description of Voluntary Institutional Investor Initiatives in LAC Focus Countries

Country	Name	Year of Adoption	Coordinating parties	Public authority involvement	Drivers cited
Argentina	-	-	-	-	-
Brazil	Stewardship Code	2016 (update in 2021)	Association of Capital Market Investors (AMEC)	-	2008 financial crisis; UK Stewardship Code
Chile	Acuerdo Verde	2019	Ministry of Finance	Proponent	Paris Agreement
Colombia	-	-	-	-	-
Costa Rica	-	-	-	-	-
Ecuador	-	-	-	-	-
Mexico	Consejo Consultivo de Finanzas Verdes	2016	Pension funds and asset managers	-	Climate change, SDGs

Panama	-	-	-	-	-
Peru	Programa de Inversion Responsible	2014	Stock exchange and institutional investors	Development bank COFIDE was a convener	Cop 20 (Lima 2014)

Note: This table only includes initiatives where individual institutional investors are participating members or signatories. Other initiatives where institutional investor associations participate include the Taskforce on Responsible Investment (Colombia), the Grupo de trabajo de finanzas sostenibles (Panama) and the Inicitiva de finanzas sostenibles (Ecuador)
Source: GRI (2020), https://www.globalreporting.org/media/wuqbr0ua/declaracion-cartas-de-adhesion.pdf; PIR, https://pir.pe/nosotros/; AMEC (2016), Stewardship Code, https://amecbrasil.org.br/stewardship/amec-stewardship-code/?lang=en ; Ministry of Finance of Chile (2020), Acuerdo Verde; https://mfv.hacienda.cl/acuerdo-verde#:~:text=El%20objetivo%20de%20esta%20pol%C3%ADtica,tanto%20de%20cara%20al%20Estado; CCFV (2020[38]), https://drive.google.com/file/d/1obPiwnvFRdv-ASDUBvAq-2s5tvalD4BL/view

The accountability structures of these initiatives are relatively weak. The AMEC stewardship code in Brazil requires investor signatories to report on their implementation of the code. It is the only initiative that has built in an accountability mechanism whereby members are expected to report against the code. In Chile's *Acuerdo Verde*, signatories are expected to report periodically on their implantation of the voluntary agreements (Government of Chile, 2020[57]). The Colombia Taskforce on Responsible Investment 2020 declaration did not include individual investor signatories – rather, it was signed by included national industry bodies (e.g. Asofondos, ColCapital) and international initiatives (e.g. PRI, GRI) (GRI, 2020[56]). Peru's *Programa de Inversión Responsable* is a convening of investors where participants committed, in 2020, to adopt a responsible investment policy and present it to the PIR within a year (PIR, 2021[58]). In 2020, Mexico's CCFV coordinated an investor statement signed by 91 institutional investors operating in Mexico asking for Mexican issuers listed to improve climate risk disclosures (CCFV, 2021[33]).

Initiatives from other OECD countries can provide insights into stronger governance frameworks and accountability mechanism. This includes the formal inclusion of external stakeholders into the governance of those agreements along with periodic reporting on the implementation of commitments. Furthermore, some initiatives like the Dutch pension covenant on responsible business conduct (see Box 4.2), demonstrate how some mechanisms can focus specifically human and labour rights risks.

Box 4.2. Responsible Business Conduct Pension Fund Covenant: Example from the Netherlands

In 2018, a coalition of pension funds, the Federation of the Dutch Pension Funds, trade unions, NGOs and the Dutch government signed a 4-year agreement to improve the RBC practices of pension funds, in line with the OECD Guidelines and the UNGPs. Pension fund signatories committed to identifying, mitigating, and remedying adverse social impacts selected in collaboration with trade unions and NGOs. They also agreed to be overseen by an independent Monitoring Committee which monitors the progress made by the parties on an annual basis.

Source: Agreement for the Pension Funds (n.d.), SER, https://www.imvoconvenanten.nl/en/pension-funds

The PRI is the voluntary ESG initiative with the largest number of investor signatories in the LAC (see Table 4.2). The international network of investors launched in 2006 with the support of the United Nations. Its signatories commit to implement six principles[23] geared at incorporating ESG issues into investment practice. They are required to report on progress - or face the prospect of being de-listed. As of July 2021, the PRI had 146 regional signatories (137 in LAC focus countries)[24], compared to 48 in 2010.[25] Most of the growth in signatories during that timeframe has been outside of Brazil - who had investors joining the PRI early on (74 signatories in 2021 compared to 42 in 2010). Since 2010, growth in Latin American PRI participation has come from Mexico (24 signatories), Colombia (18) and Chile (13). The COVID-19 pandemic has elevated interest toward the PRI.[26] The initiatives has strengthened its presence in the region after 2018, when LatinSIF[27] ceased operating and encouraged its membership to join the PRI (PRI, 2018[59]). The PRI has two nodes of operations in the region: (1) a Latin American, Spanish speaking committee and (2) a Brazil focused operation.

Table 4.2. Signatories to global sustainable finance initiatives in LAC focus countries

At July 2021

	PRI signatories	Equator Principles Members	UNEP-FI Principles for Responsible Banking Signatories	UNEP-FI Principles for Sustainable Insurance Signatories
Argentina	1	1	2	0
Brazil	74	6	4	12
Chile	13	0	0	1
Colombia	18	1	1	2
Costa Rica	1	0	3	0
Ecuador	0	0	8	0
Mexico	24	2	7	2
Panama	1	1	4	0
Peru	5	1	0	0
LAC focus country total	**137**	**12**	**29**	**17**
LAC focus country signatories in overall membership	3.8%	10.2%	12.1%	18.6%

Source: UNEP-FI (2021), Signatories to the PRB, https://www.unepfi.org/banking/bankingprinciples/prbsignatories/; UNEP-FI (2021), Signatories to the PSI, https://www.unepfi.org/psi/signatory-companies/; EP (2021), EP Association Members and Reporting, https://equator-principles.com/members-reporting/; PRI (2021), Signatory Directory, https://www.unpri.org/signatories/signatory-resources/signatory-directory

The UNEP-FI Principles for Sustainable Insurance (PSI) have relevancy for one sub-group of institutional investors: insurance firms. Principle 1 of the PSI suggests that integrating ESG issues into investment management is one of the possible actions that can be taken by signatory firms. As of March 2021, there are 17 PSI signatories in the region, 12 of which are Brazilian (UNEP-FI, 2021[60]).

There is an opportunity to increase and strengthen country level ESG initiatives targeted at institutional investors. Recommendations include:

- Adopting country level stewardship codes where they do not exist.
- Elevating the profile of human rights, and investor responsibilities under the OECD MNEs, as an ESG issue within existing codes at the country level and involving external stakeholders such as NGOs or trade unions into the governance structure of those initiatives.
- Improving accountability mechanisms by requiring initiative signatories to report publicly on the implementation of their commitments.
- Collaborating with regional and international initiatives (e.g. PRI) to enable LAC country level initiatives to draw from best practices in LAC other countries.

4.3.2 Corporate Lending

The main voluntary initiatives related to sustainable finance in the lending sector are sustainable finance protocols along with participation in events and initiatives convened by UNEP-FI.

Sustainable finance protocols have been adopted in each of the nine focus countries and they are signed by financial institutions (see Table 4.3). In eight out of nine cases, they are targeted at banks and lending institutions - in Chile, the protocol *(Acuerdo Verde)* also includes institutional investors. These initiatives have their roots in the 1995 adoption of the *Protocolo Verde*, an agreement between Brazilian public development banks and the Brazilian government. The document was updated in 2008, and in 2009 it was adapted by FEBRABAN to enable private financial institutions to become signatories. Colombia was the second focus country to adopt a similar protocol in 2012. Since 2015, similar agreements have been adopted in Argentina, Chile, Ecuador, Costa Rica, Peru, Mexico and Panama.

The protocols adopted across LAC share similarities in their substance and governance. In all nine focus countries, the protocols call for financial institutions to embed environmental, social and/or climate risks in their product offerings, to incorporate environmental and social risks in lending and investment practices, and to promote the sustainable management of resources within the financial institution. Informing the public and raising awareness around activities is a feature in eight of the nine protocols.

Climate change and the transition to a low-carbon economy is the most frequently cited factor behind the adoption of protocols. It is cited in seven protocols. Other cited factors include the SDGs (three times) along with the ecological limits of the planet and social justice. Peru has cited the post Covid-19 landscape as a reason to relaunch the Green Protocol in 2020 (MINAM Peru, 2020[61]).

Table 4.3. Description of Voluntary Banking Sector Initiatives in LAC Focus Countries

Country	Name	Year of Adoption	Coordinating parties	Public authority involvement	Key drivers cited
Argentina	Protocolo de finanzas sostenibles	2019	BID Invest; Fundación Vida Silvestre	-	Paris Agreement, SDGs
Brazil	Protocolo Verde	2009	Febraban	Proponent	Preservation of biodiversity, sustainable management of forests, social justice
Chile	Acuerdo Verde	2019	Ministry of Finance	Proponent	Paris Agreement
Colombia	Protocolo Verde	2012; renewed in 2017	Asobancaria	Proponent	Rio Declaration (1992); Millenial Summit (2000); law 99 of 1993
Costa Rica	Protocolo Verde Para la Banca	2019	Cámara de Bancos e Instituciones Financieras	Honorary witness	National Decarbonization Plan; UN PRBs
Ecuador	Protocolo de Finanzas Sostenibles	2016	Asobanca	Honorary witness	-
Mexico	Protocolo de Sustentabilidad	2016	Asociación Bancaria de Mexico	-	Paris Agreement,
Panama	Protocolo de Finanzas Sostenibles	2018	Asociación Bancaria de Panama	Honorary witness	SDGs; Nationally Determined Contribution plan
Peru	Protocolo Verde	2015; renewed in 2020	Ministry of Environment, Asbanc, Asomif, Fepmac	Proponent	Cop 20 (Lima 2014)

Note: table includes initiatives where individual banking institutions are members or signatories

Source: BID Invest/Fundacion Vida Silvestre Argentina (2019), Protocolo de finanzas sostenbibles, https://www.bna.com.ar/Downloads/ProtocoloDeFinanzasSostenibles.pdf; Ministerio do Meio Ambiente (2008), Protocolo verde, https://www.bb.com.br/docs/pub/inst/dwn/ProtocoloVerde.pdf; Ecobanking Project (2018), http://www.ecobankingproject.org/compromiso-la-banca-latinoamericana-desarrollo-sostenible-protocolos-sostenibilidad/; Ministry of Finance of Chile (2020), Acuerdo Verde;

https://mfv.hacienda.cl/acuerdo-verde#:~:text=El%20objetivo%20de%20esta%20pol%C3%ADtica,tanto%20de%20cara%20al%20Estado; Asobancaria (2017), Protocolo Verde, https://www.asobancaria.com/wp-content/uploads/Documento-Protocolo-Verde-Firmado.pdf; Cámara de Bancos e Instituciones Financieras (2019), Protocolo Verde para la banca, https://www.sugese.fi.cr/seccion-publicaciones/MesaDialogo/Mesa7-Anexos.pdf; Asobanca (2016), Protocolo de Finanzas sostenibles del Ecuador, https://www.ifc.org/wps/wcm/connect/3148ae43-c611-402b-bb7c-9ce28d467d11/Ecuador+Sustainable+Finance+Protocol+(Spanish+only).pdf?MOD=AJPERES&CVID=lDu0jcd; ABM (2016), Protocolo de Sustentabilidad, https://abm.org.mx/banca-sostenible/descargas/Protocolo_Sustentabilidad_ABM.pdf; ABP (2018), Protocolo de Finanzas Sostenibles de Panama, https://ancon.org/wp-content/uploads/2020/05/Protocolo-de-Finanzas-Sostenibles-de-Panam%C3%A1-ABP-11-07-2018-1.pdf; MINAM (2020), https://www.gob.pe/institucion/minam/noticias/195039-relanzamiento-del-protocolo-verde-promovera-la-sostenibilidad-economica-del-pais-en-la-era-pos-covid-19

In seven countries, the National Banking Associations play a formal coordinating role. In Chile, it is spearheaded by the Ministry of Finance and part of a broader government-led roundtable (*Mesa Público-Privada de Finanzas Verdes*). In Argentina, a multilateral development bank and NGO coordinated the initiative (*Protocolo de Finanzas Sostenibles*). In Colombia and Peru, the governments are parties to the voluntary initiatives.

One of the weaknesses of these instruments is that they do not include strong accountability structures. The lack of requirements for banks to publicly report how they are implementing their commitments with a standard template impedes the tracking process. Their voluntary nature enables signatory institutions to withdraw from the protocols as they please.

At a regional level, the UNEP-FI plays a convening role for banks. The UNEP-FI is a global partnership between UNEP and the financial sector – banks, insurers and investors – to mobilise private sector finance for sustainable development. In 2019, it launched the Principles for Responsible Banking (PRBs) which are gaining an increasing number of signatories in the region. The PRBs are six principles which provide a framework for a sustainable banking system and commit signatories to analyse social and environmental impacts, set and implement targets and publicly report on progress.[28] As of July 2021, UNEP-FI had 67 members in the LAC region – 35 of whom had signed the PRBs - compared with 11 members in 2010[29] (UNEP-FI, 2021[62]). The countries with the largest number of UNEP-FI PRB signatories are Ecuador (8) and Mexico (7).

The EP, an international voluntary initiative, is backed by 12 LAC banks. The EPs call on financial institutions to embed E&S risks to provide a minimum standard for due diligence. They apply to four financials products: 1) Project Finance Advisory Services 2) Project Finance 3) Project-Related Corporate Loans and 4) Bridge Loans. The categorisation of risk is informed by the IFC's environmental and social categorisation process.

Although the EPs provide a strong framework for assessing and responding to certain ESG risks, only a small amount of global corporate lending transactions fall within their scope. Indeed, many leading banks have noted that they conduct minimal project finance transactions and/or this line of businesses is decreasing (OECD, 2020[11]).

The adoption of initiatives beyond sustainable finance protocols points the degree of dynamism and interest around the integration of ESG issues in banking practices. Multilateral institutions (e.g. IFC in Brazil) and some governments from outside the LAC region (e.g. Germany, UK supporting projects in Peru and Mexico[30]) are notably collaborating regional with policymakers and the financial sector. The sustainable finance protocols continue to be an important building block because they include individual banks as signatories, and they were adopted on a relatively standard basis across the LAC focus countries. Accordingly, recommendations to drive better RBC due diligence practices via the sustainable finance protocols include:

- Elevating the profile of human rights, and corporate lender responsibilities under the OECD Guidelines, by having signatories to sustainable finance protocols report collectively on priority adverse environmental and social impacts on a periodic basis.

- Improving accountability associated with protocol signatories by requiring initiative signatories to report publicly on the implementation of their commitments against a set of baseline expectations.
- Reviewing the governance of sustainable finance protocols to involve external stakeholders, such as NGOs or trade unions, and adopting a process set of baseline expectations that would have to be met to remain in good standing.
- Collaborating with regional and international initiatives (e.g. UNEP-FI) to enable LAC country level initiatives to draw from best practices in LAC other countries.

4.4 Policies and Regulations Related to ESG Due Diligence at Financial Institutions

The adoption of policies and regulations touching on the duties of institutional investors and lending institutions to integrate ESG issues is on the rise in Latin America (see Table 4.1). Brazil, Peru, Chile, Costa Rica, Colombia and Panama have adopted regulations on financial institution duties on ESG. New regulations and policies are also under consideration in Argentina, Brazil, Colombia, Costa Rica, Ecuador and Mexico. An important part of the current policy momentum is tied to the integration of climate risk – this creates a timely opportunity for policymakers to incorporate the responsibilities of investors to mitigate adverse human rights impacts into investments and loans into considerations for policy development.

This section reviews regulation and policies that have been adopted and that touch on the duties of institutional investors and corporate lenders to carry out ESG due diligence (ESG investor duties).

4.4.1 Institutional Investors

Regulation touching on the ESG duties of investors are evolving from requirements to disclose *if* ESG issues are being incorporated – to *how* they are being incorporated (e.g. Chile, Brazil, Peru). The integration of climate risk into ESG regulation for institutional investors is on the rise, but regulators in the LAC region have not yet mandated reporting requirements for investors under the TCFD framework. The integration of risk-based due diligence for human rights and social issues and the responsibilities of investors to mitigate and avoid adverse rights impacts has not figured prominently in the regulation adopted in Latin American countries for institutional investors.

Brazil was an early adopter of ESG disclosure requirements and it remains at the fore of ESG regulation in the region (see Table 4.4). It became the first country in the region to require pension funds to disclose whether they considered E&S issues in investments, under National Monetary Council (*Consejo Monetario Nacional,* CNM) Resolution 3792/2009 in Brazil required funds to disclose whether they considered E&S issues in investments (CMN, 2009[63]).

More recent sustainable finance regulation has been likelier to mandate the incorporation of ESG issues into investments. Since 2018, CMN Resolution 4661/2018 has required Brazilian occupational pension funds to integrate ESG issues in risk management (CMN, 2018[64]). In 2019, the National Commission for the Retirement Savings System (*Comisión Nacional del Sistema de Ahorro para el Retiro*, CONSAR), the supervisory body of Mexico's pension system, mandated the asset managers of AFORE assets to integrate ESG issues in their investment strategies (CONSAR, 2019[65]) In November 2020, the pension regulator of Chile, *Superintendencia de Pensiones*, adopted regulation NCG No. 276 which requires the country's AFPs to specify how they incorporate ESG issues in investment analysis (Superintendencia de Pensiones, 2020[66]). In June 2021, Peru's pension regulator, the *Superintendencia de Banca, Seguros y AFP* (SBS), issued regulation SBS No. 1657-2020 which requires pension funds to consider ESG factors into periodic stress tests and clarified how funds should disclose their ESG practices (SBS, 2021[67]).

Table 4.4. Regulation Related to ESG Due Diligence and Related International Commitments

Country	Regulation related to ESG integration for institutional investors	Regulation related to ESG integration for lending institutions	Status of national action plan (NAP) on business and human rights	OECD status
Argentina	2021 Consultation by CNV on ESG labeling requirements for investment funds	-	Developing a NAP	OECD GL adherent
Brazil	CMN Resolution 3792/2019, 4661/2018	CMN Resolution 4327/2014, 4557/2017; BCB Resolution 139/2021	-	OECD GL adherent
Chile	Superintendencia de Pensiones, Norma de Carácter General No. 276/2020	-	Published a NAP (2017); reference to finance (action point 2.2)	Member & OECD GLs adherent
Colombia	Superintendencia Financiera de Colombia, External Circular 2021-007	-	Published a NAP (2015); no reference to finance	Member & OECD GL adherent
Costa Rica	CNS 1620/11 (Nov 2020) on ESG labeling requirements for investment funds	Under development in 2021	-	OECD GLs adherent & candidate
Ecuador	-	-	Developing a NAP	-
Mexico	Disposiciones de carácter general en materia financiera de los Sistemas de Ahorro para el Retiro (07/Sept/2020), (18/Sept/2019), (26/Jan/2018)	-	Developing a NAP	Member & OECD GL adherent
Panama	-	SBP Rule No.9-2017	-	-
Peru	Resolución SBS No. 1657-2021 (2021)	Regulation for social and environmental risk management (SBS No. 1928-2015)	Published a NAP (2021)	OECD GL adherent

Source: National Action Plans on Business and Human Rights (2021), NAP Map, https://globalnaps.org/

The integration of climate risk – as a distinct risk from E&S risks - is an increasing focus for regulators. In April 2021, the financial regulator of Colombia, the *Superintendencia Financiera de Colombia (SFC)*, adopted Circular 2021-007 requiring pension fund managers to disclose how they manage ESG and climate risks alongside liquidity, market and credit risks (SFC, 2021[68]). The Central Bank of Brazil is also planning new regulations over the course of 2021 and 2022 to increase transparency based on TCFD recommendations (Government of Brazil, 2020[42]). In Chile, the Ministry of Finance formed a working group that will recommend regulatory changes to drive climate risk integration as part of its roadmap (Government of Chile, 2020[69]).

Some regulation also touches on the requirements for investment funds to label themselves as "sustainable". In 2020, Costa Rica's General Superintendency of Securities, SUGEVAL, clarified requirements for investment funds seeking to brand themselves as sustainable (CONASSIF, 2020[70]). A similar consultation was launched by Argentina's securities regulator, National Securities Commission (CNV), in January 2021 (CNV, 2021[71]).

The regulation adopted thus far on the ESG duties of institutional investors does not reference the responsibilities of investors under international frameworks like the OECD Guidelines. Seven of the LAC focus countries are OECD Guidelines adhering countries and 6 focus countries have or are in the process of developing National Action Plan on Business and Human Rights (NAP). These are opportunities for policymakers to ensure that human rights due diligence has a prominent role alongside climate risk in ESG investor duty regulations. Recommendations for policymakers are as follows:

- Include a section on investor duties to carry out human rights due diligence as part of National Action Plans on Business and Human Rights.

- Broaden the scope of climate risk focused regulation on investor duties, to include environmental and social (i.e., human rights) risk due diligence and investor responsibilities under the OECD Guidelines, as part of the ESG duties of investors.
- Monitor and foster alignment with the EU's Sustainable Finance Disclosure Regulation, which requires investors to report on their principal environmental and social adverse impacts.

Corporate Lending

Despite the popularity of banking sector sustainability protocols in the LAC region, ESG due diligence regulation in the corporate lending sector remains limited. Regulation has been adopted in two countries (Peru and Brazil), while Costa Rica is considering a regulation for banks and Panama has adopted guidelines for banks to incorporate social and environmental risks (see Table 4.4).

Brazil was the first country in the region to mandate ESG due diligence and it has updated this regulation regularly – most recently in 2021. Brazilian financial institutions[31] are required to manage environmental, social and climate risks, and to establish an environmental and social responsibility policy in line with Resolution No. 4327/2014 and Resolution No. 4557/2017 of the CMN. According to FEBRABAN's Self-Regulation Framework SARB 14, which formalized the regulation, ESG due diligence is required for general transactions (e.g. corporate loans), project finance and equity investments (FEBRABAN, 2014[72]). Starting in 2022, Brazilian financial institutions will have new requirements under Resolution BCB 139. Banks will be required to consider social, environmental and climate risk alongside traditional financial risks (credit, market) and those will face the same disclosure requirements as traditional risks (e.g. inclusion in risk appetite statements, stress testing, risk governance) (Government of Brazil, 2021[73]). This rule borrowed from the TCFD framework for reporting requirements but it also includes environmental and social issues which places it in line with the OECD due diligence framework.

In Peru, corporate lenders are required to carry out environmental and social due diligence since 2015. The Regulation for Social and Environmental Risk Management (SBS, 2015[41]) (SBS, 2015[41]; SBS, 2015[41])requires lending institutions to carry out enhanced social and environmental risk due diligence when providing project finance advisory services (above USD 10 million), project finance (above USD 10 million) and project related corporate loans.

Some of the region's regulators have also adopted guidelines to clarify how lenders and institutional investments can integrate ESG issues - without requiring the integration of such issues. For instance, the Superintendency of Banks of Panama's (SBP) Rule No.9-2017 amended regulation on comprehensive risk management to include environmental and social risks to the list of risks that banks may consider in 2017 (SBP, 2017[74]).

Regulation on mandatory ESG due diligence for corporate lending is being revised in some Latin American countries (e.g. Brazil) and is also under consideration in Europe (BlackRock Financial Markets Advisory, 2021[12]). This type of regulation can enable corporate lenders to mitigate their human rights impacts and play a more central role in the translation to a low carbon economy. Finally, improvements to environmental and social risk due diligence could be embedded into NAPs on business and human rights in countries where those plans are under development (Argentina, Ecuador, Mexico). Recommendations for policymakers on ESG duties in corporate lending include:

- Building on the (existing) voluntary sector banking protocols in LAC countries and the OECD RBC due diligence framework for corporate lenders to inform possible ESG regulation for corporate lending.
- Incorporating environmental and social, alongside climate risk into ESG due diligence in corporate lending, by drawing on the example of Brazil, whose regulation draws on the climate risk focused TCD framework, and broadens out its application to environmental and social risks.

- Include a section on the duties of corporate lenders and banks to carry out human rights due diligence as part of National Action Plans on Business and Human Rights.

5 Conclusion

Banks and investors in the LAC, in line with their global peers, are facing mounting pressure from civil society and regulators to integrate sustainability factors into their investments and lending practices. The integration of climate risk into lending and investment practices is increasingly seen as a financially material risk whose risk needs to me mitigated. On the other hand, adoption of effective policies and practices that operationalise the responsibilities of investors and lenders to mitigate and prevent adverse impacts on people (e.g. human, labour and indigenous rights violations) and the planet (e.g. biodiversity loss, deforestation, waterway pollution) – irrespective of the financial impact of such risks – requires ongoing efforts.

This paper grounded the analysis of ESG risks, financial institution practices, voluntary initiatives along with sustainable finance regulation, in LAC. Some of the key adverse ESG risks for financial institutions in the LAC are climate risk along with the environmental and social risks (often intertwined) associated with natural resources extraction and agriculture – activities that can rely on informal labour arrangements and that can feed into climate change (e.g. deforestation to push the agricultural frontier in tropical forests that serve as carbon sinks). These risks call for financial institutions to identify exposure to key risks and engage into broader processes, alongside policymakers, to mitigate negative impacts.

The recommendations are informed by the OECD RBC due diligence framework with the objective of improving the practices of institutional investors and corporate lenders in identifying, preventing and mitigating the main adverse impacts to which their portfolios are exposed. The recommendations are targeted at a) financial institutions (i.e. corporate lenders and institutional investors), b) the parties to voluntary ESG initiatives in the corporate lending and institutional investment sectors along with regulators and policymakers:

Recommendations for financial institutions:

- Institutional investors:

    i. Embed RBC into policies and management systems: Adopt a policy which includes a commitment to relevant RBC standards – including the UNGPs and OECD Guidelines - and maintain management systems which enable investors to consider RBC risks in investments.

    ii. Identify actual and potential adverse RBC impacts: Integrate RBC risk identification into existing processes to inform risk evaluation prior to investment and screen investment portfolios

    iii. Cease, prevent or mitigate adverse impacts: Integrate RBC requirements in investment mandates and decisions and engage with a company to exert leverage to mitigate adverse impacts

    iv. Track implementation and results: Track investee and own performance against RBC commitments.

    v. Communicate how impacts are addressed: Publicly communicate on RBC policies, engagements, and proxy votes to prevent and mitigate or remediate actual or potential impacts at investee companies.

vi. Provide for or cooperate in remediation when appropriate: Establish operational-level grievance mechanism and cooperate with judicial or state-based non-judicial mechanisms.

- Corporate lenders:
  i. Embed RBC into policies and management systems: Describe approaches to due diligence and assign roles to relevant business units.
  ii. Identify actual and potential adverse RBC impacts: Develop a first screen and second screen for enhanced identification, and develop a process for assessing a bank's involvement with an adverse impact.
  iii. Cease, prevent or mitigate adverse impacts: Incorporate RBC expectations in contractual documents or written agreements, engaging with clients, and well as collaborating to address systemic issues.
  iv. Track implementation and results: Request clients to report on issues and in high risk cases, require third party review of compliance.
  v. Communicate how impacts are addressed: Publicly communicate on RBC policies and number of corporate lending transactions subjected to enhanced due diligence.
  vi. Provide for or cooperate in remediation when appropriate: Seek to use leverage to encourage clients to provide for or co-operate in remediation and enable access to remediation by establishing a bank-level grievance mechanism.

Recommendations for parties to voluntary initiatives:

- For institutional investors:
  i. Adopting country level stewardship codes where they do not exist.
  ii. Collaborating with regional and international investor initiatives (e.g. PRI) to enable LAC country level initiatives to draw from best practices in LAC other countries.
- For institutional investors and corporate lenders:
  i. Elevating the profile of human rights, and corporate lender responsibilities under the OECD Guidelines, by having signatories to sustainable finance protocols and investors codes report collectively on priority adverse environmental and social impacts on a periodic basis level and involving external stakeholders such as NGOs or trade unions into the governance structure of those initiatives.
  ii. Improving accountability associated with protocol signatories by requiring initiative signatories to report publicly on the implementation of their commitments against a set of baseline expectations.
  iii. Reviewing the governance of sustainable finance protocols to involve external stakeholders, such as NGOs or trade unions, and adopting a process set of baseline expectations that would have to be met to remain in good standing.
- For corporate lenders:
  i. Collaborating with regional and international initiatives (e.g. UNEP-FI) to enable LAC country level initiatives to draw from best practices in LAC other countries.

Recommendations for policymakers include:

- For Institutional investors:

i. Broaden the scope of climate risk focused regulation on investor duties, to include environmental and social (i.e., human rights) risk due diligence and investor responsibilities under the OECD Guidelines, as part of the ESG duties of investors.

ii. Monitor and foster alignment with the EU's Sustainable Finance Disclosure Regulation, which requires institutional investors to report on their principal environmental and social adverse impacts.

- For institutional investors and corporate lenders:

i. Include a section on the duties of corporate lenders, banks and investors to carry out human rights due diligence as part of National Action Plans on Business and Human Rights.

- For corporate lenders:

i. Building on the (existing) voluntary sector banking protocols in LAC countries and the OECD RBC due diligence framework for corporate lenders to inform possible ESG regulation for corporate lending.

ii. Incorporating environmental and social, alongside climate risk into ESG due diligence in corporate lending, by drawing on the example of Brazil, whose regulation draws on the climate risk focused TCD framework, and broadens out its application to environmental and social risks.

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Notes

[1] Based on an analysis of institutional investor focused initiatives in Brazil (Stewardship Code), Chile (*Acuerdo Verde*), Colombia (Taskforce on Responsible Investment), Mexico (*Consejo Consultivo de Finanzas Verdes*) and Peru (*Programa de Inversión Responsable*)

[2] Retail investors tends to refer to individuals who are investing in financial markets; institutional investors refers to entities such as asset managers and asset owners, including pension funds, sovereign wealth funds, insurance firms and foundations, among others.

[3] In the European Union various pieces of regulation introduced under the EU Sustainable Finance Initiative reference OECD RBC standards. For example, the Sustainable Finance Disclosure Regulation calls on European asset managers to report on their principles adverse impacts and due diligence policies and notes that when reporting on due diligence, practitioners "should consider the due diligence guidance for RBC developed by the Organisation for Economic Cooperation and Development." Official Journal of the European Union (2019), REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&rid=1. The latest draft Regulatory Technical Standards that are set to accompany the law also include indicators rooted in compliance with the Guidelines. See https://www.eiopa.europa.eu/content/final-report-draft-regulatory-technical-standards_en. The Guidelines are recognised as safeguards standards in the EU Taxonomy regulation. The EU Non-financial Reporting Directive (NFRD) also calls on companies to report on their due diligence processes and policies for managing environmental and social risk in line with OECD recommendations. The NFRD is currently being revised with proposals to strengthen due diligence reporting expectations. Lastly, the European Commission is in the process of developing a Directive on mandatory due diligence for RBC applicable across sectors. The European Parliament, Commission and Council all have noted that future legislation should be off OECD due diligence standards. Currently the envisioned scope of the rules includes financial sector practitioners.

[4] Based on an analysis of banking sector sustainability protocols in Costa Rica (*Protocolo Verde*), Ecuador (*Protocolo de Finanzas Sostenibles*), Peru (*Protocolo Verde*), Argentina (*Protocolo de Finanzas Sostenibles*), Brazil (*Protocolo Verde*), Chile (*Acuerdo Verde*), Mexico (*Protocolo de Sustentabilidad*), Colombia (*Protocolo Verde*) and Panama (*Protocolo de Finanzas Sostenibles*).

[5] Antigua and Barbuda, Argentina, Bahamas, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Ecuador, El Salvador, Granada, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Saint Lucia, Saint Kitts and Nevis, San Vicent and the Grenadines, Trinidad and Tobago, Uruguay, Venezuela, Barbados, Suriname and Hatiti.

[6] The IMF Financial Development Index ranks countries on the depth, access and efficiency of their financial institutions and financial markets. It is an aggregate of the Financial Institutions index and the Financial Markets index.

[7] Total asset figures compiled by FELABAN include available funds, credits granted to clients and rights that are expected to be or may be converted into cash, investments in securities and titles, assets and rights intended to remain

in the company and expenses paid in advance. For more details, see https://indicadores.felaban.net/indicadores_homologados/METODOLOGIA-INDICADORES.pdf

[8] Based on IIFA Q1-2021 data, available here: https://iifa.ca/page/industry_statistics

[9] See article from Fitch Mexico (2018): https://www.fundssociety.com/es/opinion/aunque-con-nuevos-competidores-la-industria-de-fondos-de-inversion-en-mexico-la-dominan-cuatro-gestoras

[10] For a description of some of the main asset classes, see annex 3 of Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

[11] For a description of the evolution of Latin American pension systems, see the following: https://www.oneauthor.org/https://www.brookings.edu/research/the-problems-with-latin-americas-pension-systems/; https://www.bbvaresearch.com/wp-content/uploads/migrados/WP_1115_tcm348-255095.pdf

[12] Based on their membership in the International Federation of Pension Fund Administrators (http://www.fiapinternacional.org/estadisticas/)

[13] Based on an analysis of the Allocation of assets in retirement savings plans in selected asset classes and investment vehicles (2019) in OECD Pension Markets in Focus 2020; includes all LAC focus countries except for Argentina (data not available). Data for Panama is drawn from AIOSFP Portfolio Composition data 2019. Available here: https://www.aiosfp.org/estadisticas/estadisticas-periodicas/estadisticas-mensuales.html

[14] Based on an analysis of the OECD Allocation of assets in retirement savings plans in selected asset classes and investment vehicles in 2019 in OECD Pension Markets in Focus 2020.

[15] Ibíd.

[16] In Mexico, the sustainable finance committee of the *Consejo de Estabilidad del Sistema Financiero* is responsible to develop a green taxonomy (see here: https://twitter.com/GabrielYorio/status/1329500238395138050 ; http://www.iimv.org/iimv-wp-1-0/resources/uploads/2020/09/JAQ-Finanzas-Sostenibles-CNBV-Mexico.pdf); in Colombia, the SFC (see here: http://www.iimv.org/iimv-wp-1-0/resources/uploads/2020/09/IIMV-Coloquio-Finanzas-Sostenibles-post-Covid-19-colombia.pdf); in Chile, a Plan de Taxaonomia de ACtividades was launched in May 2021 (see here: https://blogs.iadb.org/sostenibilidad/es/plan-de-taxonomia-de-actividades-un-paso-mas-en-la-agenda-de-finanzas-verdes-en-chile/)

[17] Interview with SUGEF.

[18] Based on a survey of FEBRABAN (Brazil), the Asociación de Bancos de Mexico (Mexico) and Asobanca (Colombia) in November 2020.

[19] Interview with FEBRABAN.

[20] Ibid.

[21] Data drawn from an analysis of 2020 PRI Transparency Reports of the ten largest PRI signatories (by assets under management), including asset owners and managers, in the LAC. The ten institutional investors analysed were: Afore Banorte (Mexico), BB DTVM (Brazil), Bradesco AM (Brazil), BrasilPrev (Brazil), Caixa Economica Federal (Brazil), Itau (Brazil), PREVI (Brazil), Banco BTG (Chile0< Bnachile (Chile), Bancolombia (Colombia). See here: https://www.unpri.org/signatories/reporting-and-assessment/public-signatory-reports

[22] For example, see https://www.ran.org/bankingonclimatechange2020/

[23] The Principles are the following: Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes; Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices; Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest; Principle

4: We will promote acceptance and implementation of the Principles within the investment industry; Principle 5: We will work together to enhance our effectiveness in implementing the Principles. Principle 6: We will each report on our activities and progress towards implementing the Principles.

[24] All LAC countries which include PRI signatories are included with the exception of Bermuda and Cayman Islands. There are 36 asset owners, 94 investment managers and 16 service providers as of July 2021. For details, see https://www.unpri.org/signatories/signatory-resources/signatory-directory

[25] https://www.unpri.org/download?ac=3951

[26] Interview with the PRI LatAm Manager.

[27] The Latin Sustainable Investment Forum (LatinSIF) was formed in 2013 and had the mission of promoting sustainable investment in the region. For details, see https://www.unpri.org/latinsif-members-join-forces-with-the-pri/2875.article

[28]See details here: https://www.unepfi.org/banking/bankingprinciples/

[29] For 2010 members, see here: https://www.unepfi.org/fileadmin/documents/unepfi_overview_2010_01.pdf

[30] The GIZ is sponsoring Peru's *Hoja de Ruta de Finanzas Verdes*. For details see https://cdn.www.gob.pe/uploads/document/file/1680603/HRFV%20270121%20para%20medios.pdf.pdf. The UK is working on projects with CNBV in Mexico. For details, see http://www.iimv.org/iimv-wp-1-0/resources/uploads/2020/09/JAQ-Finanzas-Sostenibles-CNBV-Mexico.pdf

[31] Financial institutions supervised by the Central Bank of Brazil, here included universal banks, commercial banks, investment banks, development banks, foreign exchange banks, credit, financing and investment companies, credit unions, real estate credit companies, mortgage companies, development agencies, leasing companies, securities brokerage companies, securities distribution companies and foreign exchange brokerage companies (Annex I to CMN Resolution 4122 of 2012, Article 1). It does not include insurance, pension funds, and investment funds, supervised by other agencies.

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