

COMMUNITY DEVELOPMENT PROGRAMMES IN MEXICO

SIGNATORY TYPE

Investment Manager

ASSETS UNDER MANAGEMENT

US\$10 bln (US\$3.5 bln corp. debt)

OPERATING COUNTRY

Mexico

[HSBC Asset Management Mexico](#) is analysing the ESG performance of each of our bond holdings as part of HSBC Global Asset Management's international responsible investment efforts. A key area we are focusing on is the social and economic development of communities where our holding companies operate. This case study, based on interviews and existing research, gives examples of development projects in local communities and the challenges encountered when implementing them.

The PRI's Fixed Income Case Study series highlights examples of interesting and innovative approaches to responsible investment. Written by fixed income practitioners from around the world, the case studies cover topics such as integrating ESG, negative and positive screening, thematic investment and engagement.

Sharing these examples will enable investors to collectively build a concept of emerging good practice. The PRI aims to publish a set of these short pieces every quarter. If you would like to learn more or contribute your own case study please [contact us](#).



WHY ESG MATTERS TO CREDIT ANALYSIS

There are three key reasons we include ESG analysis in our credit research: additional insight, generating better long-term yield; growing client interest; HSBC is a signatory to the Principles for Responsible Investment and the UN Global Compact.

HOW WE IMPLEMENT ESG INTO OUR CREDIT ANALYSIS

ESG analysis is incorporated into the credit research analysis of each issuer and accordingly can affect the credit line offered. The ESG analysis, along with any ESG news on the issuer, is presented at the weekly investment committee meetings to inform the chief investment officer and portfolio managers.

ESG FACTOR SELECTION

Community development is one of the most important factors when studying an issuer's social initiatives.

This addresses a variety of social risks, such as irresponsible marketing (for which regulators often impose fines), a loss of social licence to operate, and general social well-being. By supporting personal and economic development, companies can help to make the communities where they operate more resilient to external economic, environment and social shocks, and increase employee loyalty.

The community issues we engage with companies on include health, obesity, education, productivity levels and agricultural technical innovation.

CASE STUDY: MEXICAN CONSUMER COMPANIES

The Mexican fixed income market is an US\$85 bln market of 211 issuers. It is a buy-and-hold market and nearly 60% of issues are floating rate. The ratings breakdown is: 79% AAA, 13% AA+ to AA-, 6% A+ to A.

This case study looks at the community engagement and development activities of four companies in the Mexican consumer sector. Below is a table listing the four companies, their significance in the market, and some of their biggest achievements to date in community development.

Figure 1: Our portfolios holding these companies are all public, except where the companies are held in segregated mandates. Of all four companies, Lala is the only one that is not currently issuing bonds

BIMBO
LARGEST BAKERY COMPANY IN MEXICO AND THE USA
<ul style="list-style-type: none">Compliance with environmental lawsEmissionsReducing energy consumption & efficiencyWaste management & recycling
FEMSA
HOLDING COMPANY OF KOF (WORLD'S LARGEST BOTTLER OF COCA-COLA PRODUCTS), AND OXXO (FASTEST-GROWING RETAIL CHAIN IN LATIN AMERICA). SECOND-LARGEST SHAREHOLDER OF HEINEKEN.
<ul style="list-style-type: none">Founding the Monterrey Institute of Technology and Higher Education (ITESM) in 1943Developing the precursor of social security in MexicoCreating a water security fundCreating an emerging youth development program

The companies all have corporate responsibility programmes, which have been in place for anywhere from just a few years to over a century. As part of these programmes, the companies tackle a diverse range of community issues, such as hunger, poverty, health, education, infrastructure, responsible marketing, sports and social reintegration. Below we look in more detail at two key topics that they have in common: health and nutrition; entrepreneurship.

HERDEZ
PROCESSED FOOD AND FROZEN YOGURT PRODUCER WITH A SPECIAL FOCUS ON NUTRITION
<ul style="list-style-type: none"> ■ Running nutrition workshops via Herdez Nutre to raise awareness amongst children, teachers and parents in schools, helping to achieve a 64% reduction in malnutrition in Mexico in the last two years

LALA
LARGE MEXICAN DAIRY COMPANY
<ul style="list-style-type: none"> ■ Supporting a series of annual marathons across six cities with 25,000 participants ■ Running health workshops via The Lala Institute benefitting 35,000 children and 1,500 teachers in 33 schools over four years

HEALTH AND NUTRITION

THE PROBLEM
<p>A 2013 report from the UN's Food and Agriculture Organization found 32.8% of adults in Mexico to be obese. The government responded by imposing new health regulations on consumer companies, and applied a new tax on high calorie foods and high added sugar beverages. Many companies have started changing their product ranges, for example adding less sugar and substituting unhealthy ingredients for healthier alternatives.</p>

COMPANY RESOURCES
TO PROMOTE HEALTHY EATING, COMPANIES RUN EDUCATION PROGRAMS FOR CHILDREN AND WORKSHOPS FOR ADULTS LEARN ABOUT FOOD GROUPS AND THE BENEFITS OF HEALTHY EATING
<ul style="list-style-type: none"> ■ Bimbo educates communities about the food portions that each child should consume and sponsors sports activities. ■ Herdez runs a workshop programme to improve nutrition and promote self-sufficiency in the poorest communities. In alliance with other companies it supports a national programme to bring food to communities where there is a shortage. ■ Femsa and Kof support initiatives which promote sports and healthy living. ■ Lala promotes healthy living by sponsoring marathons on an annual basis.

ENTREPRENEURSHIP

THE PROBLEM

For communities to be economically self-sufficient and develop, the residents have to enhance their technical and business abilities.

COMPANY RESOURCES

TO BOOST PRODUCTIVITY, COMPANIES ORGANIZED WORKSHOPS ABOUT THE BENEFITS OF THE NATURAL RESOURCES IN PEOPLE'S COMMUNITIES AND ABOUT OTHER WAYS THEY CAN IMPROVE THEIR QUALITY OF LIFE

- **Bimbo** empowers women in the Mazagua and Mixteca communities, to decrease their husbands' migration to the USA.
- **Herdez** supplies the poorest communities with cooking stoves, orchards and chicken coops to increase their self-sufficiency and stimulate the local economies.
- **Femsa** allies with other companies to finance entrepreneurial projects. So far it has financed 20 projects, two of which are in the pilot phase. Kof runs a project that reintegrates ex-guerrillas into Columbian society, and runs a similar project with former prisoners in Mexico.

CHALLENGES

There is a general lack of interest in community development in Mexico and it lags other countries in this regard. It is rare for investors to contact companies about corporate responsibility projects, and even though HSBC had productive conversations with many of the companies we interviewed, some were reluctant to talk to us, highlighting the lack of importance they assign to community engagement.

Our research has also identified three key challenges faced by companies that have dedicated themselves to community development programmes when implementing them.

MEASURING OUTCOMES

The companies interviewed for this case study agreed that measuring outcomes is their biggest challenge. How can they assess if children are learning at their workshops or that natural habitats have been saved or enhanced by environmental programmes? Mexican companies are starting to report on their community engagement programmes in their sustainability reports, using Global Reporting Initiative guidelines, but there is no standardised methodology or standardised indicators for measuring the programmes' effectiveness. Although many consumer companies in Mexico have had corporate responsibility programmes since their inception, most have only started to formally report on them in the last two years.

COMMUNICATING INTERNALLY

People in charge of corporate responsibility often struggle to communicate the benefits of their initiatives to employees. Some companies ask their employees to report on their corporate responsibility efforts on a regional basis, but are unsure that employees understand the importance.

IDENTIFYING COMMUNITY NEEDS

Difficulty identifying the specific needs of each community makes it challenging to correctly allocate resources.