

## Grupo Financiero Banorte

### Business Context

Banorte is the second largest financial group in Mexico. It offers a range of products and services through its brokerage firm, pension and insurance companies, investment funds, savings and pensions accounts, and business/personal lending. It is the number one provider of loans to governments and ranks second for mortgage loans. In 2019, it secured a net profit of \$36,528 million pesos (2.1 billion USD). Beyond its core portfolio, which makes up 82% of its business activities, Banorte also finances AgriBusiness companies, dedicating the remaining 18% of its business activities to the sector.

The group is strongly committed to sustainability, actively working to enhance its funding of sustainable initiatives. It currently offers \$10,919,884 in green bonds, and since 2012, has managed the social and environmental risks of its financing portfolio. For example, through its Social and Environmental Risk Management System (SEMS), it identified a wide range of environmental and social impacts generated by the agricultural sector. To strengthen decision making, it is exploring methodologies to quantify the financial implications of risks and opportunities and costs and benefits in value chains linked to its portfolio.

### Assessment

#### WHY? What is the objective of the assessment?

Banorte applied a capitals assessment to quantify risks derived from exposure to natural, human, social, and produced capital risks in their financial portfolio for avocado cultivation. By doing so, the bank aimed to identify and quantify the financial risks to which the sector is exposed, derived from the most relevant impacts it generates on the capitals.

Through the assessment, the company hopes to minimize financial risks derived from exposure to environmental and social risks. It plans to use the results to target specific sub-sectors for sensitisation and training on key sustainability practices, and to generate greater involvement among its clients.

#### WHAT? What is the scope of the assessment?

Having opted to focus on avocado cultivation from its wider Agribusiness portfolio, Banorte assessed the significant impacts associated with producing avocados. Mexico is the largest producer of avocados in the world, so it was deemed a pertinent product to pilot the multi-capitals assessment. The dependencies and impacts identified are displayed in the table below.

Table 1. Dependencies and Impacts linked to avocado cultivation

CAPITAL	DEPENDENCIES	IMPACTS
<b>NATURAL</b>	Water availability	Water usage
	Physical environment regulation	Terrestrial ecosystem use
	Biological environment regulation	Pesticides and herbicides use
	Solid waste and emissions regulation	Fertilizers use
		Land use
	Solid waste	
<b>HUMAN</b>	Skills and knowledge	Use of harmful substances to consumers.
	Experience	Food safety practices
	Labour availability	Workers health and safety conditions.
	Workers health	Workers rights
		Gender rights
	Workers representation	
<b>SOCIAL</b>	Property rights	Food safety
	Law and order	Food Waste
		Integration of workers into the communities
<b>PRODUCED</b>	Infrastructure and technology accessibility	

The company conducted a materiality assessment on this list, ranking each according to the potential significance of possible operational, social, legal and financial and reputational risks. Based on this assessment, water use, use of agrochemicals, working conditions, and land use were selected as the most material impact drivers to take forward to the measurement and valuation stage.

#### HOW? What will be measured and valued?

The next stage of the assessment involved mapping the impact pathways and selecting methods to measure changes in capitals and techniques to value the consequences of these to the business or society. The company's proposed approach is displayed in the table below.

Table 2. Measurement and Valuation Approach

Impact Driver	Indicator	Change in capitals ((NC = Natural, HC = human)	Method to measure change	Consequences to business (B) or society (S) and valuation technique
Water use	L/Ha of crop M3 authorised for extraction	<b>NC:</b> Water availability & scarcity	Trends based on historical data + Literature review  (M <sup>3</sup> / Ha produced)	<b>B:</b> Decrease in crop production (Yield per Ha of crop) <b>B:</b> Water costs (\$ / m3) <b>B:</b> Increased Production costs (million \$) <b>S:</b> Change in water availability in the same basin (m3)
Use of fertilisers, herbicides and pesticides	Kg /Ha of crop  Kg or tonnes of agrochemicals per hectare  Hectares affected and hectares released for cultivation	<b>NC:</b> Soil degradation.	Soil sampling + Local research / biodiversity conservation status studies  (Soil organic carbon content and/or Physico-chemical parameters)	<b>B:</b> Reduced Productive capacity (Yield per Crop Ha)
Working Conditions	Exposure to fertilisers (kg of fertiliser in contact with workers)  Number of working hours in hostile conditions	<b>HC:</b> Physical and mental health impacts on workers	Client data  (Hours of exposure to high temperatures and forced posture/ Occupational accident rate)	<b>B:</b> Impaired worker quality of life (Employee perception/ Decrease in labour supply)
Land use change	Hectares authorised  Number of introduced invasive species	<b>NC:</b> Deforestation  Alteration of the ecosystem  Damage to Natural Protected Areas  Introduction of invasive species.  Soil degradation (physical, chemical, biological).	Public sources of information e.g., Territorial Ecological Management, Global Forest Watch, ArcGIS  (Number of hectares affected + Number of species affected)	<b>S:</b> Loss of ecosystem services (qualitative) <b>S:</b> Population displacement (qualitative)

## WHAT NEXT? What were the results of the assessment?

Applying this capitals assessment has made it possible for Banorte to better understand the potential of the bank's agricultural portfolio to offer financial products and services that support best sustainability practices. The study has helped inform what the best agricultural practices are that need to be integrated into the bank's social and environmental risk management system. This will enhance the sustainability and reduce risks associated with disbursing loans and credits, including counselling, annual reviews, and monitoring processes.

Banorte plans to develop a model for evaluating their portfolios based on critical variables, including all four impact drivers, as well as the other material impacts and dependencies listed above (table 1). These will be incorporated into a study of clients and their future projections, with the intention that this will improve the group's engagement strategy. Specific client engagement actions linked to each impact driver are presented in the table below.<sup>7</sup>

*Table 3. Client engagement strategy for each impact driver*

Material Issue	Engagement strategy
Water use	Customers will be asked to implement rainwater catchment systems
Use of fertilizers, pesticides and herbicides	The use of fertilizers and herbicides with less impact will be requested, for example: products from vermicompost and compost.
Working conditions	The client must have personnel hiring policies (gender, origin, age, nationality, educational level) and terms of employment (working hours, benefits).
Land use	The client must share the authorization to change land use - It must maintain 30% of native forest cover per hectare

While this initial capitals assessment was considered a success, Banorte identified several challenges associated with implementing the next steps. First and foremost is the need for a comprehensive grasp of emerging concepts, particularly the significance of "Sustainable Agriculture." This understanding is crucial for informed decision-making. Additionally, there is a shortage of readily available quantitative information, making it difficult to measure progress accurately through quantification and valuation.

Furthermore, the technical skills needed for, data demands and clear guidance needed for, applying some of the valuation methodologies presents a hurdle. Appraising the impact and outcomes of sustainable practices becomes challenging without more clarity over some valuation methodologies and frameworks. It is also essential to ensure that these sustainability efforts align seamlessly with overarching business objectives. This alignment ensures that sustainability becomes an integral part of the business strategy rather than a disconnected initiative. Addressing these challenges will be pivotal in driving the company towards a more sustainable and impactful future.