

Media Release

Climate Bonds Initiative releases its latest report for Latin America and Caribbean (LAC) market

Green Bonds in the region doubled in less than two years

SÃO PAULO: 22/09/21: 12PM BRT: The Climate Bonds Initiative just launched the "Latin America and Caribbean (LAC): State of The Market" report, which was supported by the Inter-American Development Bank (IDB) and the International Finance Corporation (IFC). **The region achieved its highest green bond numbers in 2020, and is on track for similar figures in 2021.** Green bond issuance grew from USD13.6bn in September 2019 to USD30.2bn at the end of June 2021 – in less than two years. This development was primarily supported by sovereign issuance from the Republic of Chile (USD3.8bn) and by various issuers from Brazil (USD2.5bn).

Key findings:

- **Corporate and sovereign issuers prevail in the market while volume from development banks fell to 14% cumulatively from 18% since 2019.** Non-financial corporates (39%) and sovereigns (25%) maintain the top spots among issuer types in cumulative terms, thanks to large-scale issuances from Brazil and Chile. As of June 2021, **Chile is the only country in the region to have issued sovereign green bonds.**
- Bonds with **tenors above 10 years** have increased from 14% to 30% (USD8.7bn) in terms of cumulative volume issued at the end of June 2021.
- **New countries** have also entered the green bond market over the past two years: Barbados, Bermuda, Ecuador and Panama issued their first green bonds since 2019, bringing the total number of Green, Social and Sustainability (GSS) issuer countries in LAC to 14.
- **Use of proceeds: Energy** is once again the most funded sector in the LAC region, accounting for 44% (USD13.2bn) of the cumulative amount issued. Followed by Transport with 28% and Land use with 12%
- **Green Social and Sustainability Bonds:** Total GSS issuance in 2020 amounted to USD16.3bn in 2020 (+82% Year over Year from USD8.9bn in 2019) and has already reached USD12.5bn in 2021 to date. Chile (USD17.8bn) and Brazil (USD11.7bn) are home to the largest GSS bond markets in the region. Mexico is in third place with USD7.8bn of combined GSS volume. Together the top three countries make up 77% of all GSS issuance in the LAC region.

Social and sustainability bonds growth see massive surge post-2019, which is even more noticeable with USD18.3bn in cumulative issuance to the end of H1 2021 since the inception of this market segment in 2016. The growth continues with 2021 experiencing the highest S&S issuance yet (USD7.9bn) well before the end of the year. **The amount issued among the social and sustainability themes is approximately equally distributed at USD8.8bn and USD9.7bn, respectively.**

- Following similar trends to green bond issuance, three countries – Chile (USD8.3bn), Mexico (USD3.7bn), and Brazil (USD1.4bn) – stand out as leaders in S&S issuance. Chile is also the region's largest social and sustainability (S&S) bond market (USD8.3bn). Similar to green bond issuance, sovereign bonds also represent a considerable (61%) share of Chile's social and sustainability volume. Mexico is the second largest (USD3.7bn) social and sustainability bond market. **The social bond theme**

is characterised by three players in the sovereign field: the Republic of Chile, Guatemala and Ecuador with 41%, 14% and 4% market share, respectively.

Sustainability-linked Bonds

The Sustainability-linked bond (SLB) market plays a vital role as a complementary tool. In the LAC region, a total of USD10bn of SLBs have been issued to the end of H1 2021. Pioneering issuers in this segment all hail from Brazil, Mexico, and Chile with 63%, 32%, and 5% of this market segment, respectively. The top three issuers, forestry company Suzano (Brazil – also a green bond issuer), food retail and bottling company FEMSA (Mexico – also featured as a green bond issuer above) and industrial conglomerate Orbia Advance Corp (Mexico) jointly represent nearly half – USD4.25bn of all SLB volume.

Transition bonds

Transition finance is gaining traction in the LAC market in recent years. High emitters are looking to fund their shift towards cleaner, more sustainable operations and strategies using debt instruments. For this transition, LAC is seeing increased adoption in SLBs (eg: Suzano 2020 and 2021 bonds) and transition bonds (Eneva 2020 bond) alongside the GSS issuances.

Taxonomy Development in LAC

Guidelines to select eligible green projects and assets are being implemented across the globe to support issuers and investors, including in LAC. At least four countries in LAC are developing local green taxonomies, with this process in different stages of development. There is a growing interest from other countries in the region to begin working on their own definitions and metrics for sustainable/green projects and assets. The rise of local taxonomies demonstrates the interest of countries and their governments in mobilizing capital flows towards sustainable and climate resilient development.

Leisa Souza, Head of Latam, Climate Bonds Initiative:

"The growth of GSS issuance in LAC since the first regional edition of the state of the market report demonstrates the appetite for sustainable products in the region. As the market matures we are seeing a diversification of issuers and use of proceeds, particularly in transport, agriculture and buildings. This second edition highlights this progress as well as the potential of LAC countries to continue accessing green capital markets".

Marcela Ponce, Climate Finance Lead for LAC, International Finance Corporation

"There has been significant progress in the sustainable debt market in Latin America, but there is still significant scope for growth. Financial institutions and businesses need to continue increasing their commitment and leadership as they strive to meet global sustainability goals. As part of the World Bank Group's Climate Change Action Plan, IFC will seek to increase its climate finance to 35% on average from our own account from now through fiscal year 2025. We will also seek to align 85% of new direct investments with the objectives of the Paris Agreement starting July 1, 2023, and 100% by the start of fiscal year 2026. This means that we will step up our investment, advisory and knowledge-sharing efforts with a focus on promoting the development of the climate thematic bond market, while also mobilizing private capital and strengthening social safety nets, financial stability, and resilience."

Maria Netto, Principal Specialist, Inter-American Development Bank

"The Inter-American Development Bank is glad to support this new edition of the "Latin America & Caribbean: Sustainable Finance State of the Market 2021". This report is part of our efforts to bring more transparency and accountability to the green bond market in the region. The IDB's Vision 2025 strategy seeks to catalyze private sector investment to promote a sustainable economic recovery in the region. This new report complements

our Green Bond Transparency Platform, an innovative digital tool launched earlier this year that supports harmonization and standardization of green bond reporting in our region.”

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Notes for Journalists

About the Climate Bonds Initiative: The Climate Bonds Initiative is an investor-focused not-for-profit, promoting large-scale investment in the low-carbon economy. It undertakes advocacy and outreach to inform and stimulate green bond markets, provides policy models and government advice, international development programs, market data and analysis and administers the Standards & Certification Scheme. For more information, please visit www.climatebonds.net.

About the IFC: IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2021, IFC committed a record \$31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic. For more information, visit www.ifc.org.

About the IDB: The Inter-American Development Bank is devoted to improving lives. Established in 1959, the IDB is a leading source of long-term financing for economic, social and institutional development in Latin America and the Caribbean. The IDB also conducts cutting-edge research and provides policy advice, technical assistance and training to public and private sector clients throughout the region. For more information, visit <https://www.iadb.org/en>.

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