Latin America & Caribbean
State of the market

2021

Cumulative GSS issuance in the LAC region as at 30 June 2021

Prepared by the Climate Bonds Initiative

Supported by the Inter-American Development Bank
and the International Finance Corporation

Introduction

About this report

This publication is the second instalment of our State of the Market series for the Latin America & Caribbean (LAC) region. The report describes the shape and size of labelled Green, Social and Sustainability (GSS) debt issued by entities domiciled in LAC to the end of June 2021 (H1 2021). The market analysis is complemented by an overview of key policy developments and opportunities for growth of sustainable finance in LAC.

About the Climate Bonds Initiative

The Climate Bonds Initiative (Climate Bonds) is an international investor-focused not-for-profit organisation working to mobilise the USD100tn bond market for climate change solutions. We promote investment in projects and assets needed for a rapid transition to a low carbon and climate resilient economy. Our mission is to help drive down the cost of capital for large-scale climate and infrastructure projects and to support governments seeking increased access to capital markets to meet climate and greenhouse gas (GHG) emission reduction goals, as well as other sustainability objectives.

Contents

Understanding green bonds

Green bonds and loans

Green bonds and loans are debt instruments used to finance projects, assets and activities that support climate change adaptation and mitigation. They can be issued by governments, municipalities, banks and corporates. The green bond label can be applied to any debt format, including for example private placement, securitisation, covered bond, and sukuk. It is global best practice for bonds and loans to be issued in line with the Green Bond Principles (GBP), Green Loan Principles (GLP), the Climate Bonds Taxonomy and Standard, as well as a number of country-specific guidelines. The key is that the use of proceeds is ring-fenced to only finance green assets, projects and/or activities.

Green definitions

While there is not yet a uniform set of global definitions for eligible projects to be funded with green bond and loan proceeds, the Climate Bonds Initiative uses the Climate Bonds Taxonomy, which features eight use of proceeds categories: Energy, Buildings, Transport, Water, Waste, Land use, Industry and ICT. The Taxonomy is derived from the Climate Bonds Standard, which comprises Sector Criteria developed with expert input from the international science community and industry professionals. Issuers can apply to certify their green debt instruments under the Climate Bonds Standard by employing an independent Approved Verifier. The Verifier provides a third-party assessment that the use of proceeds complies with the objective of capping global warming at 2 degrees Celsius.

Methodology and scope

To reflect the extraordinary market conditions brought about by the COVID-19 pandemic in 2020, as well as Climate Bonds' growing database coverage, this report includes an evaluation of the broader sustainable finance market beyond green bonds in LAC to the end of H1 2021. This includes all years to this date, i.e. cumulative data since market inception in 2016.

This report covers three overarching debt themes based on the projects, assets and activities financed: Green, Social, and Sustainability (GSS). These data and the subsequent analysis are predominantly based on the Climate Bonds Green, Social and Sustainability Bond Databases.

For the purpose of our work and this report, the sustainable debt market is defined by debt instruments that (a) have a label, and (b) directly finance sustainable projects/assets in the form of use of proceeds (UoP) bonds and labelled loans.

Green

All deals carrying a variant of the green label have been screened for inclusion in the relevant database. Screening is based on a set of process rules stipulated in Climate Bonds Green Bond Database Methodology, summarised in the following overarching criteria:

- Deals must carry a variant of the green label, and
- All net proceeds must verifiably (based on public disclosure) meet Climate Bonds' green definitions based on the Climate Bonds Taxonomy.

Only bonds with 100% of proceeds dedicated to green assets and projects that are aligned with the Climate Bonds Taxonomy are included in our Green Bond Database and figures. If there is insufficient information on allocations, a bond may be excluded.

Social and Sustainability

Drawing on existing market reference points and extensive research, the inclusion of social and sustainability bonds provides broad guidance on the eligible sectors and subsectors that can be funded with labelled bonds falling under these themes. However, a comprehensive "social taxonomy" or equivalent classification and screening system for debt instruments aiming to achieve positive social outcomes has not yet been developed, though work on this is underway in the European Union and elsewhere. Social and sustainability bonds' use of proceeds are therefore not screened against performance thresholds. Existing market guidance on these two labels include the Social Bond Principles (SBP) and the Sustainability Bond Guidelines (SBG) by the International Capital Market Association - ICMA. They are, however, classified in accordance with the respective labels and categorized as follows:

Social

The label is exclusively related to social projects, e.g. Housing, Gender, Women, Health, Education, etc. Categories defined by the SBP.

Sustainability

The label describes a combination of green and social projects, e.g., Sustainable, Sustainable Development Goals (SDGs), socially responsible investing (SRI), environmental, social and governance (ESG), etc. The green project categories in these instruments are screened in accordance with the Climate Bonds Green Bond Database Methodology.

Country definitions and amounts

For the purposes of this report, 'country' reflects the country of the issuing entity; in our global green bond database and statistics, 'country' reflects the country of risk, which may be different if the parent of the issuing entity is from another country. For example, AES Corporation issued three green bonds in April 2019, October 2019 and February 2020 totalling USD708m; in this report these are classified under 'Brazil', 'Chile' and 'Argentina', but as 'USA' in the database. Only those entities domiciled in LAC are included in the analysis, unless otherwise specified. Unless explicitly stated, the analysis reflects the amount issued as opposed to the number of bonds or issuers.

Deals analysed separately

KPI-linked instruments

KPI-linked debt instruments are excluded from the main GSS market analysis. These instruments raise general purpose finance and involve penalties around the cost or amount of debt to be repaid (e.g. coupon step-ups) linked to not meeting pre-defined, time-bound sustainability performance targets. The two main types of instrument are commonly referred to as Sustainability-linked bonds (SLBs) and Sustainability-linked loans (SLLs). Climate Bonds does not yet comprehensively track or assess the global market of SLBs or SLLs, preventing inclusion of these debt categories in this analysis. However, we are developing data coverage and screening criteria for KPI-linked instruments to complement existing market guidance, such as the ICMA Sustainability-linked Bond Principles (SLBP) and LMA Sustainability-linked Loan Principles (SLLP). The KPI-linked instrument theme is discussed in the context of specific case study examples on pages 14 to 15. We expect to include additional content on these instrument types in subsequent reports.

Transition labels

Transition finance describes instruments financing activities that are not low- or zero-emission (i.e., not green), but have a shorter long-term role to play in decarbonising an activity or supporting an issuer in its transition to Paris Agreement alignment. The transition label can thus enable the inclusion of a more diverse set of sectors and activities in the sustainable finance universe. At present, transition bonds predominantly originate from highly polluting and hard-to abate industries. They do not fall into the existing definitions of green but are a critical component of a transition to net zero. Example sectors include extractive industries such as mining; materials such as steel and cement; industrials including aviation, and agriculture, particularly livestock. Building specific KPIs and screening indicators for transition activities is already underway: Climate Bonds began the definitional work with the September 2020 release of the Financing Credible Transitions Whitepaper. This was complemented by ICMA's Climate Transition Finance Handbook published in December focusing on process guidelines. In light of these recent developments, we expect to include data and analysis on carrying any variant of the transition label in future reports. Please see p. 14 for further details of our work in this area.

Key policy milestones supporting sustainable finance across LAC from 2019 to date

2019

Chile hosts the United Nations' COP 25 in December. Previous LAC hosts include Argentina (1998 and 2004), Mexico (2010) and Peru (2014).

Mexico's CCFV joins the Financial Centres for Sustainability (FC4S) network. Colombia's financial markets regulator (SFC) joins the NGFS.

Argentinian banks sign a Sustainable Finance Protocol with the aim of building a strategy of sustainable finance in the banking industry.

Chile becomes the first country in LAC to issue a sovereign green bond.

Panama Stock Exchange releases its Green, Social and Sustainable Bond Guide.

Chile's pension regulator passes new rules to integrate ESG and climate risk as part of pension fund investment analysis.

Honduras National Banking and Insurance Commission sets standards for financial institutions to manage environmental and social risk.

Mexico, **Ecuador**, **Colombia**, **Argentina**, **Paraguay**, **Costa Rica**, **Dominican Republic**, **Guatemala**, **Panama** and **Uruguay** endorse the Helsinki Principles and the Santiago Action Plan, becoming members of the Coalition of Finance Ministers for Climate.

The **Dominican Republic's** stock exchange launches a green bond guide for issuers.

2020

Brazilian Central Bank joins the NGFS and launches its sustainability agenda.

Brazil also approves Decree 10.387/2020 to fast-track green projects (e.g. renewables, low carbon transportation, and water and sanitation) and facilitate more issuance.

Panama Stock Exchange releases its Guidelines for Voluntary Reporting and Disclosure of ESG Factors.

BNDES includes green concessional loans in its portfolio.

Quito Stock Exchange (**Ecuador**) publishes Green and Social Bonds Guidelines to guide market development.

Ecuador issues the region's and world's first sovereign social bond.

Paraguay's National Value Commission approves Guidelines for the issuances of SDG Bonds (Resolution CNV CG N9/20). Paraguay's Central Bank joins the NGFS.

Mexico issues the first sovereign SDG bond in LAC.

Ecuador launches its Sustainable Finance Initiative through public and private institutions with the aim of catalyzing the national market.

Colombia's Superintendencia Financiera (SFC) published the Green Bonds Best Practices Guide and the Regulatory Framework 028 of 2020 to promote the development of the green bond market in the Colombian capital market.

Dominican Republic's Superintendencia del Mercado de Valores, produced the green bond guidelines to standardize the good practices for issuers.

2021

IDB launches Green Bond Transparency Platform to support green bond reporting harmonisation and standardisation by providing information on bond proceeds and environmental performance.

In **Mexico**, the CONSAR (the National Commission of the Retirement Savings System) issued a new resolution that requires pension funds (Afores) to incorporate ESG criteria into their investment strategy as of January 1, 2022.

Chile's Ministry of Finance and the Green Finance Public-Private Roundtable (La Mesa) prepare a Taxonomy Roadmap to guide future taxonomy development for the country.

SFC also launches mandatory requirements for pension funds to include ESG and climate factors for investment portfolios

Colombia advances the development of its taxonomy to define economic activities and assets with substantial contribution to climate change mitigation and adaptation. The country's Ministry of Finance publishes a Sovereign Green Bond Framework.

Brazil's Central Bank launches public consultation on Climate Risk and TCDF.

Brazil's National Treasury signals the development of an ESG Framework for a Sovereign issuance.

Brazilian regulator CVM launches a public consultation on the public offerings for the distribution of securities, including green, social and sustainable labels.

LAC sustainable debt market overview

The LAC sustainable finance market has more than doubled since the first edition of Climate Bonds' Latin America & Caribbean: Green Finance State of the Market report published in 2019.[1] Green bond issuance in the region more than doubled from USD13.6bn in September 2019 to USD30.2bn at the end of June 2021 – in less than two years. For social and sustainability bonds, this growth is even more noticeable with USD18.3bn in cumulative issuance to the end of H1 since the inception of this market segment in 2016 – featured for the first time in this regional analysis. Despite the impact of the COVID-19 pandemic, the LAC sustainable debt market continued to soar throughout 2020 and 2021 across all main themes: total GSS issuance in 2020 amounted to 16.3bn in 2020 (+82% YoY from USD8.9bn in 2019), and has already reached USD12.5bn in 2021 to date. With economies beginning to pick up again and pledges for green and sustainable recoveries being implemented across the region, there are plenty of opportunities for sustainable finance to grow in LAC.

LAC sustainable debt market

	Green	Social	Sustainability	Total GSS
Total size of market	USD30.2bn	USD8.6bn	USD9.7bn	USD48.6bn
Number of deals	169	37	40	246
Number of issuers	91	28	26	132
Number of countries	12	10	9	14
Number of currencies	11	10	6	14

Major economies lead with Chile, Brazil and Mexico in top three GSS

Building on a global trend, the LAC sustainable finance market is becoming more diverse. Green bonds continue to represent the largest share in the market (62%) with significant growth since 2019. The rise of social and sustainability labels demonstrate broader potential in the region, echoed by the strong participation of local denominated currencies indicating the consolidation of domestic green markets throughout LAC.

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.

Green driven by sovereigns and corporates, numerous new entrants

Brazil is also the region's largest green bond market at USD10.3bn in cumulative issuance. Its outlook for future growth is positive, especially across government spending in infrastructure and agriculture. The Brazilian National Treasury has also begun discussions on building an ESG framework and signalled its intent to issue a labelled bond in the medium term, though this would require regulatory changes (see page 25).

Chile (USD9.5bn) and Mexico (USD4bn) follow Brazil as the second and third largest green bond markets in LAC. The increase in Chile's issuance volume was driven by the country's Sovereign issuances, which continue to reflect its strong climate commitments and the role of sustainable finance in delivering these. In Mexico, the increasing participation of non-financial corporates in particular has boosted issuance.

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 GSS issuer countries in LAC to 14.

Social and sustainability bonds follow green patterns

Chile is also the region's largest social and sustainability (S&S) bond market (USD8.3bn). Similar to green bond issuances, 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 country has seen a diversification in labels particularly over 2020 and 2021, demonstrating an increasing appetite for labelled bonds. Brazil completes the top 3 with USD1.4bn in S&S issuance, almost all of it (96%) coming from corporates.

Thematic deep dives

Green

The LAC market achieved its highest green bond numbers in 2020, and is on track for similar figures in 2021. Continuing the green bond resurgence that began in 2019, the region saw issuances exceeding USD9.4bn in 2020 (up 33% from 2019). This development was primarily supported by sovereign issuance from the Republic of Chile (USD3.8bn) and by various issuers from Brazil (USD2.5bn). Republic of Chile also had the largest individual deal size of EUR1.3bn/USD1.4bn in 2020. Overall, the region's cumulative green bond issuance stands at USD30.24bn as of June, 2021.

Top three remains the same, new countries enter the market

The rapid development of LAC's green bond market is benefitting not just from existing issuers but also from the influx of new issuers every year. Since the beginning of 2020, 25 new issuers have entered this market with their green bond debuts. Most of these issuers belong to Brazil (17), followed by Mexico (3). 19 of these 25 issuers are corporates, indicating the increasing desire of companies to access this unique form of financing.

The number of LAC countries that have seen green bond issuances also rose to 12 (from eight in our 2019 analysis). The newly identified markets are Barbados, Bermuda, Ecuador and Panama. Of the cumulative issuance so far, Brazil continues to dominate, albeit with a reduced share of 34% compared to 41% in 2019. Chile is in close second at 31%, followed by Mexico at 13%. In terms of numbers of deals and issuers, Brazil is the clear leader accounting for almost half of the numbers in both cases (78 of 169 deals and 44 of 91 issuers).

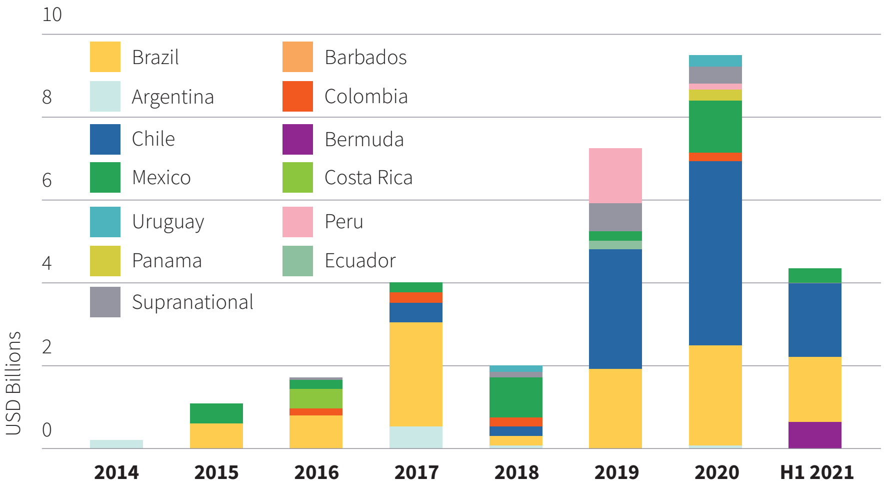
Corporate and sovereign issuance boosts growth

Corporate and sovereign issuers prevail in the market. 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. 2020 was also a landmark year for these issuer types with highest recorded yearly green bond issuance of USD3.8bn for sovereigns and USD3.4bn for non-financial corporates. Financial corporates also set an annual record in 2020 at USD900m, which has already been exceeded in H1 2021. Brazil and Mexico are the two major markets with the most identifiable issuer type diversity; other countries continue to demonstrate a relatively limited issuer mix. The former is aided by Brazilian financial corporates finally making their debut in the green bond market in 2020, beginning with two bonds from Total Eren in February and a Certified Climate Bond (CCB) from Banco Votorantim in March. There are now five financial corporates issuing green bonds in Brazil alone and the country leads in this category with almost USD1.1bn in cumulative issuance.

The share of development banks fell to 14% cumulatively from 18% since 2019, primarily due to relatively low issuance (USD750m) in 2020. Colombian development bank Financiera de Desarrollo Nacional (FDN) issued its first bond in July 2019 to finance public transport projects. This takes the tally to eight development banks and USD4.2bn in issuance so far. Other issuers in this category hail from Brazil (BNDES), Mexico (Nafin and FIRA), Colombia (Bancóldex), Peru (Cofide), along with supranational issuers CAF (Corporación Andina de Fomento) and CABEI.

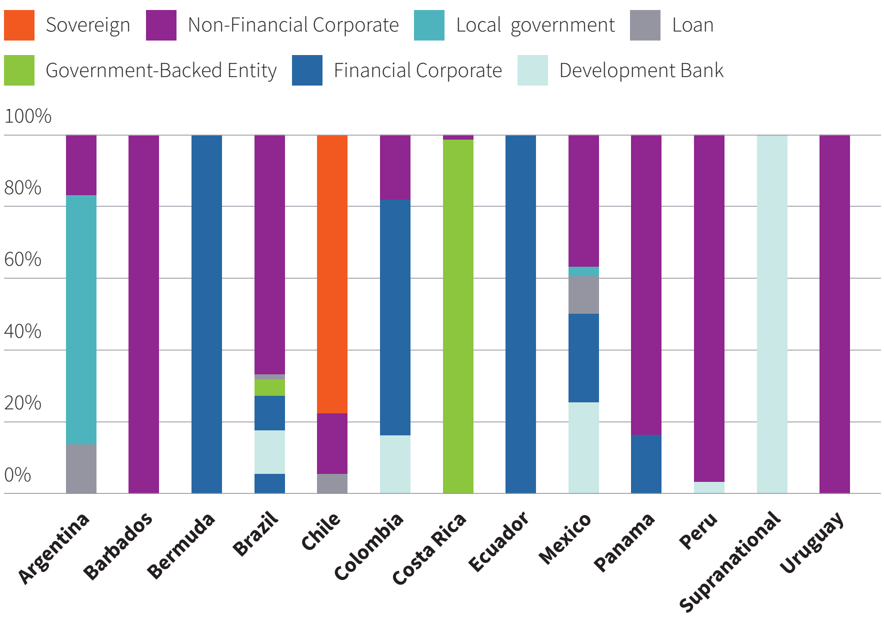
As of June 2021, Chile is the only country in the region to have issued sovereign green bonds. Public sector issuance in general is largely overshadowed by corporates. Public sector issuers (sovereigns, local governments and government-backed entities) together account for under 30% of the total green bond issuance to date (USD13.2bn from 15 issuers). This number falls to 5% if the Chilean sovereign bonds are excluded, underscoring the significance of Chile's issuance programme. Brazil (Companhia Riograndense De Saneamento Corsan, ISA CTEEP) and Costa Rica (Banco Nacional de Costa Rica) are the only two countries with government-backed entities issuing green bonds in the region. Similarly, Mexico and Argentina remain the only two countries with issuances from local governments (Province of Jujuy and Province of La Rioja from Argentina; Mexico City from Mexico), with no new deals since 2018.

2020: Record year for LAC Green Bonds



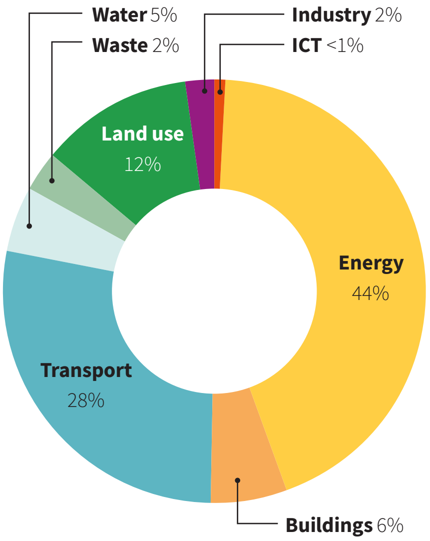
Source: Climate Bonds Initiative

Corporates, sovereign dominate, new countries enter the market



Source: Climate Bonds Initiative

Energy most funded, transport allocation grows



Source: Climate Bonds Initiative

Use of proceeds in LAC diversifies

Energy is once again the most funded sector in the LAC region, accounting for 44% (USD13.2bn) of the cumulative amount issued. While the amount allocated has more than doubled compared to the previous analysis (USD5.5bn), energy's share continues to be the same as before at 44%. Bonds from six countries (Argentina, Barbados, Bermuda, Costa Rica, Peru, and Uruguay) allocated more than 95% of their funds towards this category. 2020 was the most successful year for Energy investment from green bonds with USD3.2bn allocated. Examples of issuers with issuances post-2019 and large allocations to energy include CMI Energia from Bermuda (USD700m), Inversiones Latin America Power (USD404m) and Arroyo Energy Investors (USD399m) from Chile. Last year also saw the largest-ever allocations towards Buildings (USD760m), Transport (USD4.2bn) and Waste (USD360m).

More than a quarter (28%) of LAC green bond use of proceeds to date has been allocated to Transport projects. The largest contributors to this category are the CCBs from the Republic of Chile, whose related allocations include public transportation projects such as metros, buses and related infrastructure. Rumo SA, a logistics company from Brazil, is another large financier of this category with USD500m allocations in 2020. We discuss the outlook for low-carbon transportation in LAC in more detail in a dedicated spotlight section on p. 17.

As noted in our previous analysis, the **Land use category benefits from relatively high cumulative allocation in the LAC region** (12.1% or USD3.7bn), compared to the global share (3.8%). After a 2017 peak (USD1.1bn), allocations to this category have remained steadily high but have not crossed the USD1bn mark. This, combined with increasing allocations towards other categories such as transport, has resulted in the reduction of the share of land use allocations from 20% in 2019. New issuers since 2019 financing Land use include Coca-Cola FEMSA (forest preservation and reforestation) and SLC Agricola (low-carbon agriculture and soil conservation projects).

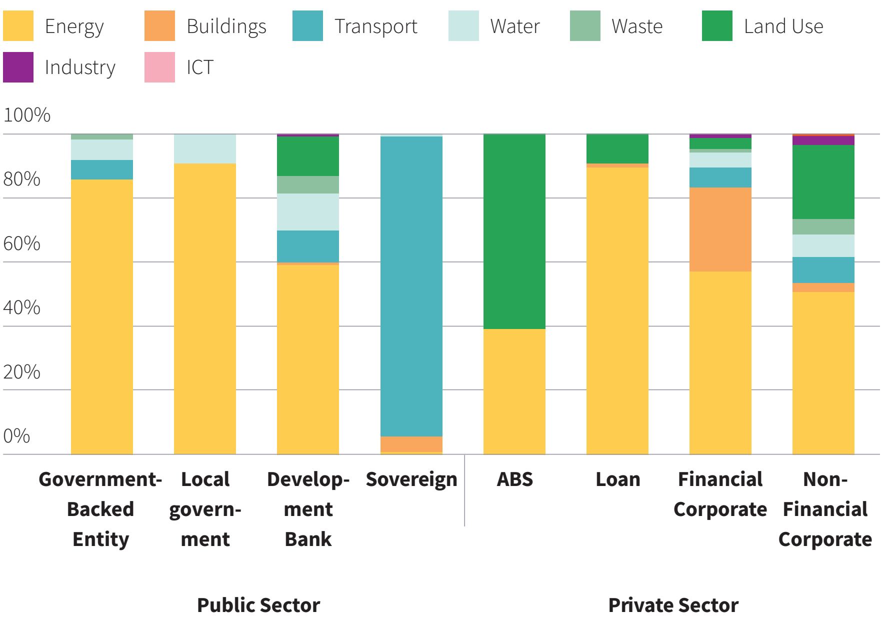
The Buildings and Water categories marginally improved their shares from 4% each in 2019 to 6% and 5%, respectively. This is in stark contrast to global allocation numbers, where Buildings is the second-most-funded category at 27% and Water is fourth at 10%. 2020 was a successful year for Buildings, with the highest-ever annual allocation of USD7.6bn.

Allocations diverge between countries and issuer types – though Energy prevails

Cumulatively, Energy continues to be the most funded UoP category in almost all countries. In 2020 this trend continued, with the only exception being Chile, primarily due to the sovereign bonds' large allocation towards transportation. Since 2019 however, Mexican and supranational issuers have seen increasing diversification in other sectors. Share of energy dropped to under 60% in Mexico (from 80% in 2019) and to 31% among supranational issuers (down from 40%).

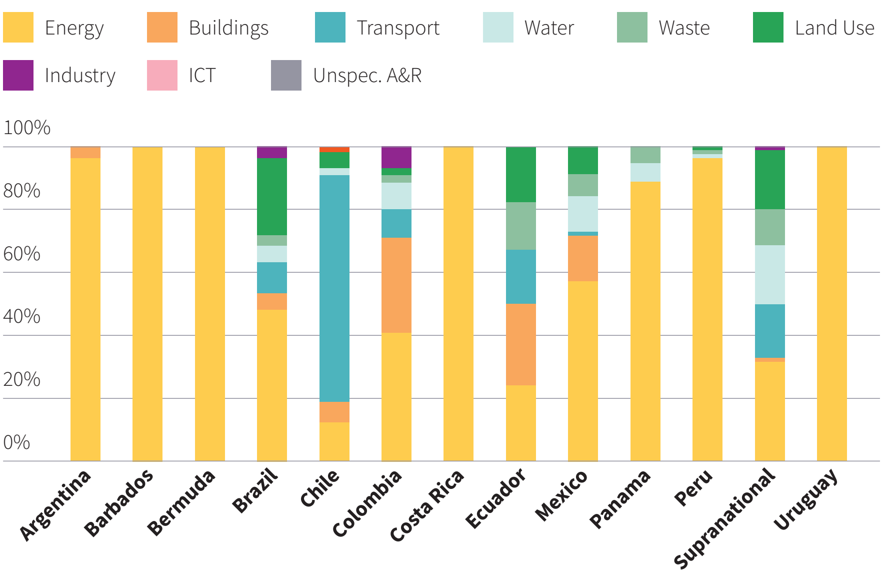
Among issuer types, there is a clear difference in allocation between private and public sector issuers. Except the sovereign category (which comprises solely of the Republic of Chile), most public sector issuers tend to have majority allocations towards energy. Transport, Water and Land use are the other popular choices among these issuers. Development banks in particular have increased their project portfolio since 2019 and have more Transportation and Water projects being funded since.

Most public sector issuers tilt towards Energy, private sector more varied



Source: Climate Bonds Initiative

New countries prefer energy, existing ones diversifying



Source: Climate Bonds Initiative

The private sector, on the other hand, tends to be more diversified but the proportions in Energy continue to increase. Compared to the previous report, both financial and non-financial corporates have seen increased allocations to Energy, with the latter also having increased their share of funds going towards green building projects.

USD continues to dominate, currency diversity increases

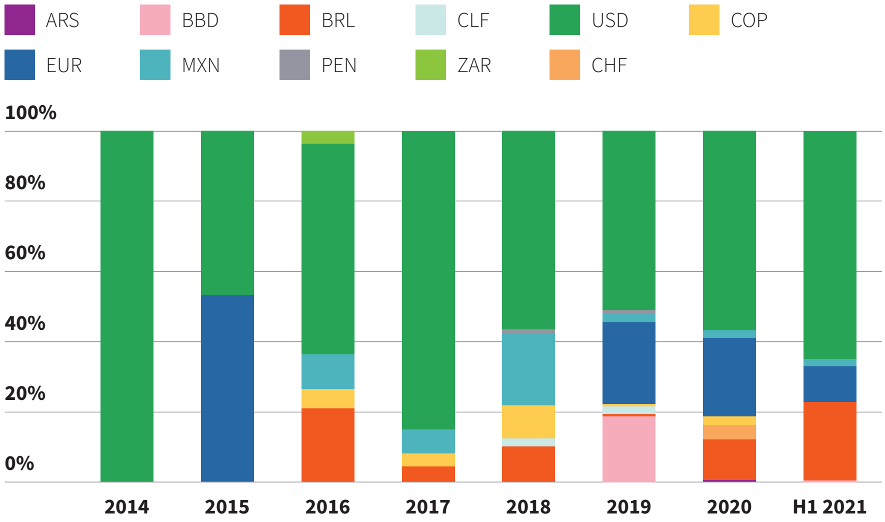
Nearly two-thirds (60%) of green issuance in LAC by amount is denominated in USD (USD18.2bn). This is a drop from 70% in the previous analysis, mainly due to increasing issuances in BRL and EUR since 2019. In terms of individual deals, BRL-denominated issuances have caught up with USD, at 63 BRL deals compared to 64 in USD. This is a positive sign of latent demand for local currency denominated bonds from the leading markets.

EUR-denominated deals are a relatively distant second at 16.6% (USD5bn). These are, however, only six in number from three issuers (Republic of Chile, CAF and BRF SA), thereby making EUR the currency with the largest average deal size in the LAC region. Hard currency issuance in large size is a natural way to cater to demand from international investors, particularly from Europe. This is evident in for instance Chile's sovereign issuance programme, of which the equivalent of USD3.6bn (half of its total issuance to date) has been issued in EUR.

The market has also seen an increase in the overall diversity of issue currencies after 2019. Green bonds denominated in ARS, BBD and CHF appeared, albeit in small numbers. The CHF350m (USD384m) bond from the development bank Corporacion Andina de Fomento (CAF) was the largest among the debutants.

Across issuer types, non-financial corporates are the most diverse in terms of currency with green bonds denominated in nine different currencies, followed by development banks at eight. USD is the clear currency of choice among most issuer types, except for sovereign.

Local currencies begin to challenge USD



Source: Climate Bonds Initiative

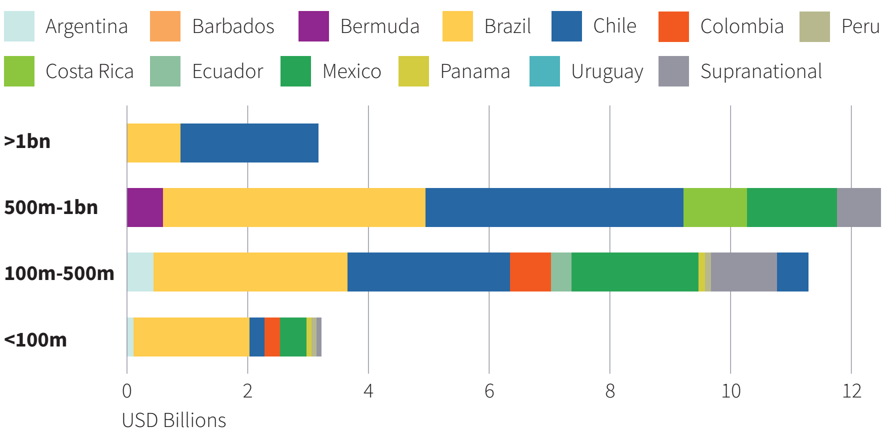
Per-deal analysis reveals a relatively different picture. Among non-financial corporates, BRL-denominated deals (63) are in a close second place to USD (64). EUR is virtually invisible except in the Chilean sovereign green bonds and a deal each from BRF SA in Brazil and the supranational issuer CAF.

Average deal size drops to below USD200m

Following the issuances of multiple small green bonds since 2019, the average and median bond sizes have fallen by 26% and 40% respectively compared to the 2019 analysis. Benchmark-sized deals, i.e. those of at least USD500m equivalent, now account for 53% (USD16bn) of total volume, down from 61% in 2019. The number of benchmark-sized deals, however, has doubled to 22. These come from five countries: Bermuda (1 deal, USD0.7m), Brazil (9 deals, USD5.3bn), Chile (8 deals, USD7.5bn), Costa Rica (1 deal, USD500m) and Mexico (2 deals, USD1.21bn) along with one supranational deal from CAF (EUR740m/USD800m).

Similar to benchmark-sized deals, Brazil, Chile and Mexico lead among the smaller issuances as well. These three countries account for 97

Smaller deal sizes preferred by more countries



Source: Climate Bonds Initiative

CASE STUDY: Corporación Multi Inversiones (CMI) green bond

CMI's USD700m green bond from April 2021 is the largest bond from a new issuer in H1 2021. The energy business unit of the group, CMI Energía, issued this 2029-maturity bond to high international demand in the USA and Europe. Under the renewable energy header, it plans to finance projects related to:

- Onshore wind
- Solar PV
- Run-of-river hydropower
- Renewable energy Power Purchase Agreements (PPAs)

Most of the proceeds will be allocated to the above. The company's green bond framework, however, contains additional eligible projects categories like energy efficiency, LEED/BREEAM/HQE-certified green buildings and clean transportation in the form of electric vehicles and vehicles with emission intensity under 50gCO2/km. The framework has received a Second Party Opinion (SPO) from Sustainalytics.

This bond from CMI Energía is currently also the only eligible green bond issued out of Bermuda, thereby becoming the de facto demonstrative issuance for other potential market participants in the country. A shift towards renewable energy would be beneficial not just for the environment, but also help provide a new, clean electricity alternative to the 64,000 Bermudians living there. Climate Bonds welcomes this issuance and expects more such bonds from Bermuda in the future.

of the 147 non-benchmark deals. Brazilian non-financial corporates alone have issued 42 deals with sizes under USD500m, 18 of which have been issued after our previous analysis in 2019. Frequent issuers in this category include energy companies Taesa SA, Omega Geracao and Iberdrola.

Longer tenor bond issuances increase

Bonds with tenors above 10 years have increased since the last analysis. Specifically, those with tenors between 10 and 20 years have increased from 14% previously to 30% (USD8.7bn) in terms of cumulative amount issued at the end of June 2021. This share increase has come at the cost of medium-tenor 5-10Y bonds (from 44% to 34%). This is especially interesting due to the fact that the 5-10Y category has seen the second-highest number of issuers (14) after 2019, but the issued amount is less than 15% of issuances in that period (USD1.9bn of USD14bn). This can be compared to the longer 10-20Y tenor category, which has seen USD6.6bn of issuance from 13 issuers (20 bonds) in the same period.

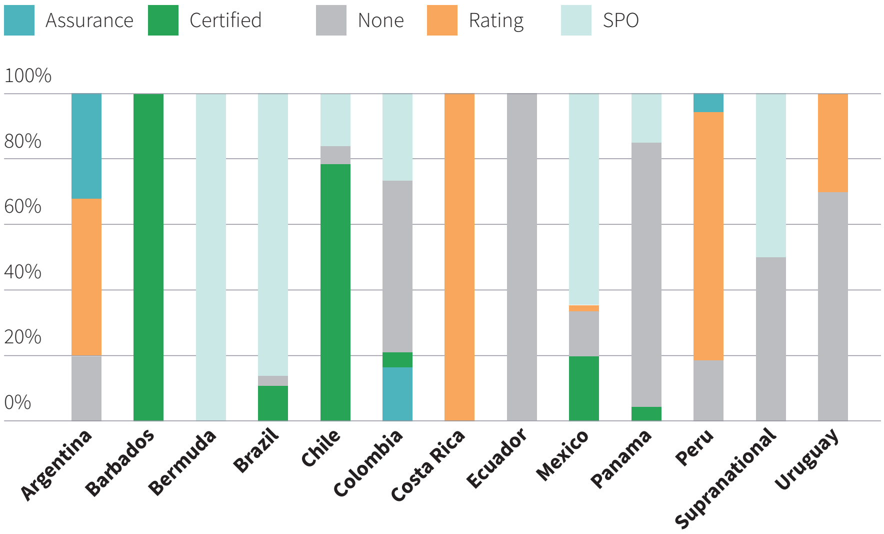
The biggest contributor to the long-dated debt surge is the green sovereign programme from the Republic of Chile. Its eight deals have a weighted-average tenor of 19 years and amount to USD7.4bn in total. Increased tenor can provide issuers with enough time to undertake larger, more capital-intensive projects at a steady cost of funding – especially relevant for the public sector. The low-carbon transportation sector and the underserved LAC green buildings industry is expected to grow with the help of such debt instruments.

External reviews common, certifications on the rise

Over 88% of the total issued amount, and 84% of deals in the region, have some form of external review. This is quite in line with the respective global numbers of 87% and 88%. The range of reviews includes Second Party Opinions (SPO), green bond ratings, Certification under the Climate Bonds Standard, and assurance. SPOs continue to be popular, but the share of SPO providers has changed significantly since the previous analysis.

Until early 2019, Sustainalytics was the clear leader among SPO providers, accounting for 42% of the total green bond issuance in the market. It continues to be the leader in 2021, albeit with a reduced share of 32%. This is primarily due to the increasing share of local player SITAWI (13%). SITAWI has reviewed bonds worth USD3.8bn, USD3.2bn of which have come after 2018. There are also five new reviewers that have entered the fray of green bonds in the LAC region since then: Bureau Veritas (0.01% by amount), CICERO (1.8%), CIPA (0.01%), Resultante (0.9%) and S&P (1.3%).[2]

External reviews common, certifications on the rise



Source: Climate Bonds Initiative

Vigeo Eiris is the clear leader of CCB Approved Verifiers in LAC at USD7.8bn (83% of the total Certified amount), followed by Sustainalytics at USD1.3bn. This makes Sustainalytics the largest overall reviewer in the region at USD10.8bn, followed closely by Vigeo Eiris at USD8.4bn. Other reviewers in the region include EY (USD24m) and Pacific Corporate Sustainability (USD15m).

CCBs have seen the largest rise in market share in recent years and have outpaced SPOs from most top providers. Since early 2019, USD8.6bn worth of green deals in the region have received Certification, a close second place to the entire SPO share of the market which amounted to USD9.1bn in issuance. Cumulatively, USD9.4bn worth of green deals in the region have received Certification, second only to exclusive SPOs which stand at USD15.2bn. The growth of Certification is driven primarily by the Chilean sovereign bonds, followed by Rumo SA's USD500m deal in July 2020.

It is interesting to note that when external reviews are analysed across countries, there are just two nations (Colombia and Mexico) with an observable diversity in review types. Issuers from most countries seem to have a collective preference to a specific mode of review e.g. SPOs in Brazil and CCBs in Chile. It is important to note here, however, that deal sizes significantly influence this analysis. Costa Rica, for example, has two bonds, one with a SPO and the other with a green bond rating. The green rated bond is 143 times the issue size of the other, which is why it appears as if ratings dominate in Costa Rica. Another reason is the heavy concentrations of the deals themselves in Brazil and Chile, which leaves other nations with two or three reviewer options in most cases.

CASE STUDY: Coca-Cola FEMSA inaugural green bond

Coca-Coca FEMSA is a prominent beverage maker in the Latin American region, employing over 80,000 people in its operations. It is also one of the first beverage companies to issue a green bond in the region. This Mexico City-based company developed its first green bond framework in early 2020 and completed its inaugural, USD705m deal in September that year.

Reviewed by Sustainalytics, Coca-Cola FEMSA's framework reveals that the company plans to finance a multitude of climate-friendly projects. The list includes:

- Energy efficiency improvements of 45% in its facilities
- Sorting and recycling facilities
- Forest preservation and reforestation activities
- Improved water management in its beverage units, and
- Solar, wind, geothermal and hydropower energy (including PPAs)

The 12-year bond is expected to contribute positively to the company's 2030 sustainability goals. Apart from GHG and renewable energy targets, these also include the target of collecting back 100% of its polyethylene terephthalate (PET) packaging bottles in the market by 2030. The issuer also plans to increase the share of recycled materials in its PET packaging to 50% in the same period. This is pioneering effort by Coca-Cola FEMSA in the circular economy category; we recognise the ambition of these targets, and hope that this bond will lead to many more such efforts in the future, both from Coca-Cola FEMSA as well as other entities in this sector globally.

Social & sustainability

ESG investing, including in thematic bonds beyond the traditional green label has been on the rise in the LAC region over the past couple of years. An important propeller of this surge has been the need to tackle both climate change and social challenges simultaneously. More recently, the uncertainties related to the Covid-19 pandemic has increased the issuance of social bonds as sovereigns raced to create sustainable economic relief packages to alleviate the social and economic effects caused by the pandemic in the LAC region. As at the end of H1 2021, social and sustainability (S&S) issuance represented 37% (USD18.3bn) of total green, social and sustainability (GSS) issuances in Latin America. In 2020, S&S bonds represented 42% of the total GSS issuance that year.

In 2020, social bonds significantly exceeded their sustainability-themed counterparts. Over the 2020 and 2021 years, LAC has dramatically increased the issuance of S&S bonds, totalling USD18.8bn for the entire analysis period and another 9.9bn from sustainability-linked instruments. This section focuses on use of proceeds instruments; we discuss Sustainability-Linked Bonds (SLBs) in a dedicated section on transition financing on p. 14.

The amount issued among the social and sustainability themes is approximately equally distributed at USD8.8bn and USD9.7bn, respectively. Social bonds exhibit greater diversity among number of issuers (28), while the sustainability theme has the larger number of deals issued (40).

Five years of social and sustainability issuance in LAC

LAC S&S bonds date back to 2016, when Chilean financial corporate Banco Estado launched two women social bonds in Japanese yen to promote microfinance initiatives for women entrepreneurs. The "Crece Mujer" program promotes microfinance loans, targeted education, and training for women entrepreneurs.

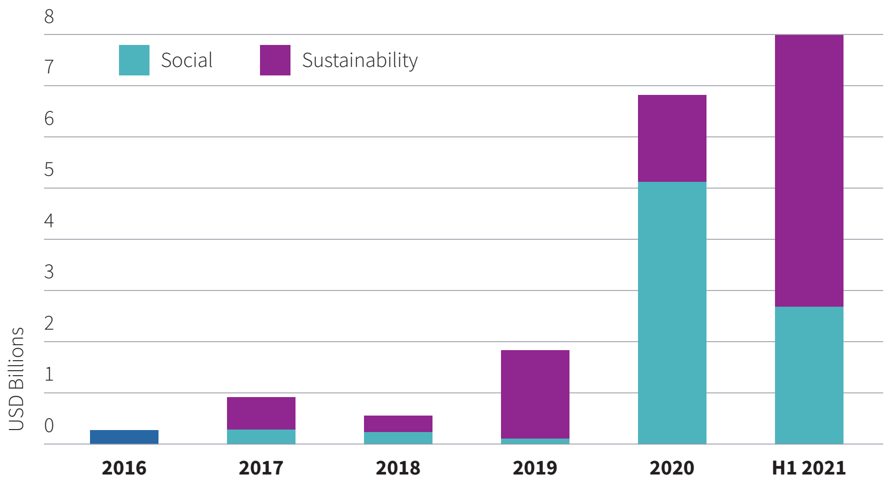
The following year, Mexico's Nacional Financiera (Nafin) launched its first social bond for a tenor of five years in the Mexican stock exchange (BMV). The focus of this bond is to finance social programs including education, financial services for marginalized communities and micro loans for women entrepreneurs and small and medium enterprises (SMEs). During the same period, Mexican development bank Banobras issued two sustainability bonds focused on financing affordable public service infrastructure, disaster recovery, sustainable transport, renewable energy, and water efficiency projects.

During 2018, the number of issuers in the region nearly doubled even though the issuance amount dipped. Argentina's Banco de Inversion y Comercio Exterior (BICE) launched a sustainability bond aimed at financing green projects related to energy efficiency and renewable energy, as well as social projects related to women empowerment, economic development, SME's microfinancing, and employment generation. In Mexico, real estate agency Vinte introduced a sustainability bond aimed at developing sustainable and affordable infrastructure in community housing, water and sanitation as well as educational facilities for marginalized groups.

S&S issuance began to increase again in 2019, where Chile led the way with nearly three fifths of total issuance amount, followed by Mexico and Colombia sharing one fifth of total issuance each. Chile's ARAUCO forestry company issued two sustainability bonds that year to finance projects related to renewable energy (wind and biomass projects), sustainable and efficient water management, pollution prevention and control, affordable housing projects for employees and vulnerable target population, as well as education, healthcare and public safety initiatives. One of Colombia's largest private banks, Bancolombia, also issued its first sustainability bond in 2019 with the support of IDB Invest. The proceeds of this bond will be used to finance 26 projects, 8 of which are labelled as social projects focused on providing basic public infrastructure, water sanitation, and affordable housing.

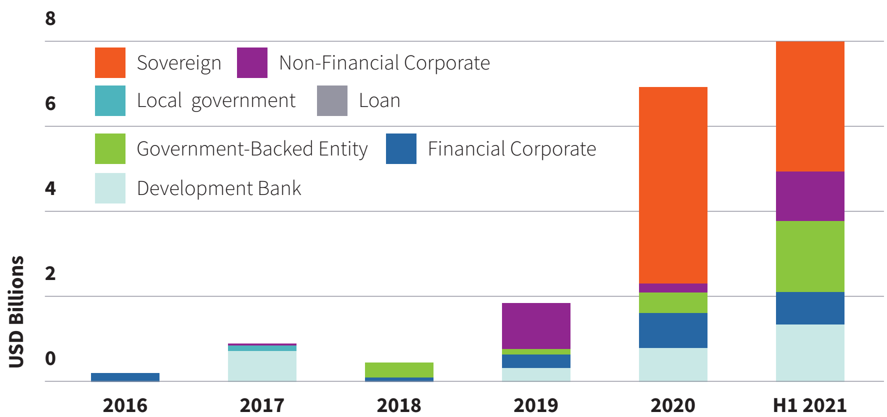
In 2020, 10 Latin-American countries and one supranational issuer participated in the issuance of S&S bonds where Chile, Mexico and Guatemala dominated as leading issuers. The beginning of the year also saw a global first with Ecuador's sovereign social bond (USD400m, January 2020) financing access to affordable housing for more than medium- and low-income families.[3] Overall, Chile represented 31% of the year's issuance amount where the Sovereign Republic of Chile had a majority share. The use of proceeds of the sovereign bonds are to be allocated to social expenditures in alignment with its Sustainable Bond Framework which includes financial support for the low-income families, access to affordable housing, access to education, food security, alleviation of unemployment derived from the coronavirus pandemic and access to

LAC social & sustainability issuance soared since 2020



Source: Climate Bonds Initiative

Social and sustainability bond issuers diversifying with sovereigns and corporates in the lead



Source: Climate Bonds Initiative

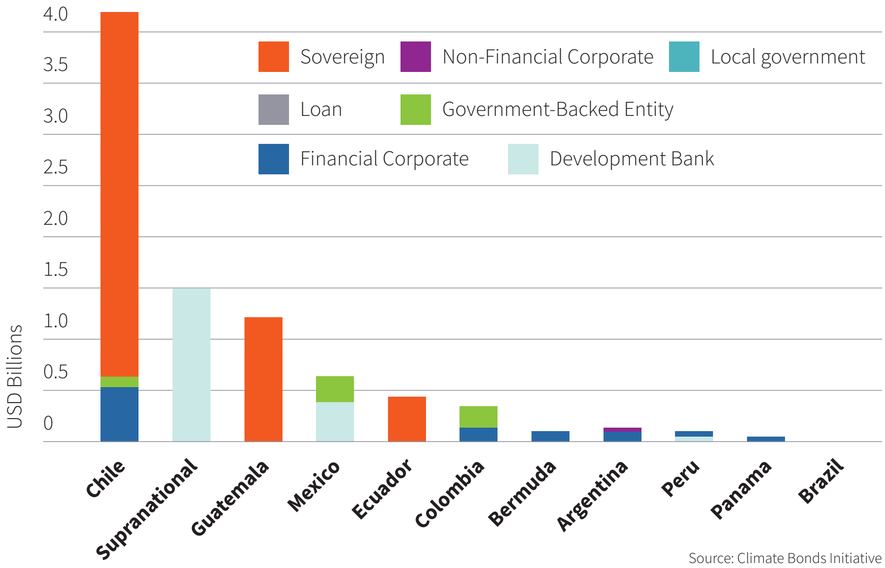
essential health services. Guatemala came in second with the sovereign issuance of USD1.2bn in social bonds targeted to alleviate the effects of the Covid-19 pandemic. Mexico followed with the issuance of a USD888m sovereign SDG Bond directed towards education and health services, clean water and sanitation, and renewable energy.

The issuer type mix remained diverse over 2020-21. During the pandemic period, public sector issuers (sovereigns, government-backed entities and development banks) led the way in social & sustainability issuance across the region. The Republic of Chile, Guatemala and the Federal Government of Mexico were among the largest contributors in sovereign issuances. Among non-financial corporates, Brazilian agriculture, engineering and renewable energy companies contributed to the most in issuances. Among supranational development banks, the Inter-American Development Bank, the Development Bank of Latin America and Mexican Banobras were among the largest issuers, adding USD2.2bn to the S&S market in 2020-21.

As with green, major economies are prominent in S&S bonds

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, but there is notable diversity overall. Chile propels the region, accounting for 45% of total S&S issuance, followed by Mexico with 20% and Brazil with 8%. The remaining 10 countries and supranational issuers together represent approximately 27% of total S&S issuance. Among the top issuers, Brazil and Mexico exhibit a greater diversity of issuers while Chile is more concentrated given sovereign issuance dominance.

Social bonds boosted by sovereigns

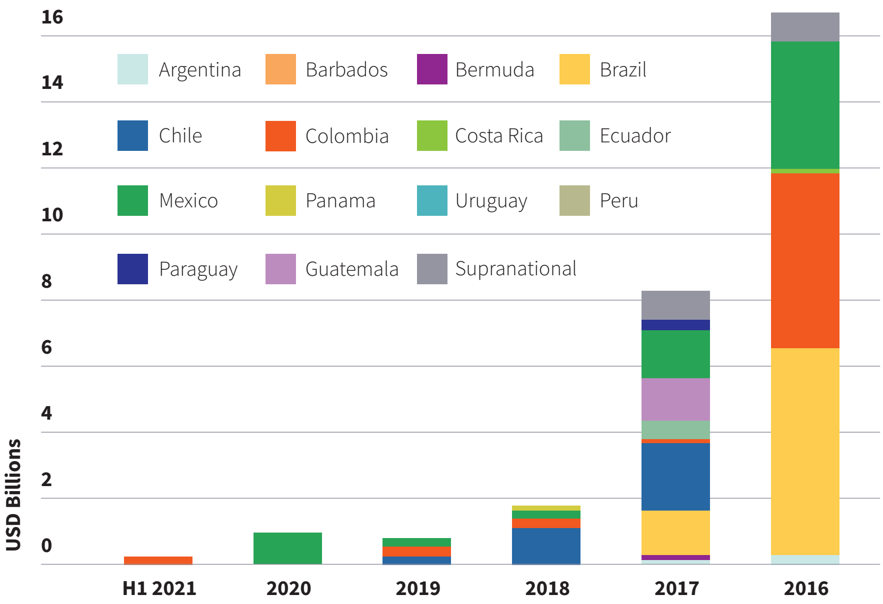


Source: Climate Bonds Initiative

Sovereigns pioneer social bonds in LAC

The social bond theme is characterised by sovereign bond issuance, which comprises 60% of the total social market segment. The three players in the sovereign field are the Republic of Chile, Guatemala and Ecuador with 41%, 14% and 4% market share respectively. Development banks and financial corporates follow sovereigns with 22% and 11% respectively where the Inter-American Development Bank and the Central American Bank for Economic Integration largely contributed to the participation of development banks in social bond issuance. The financial corporates contribution was completed by Banco Estado, Banco Santander Chile, and Banco W from Colombia.

Chile, Mexico and Brazil make up top three in social and sustainability bonds



Source: Climate Bonds Initiative

CASE STUDY – Paraguay's inaugural sustainability bond from Banco Continental

Banco Continental, one of Paraguay's largest private banks, issued its inaugural sustainability bond for USD300m and a maturity of 5 years. Sustainalytics provided a SPO for the bond, confirming the issuer's framework was in alignment with the ICMA Green and Social Bond Principles of 2018. The bond's use of proceeds is distributed among seven eligible green projects and three social projects.

Some examples of eligible projects include:

- Development of green agriculture via the production of organic agriculture, sustainable and ecological agriculture, including ecosystem restoration and soil erosion prevention;
- Investment in new telecommunication technologies to improve internet access to vulnerable communities;
- Financing the construction and remodelling of health care centres and public schools; and
- •Financing of water and wastewater management infrastructure.

The issuance was an important demonstration in Paraguay's nascent thematic bond market and exhibited some key characteristics to underscore its credibility, including obtaining a SPO. The bond's UoP categories showed important versatility in financing resilience across the economy, for example by investing in better internet connectivity for underserved areas. We hope to see more such issuances from Paraguay and elsewhere in LAC.

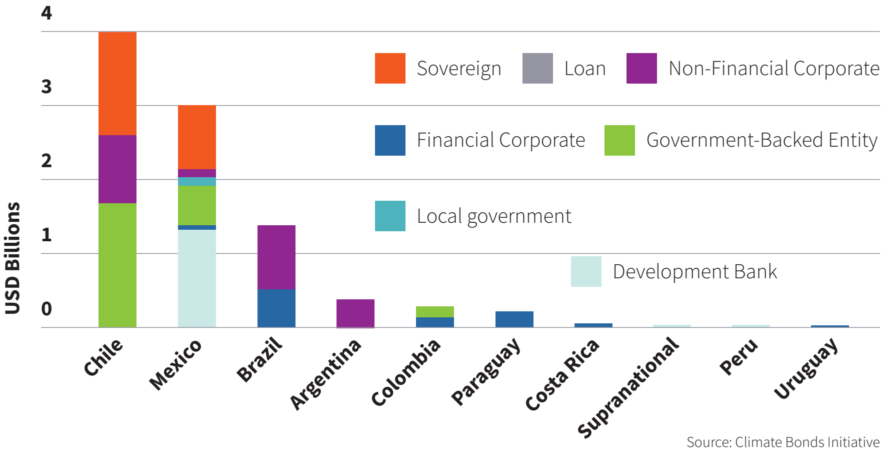
Corporates more prevalent in sustainability bonds

Sustainability bond issuance is driven by the sovereign and non-financial corporate issuer types. Chile and Mexico led the way for sovereign sustainability bond issuances while non-financial corporate issuers were led by Chile, Brazil and Argentina. Amaggi, Brazil's largest grain and fibre company contributed to the to the sustainability bond issuance devoted for socio-environmentally projects in the agribusiness supply chain.[4] Argentina's online retailer Mercado Libre launched its first sustainability bonds for USD400m devoted for financial inclusion, reduction of greenhouse gas footprint, social inclusion and empowerment through education.

USD and hard currencies dominate; but local currency share plays a vital role. During the 2016 period, hard currency dominated the S&S bond issuance with Chilean BancoEstado issuing two social bonds totalling JPY25bn (USD245m). In 2017, Mexican local governments and development banks entered the market issuing the totality of bonds in Mexican Pesos, appealing to the local investors. 2018 showed the most diversity in currency issuance, which was split between Chilean, Colombian and Mexican Pesos, and a small share of US dollars issued by Argentina.

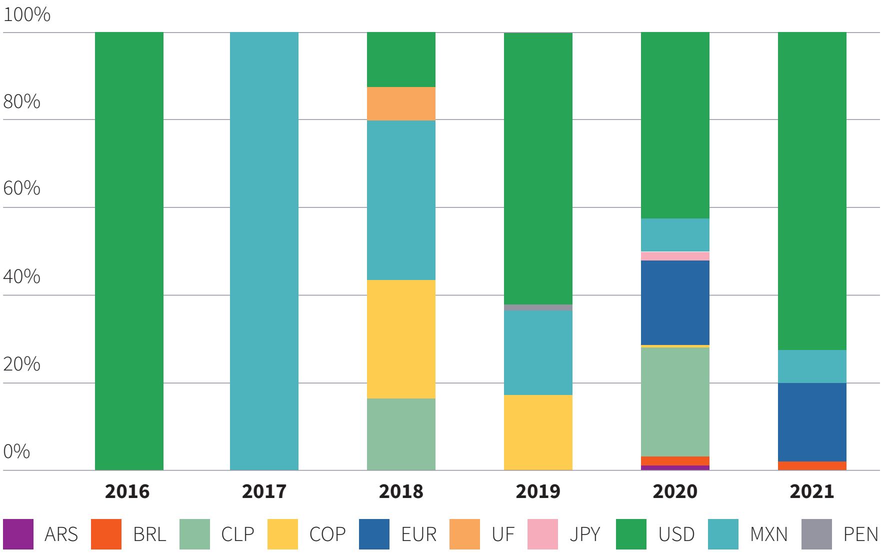
Subsequent years show a clear dominance in market share of hard currencies, mainly dollars, euros and Japanese Yen, which allows for additional international flow of capital from investors involved with thematic bond issuance. Over the last five years, Brazilian bond issuance was dominated by hard currency in USD (91% market share) while Chile had more diversity of currency issuances mainly in USD (51%), CLP (26%) and EUR (18%). Mexican issuances have been split between EUR (23%) and the MXN (76%). Other countries in the region such as Colombia and Peru have efficiently sourced local investors in more than 70% of issued amount, thus, there is still opportunities to open the market for international investors for a share of thematic bond issuances.

Sustainability bonds led by corporates and sovereigns



Source: Climate Bonds Initiative

USD share predominant over the last three years



Source: Climate Bonds Initiative

CASE STUDY: Chile's USD1.5bn Sovereign Sustainability Bond

In April 2021, Chile launched a sizable sustainability bond of USD1.5bn with a 32-year maturity. Chile's investor base has broadened with the bond being the first sovereign thematic deal to be listed on the Taipei Exchange. Vigeo Eiris provided the SPO on the Republic of Chile's Sustainable Bond Framework, which has been prepared by the Chilean Ministry of Finance with the support of the Inter-American Development Bank.

The framework features nine social eligible project categories, with examples including the following:

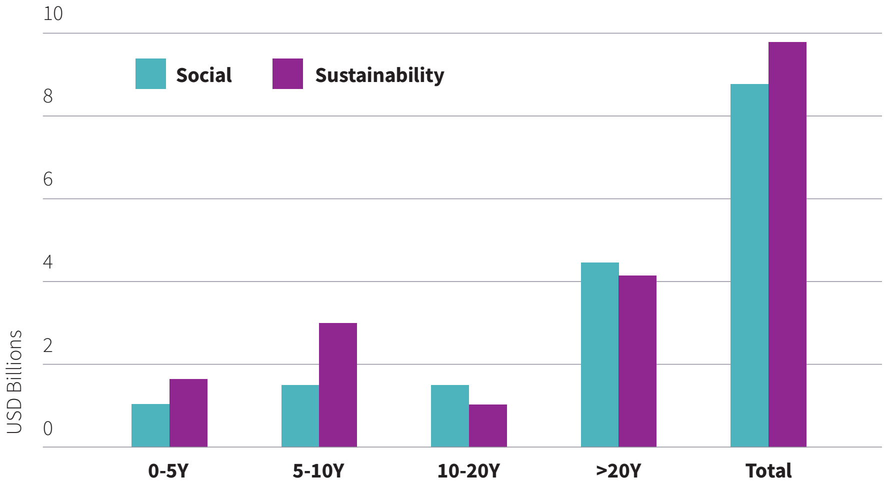
- Financing support to disadvantaged groups (elderly, indigenous and marginalised communities) via pension schemes;
- Support for low-income families and victims of human rights violations via subsidies and contributions
- Promoting food security for vulnerable groups
- Access to essential education and health services via preventive and curative health initiatives, and
- Disaster recovery programs related to socioeconomic crisis such as the coronavirus pandemic through SME and microfinance programs.

Areas of green financing include clean transportation, energy efficiency, renewable energy, conservation of natural resources and land use and marine areas, water management, and green buildings. Overall this framework is very broad and a great example of a sovereign issuer building a large pipeline of investable sustainability-themed assets, projects, activities and expenses to facilitate the achievement of multiple SDGs.

There is significant diversity in tenors among countries and bond themes. S&S bond maturities are mostly concentrated in mid-level tenors of 5-10 years (35% by issue amount), followed by long term tenor of 20 years and more (29%) and 10–20-year tenor (19%). The lowest share is the short term of (up to five years). For the social theme, long term tenure predominates with more than 50% of issued amount covered under it. The sustainability theme also displays similar divisions, with long-term tenors accounting for nearly 50% of the amount and mid-term tenures at 31.7%.

Bond tenor also shows much variance geographically. For instance, almost 60% of issued amount under the S&S header in Chile has a long-term tenor (>20 years) while in Brazil the tenor is relatively lower: the 5-10 Y and 10-20 Y bracket with 54% and 30% market share, respectively. Mexican bonds are of similarly short duration, where 53% of all issuances fall under the 5-10 Y bracket and 31% fall in the less than 5-year tenor grouping. Guatemala and Colombia share similar trends to Chile where majority of their bond tenors are 10 years and above. All else being equal, the longer the bond tenor, the riskier the bond, thus, the higher the interest rate. In the case of sovereign bond issuances, the variances of bond tenors among countries reflect in part, the perceived macroeconomic stability by investors.

Social and sustainability tenors



Source: Climate Bonds Initiative

CASE STUDY – CABEI's first internationally issued social bond

The Central American Bank for Economic Integration (CABEI) issued its first social bond – a USD500m 5-year deal with a Sustainalytics SPO – in the global capital markets in February 2021. The deal saw participation of a diverse group of investors from Europe, Asia, North America and the Middle East.

The proceeds of CABEI's inaugural social bond are intended to contribute to financing access to essential health and educational services; affordable basic infrastructure (e.g. clean drinking water, sanitation, electrification, social housing, disaster prevention and recovery); along with employment generation and SME microfinancing. The framework also considers gender inclusion funding for sustainable food systems that contribute to food security for low-income populations. The categories are broad-ranging and provide excellent examples of the varied benefits of social bonds and their overlap with green bonds especially from a resilience angle, such as in the cases of disaster prevention and resilient food systems.

Spotlight: Transition Finance in LAC

The green and sustainable bond markets continue to grow apace and while the breadth of assets and activities are becoming increasingly diversified, large GHG emitters are still largely absent from the green finance market.

And yet, large GHG emitters have a vital role to play in reducing global emissions. They are also often key constituents in mainstream investment portfolios making them critical to the transition of those investment portfolios.

To date, green and sustainable bond markets have been focused on financing assets and activities that are already low carbon. While this has been valuable in kick-starting a market, focusing on these activities alone will be unable to deliver the goals of the Paris Agreement. Every entity in every sector needs to be aligned with zero carbon emissions by 2050 for the world to limit global warming to 1.5 degree.

Currently only a small number of economic activities operate at zero or near zero emissions today. For some high-emitting activities, feasible low- or zero-emissions solutions are available or credibly envisaged within a reasonable time frame - transition should be towards those solutions. For others, there are no such solutions, but substitute low-emission activities exist or are in development - transition should be away from those activities and towards the better alternatives.

The implications of the transition are enormous – investors all around the world are no longer questioning if a shift will happen but rather how quickly it will happen and how it will play out.

The mood is already shifting among investors as demonstrated by a recent planned South Korean won (KRW) bond sale from South Korea's Samcheok Blue Power. The KRW100m deal failed to attract any institutional investors during the bookbuilding process, in part, due to the entity's coal business (and related credit rating down grade) which includes the building of a new coal-fired thermal power plant.[5]

As investors seek to align their portfolios, investing in organisations that have a credible transition plan is becoming essential. Clearly then it is imperative for issuers and investors to continue to access and allocate capital in a way that leaves no sector behind, is relevant, and avoids green or "transition-washing". At the heart of this shift is the need to standardise the definitions for transition and to ensure they are applicable to activities as well as to whole entities.

Three common features for Transition

- **Ambitious** – this means in line with 1.5 degrees or has a significant emissions reduction potential
- **Flexible** – applicable to whole entities, everything they do, and a range of associated financial products
- **Inclusive** – allow all sectors and activities to participate as long as they demonstrate compliance with the principles and framework outline

Defining transition

To address the anxiety in the investment sector as they look to invest in this new area with new risks and opportunities, the credibility of transition plans is important. Climate Bonds has begun outlining a framework for transitions. A set of transition principles were featured in the 2020 discussion paper *Financing Credible Transitions* (see below), and a subsequent series of blog posts.[6,7] The overarching requirements and characteristics can be summarised as follows:

The focus and starting point of the framework is on a 'climate mitigation transition', i.e. the transition that entities, activities and assets need to transform from current operations to align activities to meet net zero by 2050. This is in line with the climate focus – though not necessarily the level of ambition – of most transition-labelled bonds to date. Climate Bonds continues to work with existing frameworks to develop standardised definitions and provide the clarity needed by investors. This will lay the foundations for capital markets to adopt a comprehensive, robust and implementable concept of transition, which we hope will result in greater clarity and consistency of how the term is used.

Below we summarise current examples of the different mechanisms for transition at the entity-level (Sustainability-linked bonds) and asset and activity-level (green and transition bonds) and that have already been used in the LAC sustainable finance markets.

5 principles for an ambitious transition

1. In line with 1.5 degree trajectory
All goals and pathways need to align with zero carbon by 2050 and nearly halving emissions by 2030.

2. Established by science
All goals and pathways must be led by scientific experts and be harmonised across countries.

3. Offsets don't count
Credible transition goals and pathways don't count offsets, but should count upstream scope 3 emissions.

4. Technological viability trumps economic competitiveness
Pathways must include an assessment of current and expected technologies. Where a viable technology exists, even if relatively expensive, it should be used to determine the decarbonisation pathway for that economic activity.

5. Action not pledges
A credible transition is backed by operating metrics rather than a commitment/pledge to follow a transition pathway at some point in the future. In other words, this is NOT a transition to a transition.

Transition instruments

Transition bonds

Transition bonds are use of proceeds bonds designed to allow high emitters to fund their shift towards cleaner, more sustainable operations and strategies.

Global transition bonds issued to date have received mixed responses from investors with some concerned that some transactions using the label do not represent a significant departure from business as usual.

Though not the same as green bonds, when thoughtfully constructed, these debt instruments can be pivotal in supporting a global, economy-wide transition to the Paris Agreement targets. This can be supported by better market guidance - ICMA and the Climate Bonds Initiative have both put out initial guidance in this space. As noted, Climate Bonds will release more guidance targeted specifically at entities in late 2021.

CASE STUDY – Eneva issues dual-tranche transition bond

In September of 2020, Brazilian energy company Eneva launched the second transition bond from LAC following the 2019 deal labelled as a Sustainable Transition Bond from meat producer Marfrig.

Eneva's BRL948m (USD178m) issuance was structured as a two-tranche deal. The use of proceeds cover two projects: the first is an expansion of an existing gas power generation plant through the use of geothermal energy, which will increase the peak capacity of the plant from 178 MW to 268 MW through a renewable energy source.

The second project related to the construction of a thermoelectric plant based on natural gas which will substitute the existing plant that uses diesel oil as fuel. By transitioning from diesel to gas, the plant will further reduce greenhouse gas emissions. According to second party opinion provider Sitawi, this transition signifies a reduction of 99% of nitrogen oxide emissions to the atmosphere and a reduction of more than 20% of greenhouse gas emissions.

Though these projects do not add new fossil fuel capacity, they are nonetheless examples of interim transition measures that should have a sunset date in the near future in order to align with a 1.5-degree future.

Sustainability-linked Bonds

Sustainability-linked transactions are general purpose bonds, where the cost of finance moves up or down depending on the achievement of key performance indicators (KPIs) of the issuing entity. The Sustainability-linked bond (SLB) market can play a vital role as a complementary tool that allows issuers to attract finance to achieve entity-level KPIs as part of their transition strategy. While these are not specifically labelled as 'transition', they are seen by the market as a transition instrument as they support an entity's overall goals/strategy rather than financing specific assets.

This type of bond can allow for an enhanced commitment and accountability given the pricing of the instrument is adjusted based on the achievement of the KPIs established by the issuer. There have, however, been some concerns around the growth SLBs. In particular, that for some deals, the KPIs set not sufficiently ambitious or are difficult to assess against alignment with broader goals such as the Paris Agreement. Nevertheless, if structured well, they can be a valuable addition the green and transition finance landscape.

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 come 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 or 48% - of all SLB volume.

SLBs in LAC come predominantly from corporates including the aforementioned top three followed by JBS, the continent's largest animal protein producer, and Body Shop parent company Natura Cosmeticos SA.

Likely due to its skew toward corporate issuers, the LAC SLB segment is more aggressive in targeting international investors via currency denominations: 96% of the total USD10bn was issued in USD or EUR. The remaining 4% was issued in local BRL. Out of the 24 number of bonds issued, 70% were issued in Brazil (70%), followed by Mexico (25%) and Chile (5%).

CASE STUDY – Suzano issues USD2.3bn in Sustainability-linked bonds in 2020 and 2021

Suzano, a Brazilian industrial pulp and paper company, issued its inaugural USD1.25bn Sustainability-linked Bond in 2020. The issuance, which at the time marked the first in the region, sector and emerging markets overall, the instrument was tied with a KPI of reducing the company's Scope 1 and 2 GHG emission intensity to 0.190 tCO_2e/ton of unit produced by 2025 from a 0.213 tCO_2e/ton 2015 baseline. The company said its issuance was aligned with its long-term target of reducing GHG emission intensity by 15% by 2030. The deal received a SPO from ISS ESG.

In 2021, the company issued an additional SLB for USD1bn which saw new KPIs: the first one was a goal to reduce Suzano's industrial water withdrawal intensity by 12.4% by 2026 from a 2018 baseline. The second target aimed at achieving women representation in leadership positions to 30% by 2025.

Overall Suzano's targets show an interesting variety and are a good reminder that a green transition needs to ultimately encompass all the material impacts of an issuer's operations; in the case of pulp and paper for instance, water usage is crucial. The emissions intensity target is a commendable start, but will need to be revised in the future to encompass Scope 3 emissions to allow an appropriate and holistic view of the company's transition pathway against that of its industry.

Spotlight: Support and opportunities for sustainable finance market development in LAC

Land Use

Issuances in the Land use category represent 12% of the LAC green bond market. Forestry, agriculture, bioenergy and food production companies are key contributors to this category. While, issuances from agriculture are still incipient, the sector remains as one of the most important in many major LAC economies. Agriculture accounts for 5 to 18% of GDP in 20 countries across LAC, considering food systems this percentage increases.[8] 32 green bonds have been issued under the Land Use category in this region.[9]

Brazil leads as a major commodity producer. The country is the world's largest sugar, coffee and beef producer, and the second in soy. Despite other countries, such as Argentina, Chile and Mexico, also being amongst top agriculture producers, Brazil has led green land use-related issuances in LAC, with a total USD 4.3bn from 17 deals.

Pulp and Paper Lead Issuances in LAC

Forestry companies lead LAC issuances, with USD3.4bn. Brazil pulp and paper companies lead issuances. Suzano Papel e Celulose was the first company in the sector to issue green bonds, the first in July 2016 (USD500m) and the second in November 2016 (USD295m). The company also was responsible for another two issuances in 2017, with a combined USD900m.

Another five issuances from Brazilian pulp and paper companies came to market between 2017 and 2020: Klabin (USD500m/September 2017; USD500m/April 2019; USD200m/January 2020); Celulose Irani (USD131/August 2019) and The Forest Company do Brasil (USD10m/ September 2019). The Climate Bonds "Agriculture Sustainable Finance State of the Market" highlights how all issuances from pulp and paper companies went towards products certified by either the Forest Stewardship Council – FSC or PEFC; with a largest part of proceeds financing pulp and paper production and a smaller portion to conservation efforts.

Chile's CMPC, the fourth largest pulp and paper producer in the world,[10] also issued a green bond in 2017, for USD500m. The company was the third pulp and paper producer in LAC to issue a green bond. The deal went to finance sustainable forestry, sustainable water management, industrial energy efficiency and waste management projects related to its operations.

Food Production Issuers also access the Market

Food production companies in LAC also have a significant participation within the Land Use category. Companies from the sector have issued USD1.4bn. The inaugural issuance came from Brazil, in 2015, with BRF (USD564m) being the first financial corporate in LAC to allocate the majority of its use of proceeds on any type of industrial production. Agrosuper, a Chilean meat product manufacturer, borrowed USD100m via a green loan to fund sustainable fisheries. Brazil (Katayama) and Mexico (Coca-Cola FEMSA) were responsible for the other two issuances. Katayama Alimentos, a Brazilian poultry company, issued a USD3m green bond in January 2020 to finance organic fertilizer production from animal waste and Coca-Cola FEMSA,[11] issued a USD705m, the largest bond from the sector, in September 2020 to finance or refinance eligible projects that reduce its carbon footprint, water stewardship and circular economy (recycle resin in PET bottles and collect beverages packages).

Bioenergy Issuers also direct proceeds towards Land Use

Bioenergy companies are also increasing their participation within this category. The two issuances with UoP going towards Land Use came from Brazil (FS Bioenergia) with a combined USD 600m. FS Bioenergia, the largest corn ethanol producer in the country, issued a USD550m green bond in December 2020. The deal was 1.8x oversubscribed and the proceeds were allocated for the production, commercialisation, processing and industrialisation of corn, eucalyptus biomass and other agricultural products. In January 2021, FS Bioenergia issued a USD50m bond for working capital towards the same use of proceeds.

Dedicated Agriculture Issuers enter the Market

Agriculture companies debut in the green bond market. The four issuances in LAC are from Brazil. The share from agriculture is small, with a combined USD137 issued from August 2020 to May 2021. The first green bond, for USD5m, was issued by Rizoma Agro, the largest Brazilian organic grain producer. It was also the first issuance under the Climate Bonds Standard's Agriculture Criteria, being a milestone in the market. The deal was structured by Ecoagro as a green CRA. Under this structure Ecoagro issues the CRA and transfers the funds raised to Rizoma Agro. The proceeds from the CRA will finance row crops and agroforestry production, irrigation systems, the production of biological inputs, post-harvest infrastructure, research and development and agriculture management platform.

SLC Agrícola also issued a green CRA at USD94m. The use of proceeds was aligned with the Green Bond Principles and will be used to finance digital and low carbon agriculture, including the purchase of modern and more efficient machinery and equipment, that require less non-renewable resource consumption and herbicides; no-tillage, and integrated crop-livestock (ICL) systems for soy and cotton.

A third green CRA was issued by Gaia Securitizadora. The USD11m will finance seven agriculture producers from the Brazilian Midwest to preserve over 24,000 hectares of protected land with native vegetation. The CRA was also certified under the Climate Bonds Standard Agriculture Criteria. Solinftec, an agricultural-technology firm, issued the fourth green CRA, being the second one to receive the Climate Bonds Certification under the Agriculture Criteria. The proceeds from the deal will go towards improving and developing digital and prediction agriculture technologies focused on mitigation and adaptation.

LAC Potential to scale Land Use issuances

LAC countries are important agriculture producers and the world largest net food exporting region.[12] By 2030, approximately 34% of LACs agriculture production is projected to be exported.[13] While agriculture and food systems in the region are diverse and vary in scale, sophistication and economic importance, there are opportunities to scale sustainable agriculture production.

Public investment in agricultural research and technological innovation has triggered productivity in LAC. To expand production further investment will be needed in sustainable and integrated models. A few known sustainable agriculture practices include crop rotation, use of cover crops, no-till and reduced-till, integration of livestock and crops and agroforestry systems.[14]

LAC Countries are already looking at developing low carbon agriculture as part of their climate commitments. In Argentina, the National Forest Management Plan with integrated Livestock has set technical guidelines for native forest management and livestock management. The country also published, in 2019, a National Forestry Strategy 2030 to protect native forest and promote forest plantations.

Argentina, Brazil, Colombia and Chile have support schemes for biofuels, such as compulsory biofuel mandates. This can support further expansion of biofuels issuance in the region for sustainable feedstock production.

Low Carbon Transport

Growing GHG Emissions

Transport is one of the largest and fastest-growing sources of global GHG emissions. According to the International Energy Agency (IEA), fuel combustion from transportation – primarily road, air and marine – is responsible for 24% of global CO_2 emissions.[15] Road passenger and freight transportation is the largest contributor to those emissions, with 73%.[16] The movement of people and goods is central to enabling economic activity and maintaining competitiveness. Thus, demand for transport infrastructure and services will continue to increase in both developed and emerging markets over the next decades – an increase which may result in a 60% jump in transport-related CO_2 emissions by 2050.[17,18]

Drastic measures will be required to meet this demand while reversing the GHG emissions trajectory, meaning that existing solutions must transition towards low-carbon alternatives and future infrastructure must incorporate climate mitigation and resilience principles. Known initiatives include switching to zero-emission fuel sources, fuel efficiency, and modal shifts. According to the UNFCC's Climate Action Pathway for Transport, zero carbon in land transport is feasible. An 85% reduction in CO_2 emissions could be achieved through existing and emerging policies and technologies.[19]

Funding Transport through Green Bonds

Transport is the second most funded category of the LAC green bond market, with 28%. Chile's Sovereign issuance is responsible for this participation. Other issuers from the region such as development banks, non-financial corporates, financial corporates and local government have also issued bonds to fund rail, subways and BRT systems. GHG emissions from the transport sector is fast growing in LAC countries, accounting for 35% of total GHG emissions in the region.[20] This is even more significant compared to global transport emissions, where LAC accounts for 24%.[21]

LAC's transport sector includes a large fleet of road transportation for freight and passengers, with a smaller share of rail concentrated in countries such as Brazil, Chile, Colombia and Mexico. The quality and performance of this infrastructure varies across LAC countries. While 50% Dominican Republic's and Bahama's road network is paved, in Brazil, Bolivia and Peru, this percentage decreases to around 15%.

Largest share comes from Sovereign Issuances

Allocations for transport across the sustainable labels are rising. Green issuances have been the main label for assets from the sector, with 30 green bonds directing part of their UoP to low carbon transport. There were 11 issuances where more than 90% of UoP went towards transportation projects: Republic of Chile's Sovereigns (8 deals), Rumo SA (1 deal), MetrôRio (1 deal) and Transmilenio (1 deal).

The Chilean Sovereigns have a strong transportation component. Around 92% of the eight deals have gone towards low carbon transportation. Chile's Green Bond Framework highlights that the proceeds will be directed toward public and multimodal transport solutions, with eligible assets being modal shift, electric public transportation, electrified metro lines, electric buses, trams and trains, intermodal infrastructures and subsidies that support the implementation of low carbon transportation.

Exclusive deals come from Brazilian Non-Financial Corporates

Only three green bonds were fully dedicated to low carbon transportation. Two deals came from Brazil. The first was from Rumo SA, the largest independent freight rail operator in the country, issued a USD500m green bond in July 2020. This was the first bond for freight rail in LAC to be Certified under the Climate Bonds Standards Low Carbon Transport Criteria. The use of proceeds will be allocated towards increase in energy efficiency of the network, upgrading rail network infrastructure and the purchase of new rolling stock (locomotive and wagons).

The second issuance from Brazil was MetrôRio, Rio de Janeiro's metro company. The company issued a USD220m green bond will finance urban mobility. UoP will go towards rolling stock for electrified public transport as such as rails, trams, trolleybuses and cable cars; and dedicated infrastructure. The deal received an SPO from Sitawi Finanças do Bem.

The third exclusive issuance came from Colombia's Financiera de Desarrollo Nacional (FDN) (Transmilenio). The USD41m deal will be used to purchase up to 741 compressed natural gas (CNG) buses for operation on up to four corridors of Transmilenio's BRT system. The bond will be repaid using future cash flows from Transmilenio journeys, although a 12% contingency liquidity line will also be provided by FDN.

Other deals also benefit low carbon transportation

Other issuers in LAC are also funding low carbon transportation. Development Banks, Financial Corporates, Local Governments and Non-Financial Corporates have also included these assets within their deals.

- Development Banks: CAF, CABEI and Bancóldex have issued a combined USD1.8bn across eight deals. CAF is the largest issuer with six of the eight deals. Funding has gone towards land transport such as electric rail, metros and tramways.
- Financial Corporates: BTG Pactual, Bradesco SA, Banco de Bogotá, Banco Pichincha, Banco Galicia and Bancolombia have issued a combined USD1.2bn across eight deals. The share of transport within these deals are smaller – around 13% to 33% - but have also been important to fund low carbon transportation.
- Non-Financial Corporates: Klabin (Brazil) issued USD1.2bn across three deals (2017, 2019, 2020) to fund the transport infrastructure for the transportation of pulp, including the acquisition of locomotives and train wagons to replace trucks and railway lines.
- Local Government: Mexico City issued USD104m across two deals. Proceeds were directed toward metro systems, expansion of the Metrobús lines, electric transportation, light rail and BRT.

Infrastructure funding gap

LAC has a significant infrastructure and related investment gap. While countries have directed investments to improve transport systems[22], the level of investment needed to bridge this gap is significant. Public sector investment alone will not be able to provide the resources to increase the stock and quality of transport infrastructure in the region, with sustainable capital markets playing an important role to mobilise the much-needed long-term funding for transport assets[23]. Public-private partnerships have been used to attract investment to infrastructure projects. Chile for instance has used the PPP model for the operation and maintenance services of its eBuses. This is part of the country's commitment to replace its public transport fleet to fully electric by 2040.

Bridging the gap through low carbon solutions

Growing urbanisation in LAC has increased demand for private and public transport services. The region has an 80% urbanisation rate and the number of people living in cities has grown considerably[24]; according to the United Nations approximately 654 million people live in LAC urban centres. Four cities in the region are already ranked amongst the ten most congested in the world - Bogotá, Mexico City, Rio de Janeiro and São Paulo – and by 2030, motorisation rates are expected to increase by 40%[25]. This highlights the need for improved urban mobility as a key to mitigate emission within LAC cities.

Low carbon transport solutions are being implemented throughout LAC countries. One of the leading urban mobility alternatives are Bus Rapid Transit (BRT) transport systems. LAC countries have pioneered BRT deployment, with 54 cities across Argentina, Brazil, Colombia, Mexico, Chile and Peru with operating BRT systems[26]. Though BRTs are not sufficient to deal with all transportation demand, they have proven to be a cost-effective solution as it is cheaper than metro systems. There is potential to continue to expand BRT networks to other cities, reducing the demand for private vehicles and consequently GHG emissions.

Scaling low carbon transport in LAC

Low carbon transport has the potential to contribute to climate commitments. Mexico's for instance aims to reduce black carbon emissions by 51% by 2030 and recognizes the importance in investing in low carbon alternatives. Government has implemented measures to standardize environmental norms and regulations for existing and new vehicles, as set out in its Nationally Determined Contribution. Costa Rica's National Decarbonisation Plan also low carbon transport, with dedicated bus lanes, intermodal stations, fast charging stations and electric passenger trains[27]. In addition, expanding and building quality infrastructure is also linked with the delivery of the Sustainable Development Goals (SDGs)[28].

Low carbon transportation can also improve resilience to climate impacts. Transport infrastructure throughout LAC is vulnerable to extreme weather events, as flooding, intense rain, landslide and extreme temperatures.[29] This disrupts transport services and damages infrastructure. In 2010-2011, Colombia was hit by the La Niña and extreme rainfall damaged 98 major roadways, leading to delays in distribution and driving up commodity prices in the country. This resulted in an economic loss of USD1.9bn in the transport sector alone.[30] Therefore, there is a clear opportunity to invest in climate-resilient infrastructure, both existing and new.

Electrification is also perceived as a solution for LAC countries. Electric Vehicle penetration has been small, though a few measures have been put into place by a few countries, including tariff reduction for electric vehicles. Argentina, Brazil, Colombia, Costa Rica, Ecuador and Mexico are a few of the countries that have lowered these tariffs.

Electrification of fleets are also part of transport strategies. Costa Rica legislation for fossil-fuel free transportation mandates public charging infrastructure and an EV sale targets for 2030 (5%) and 2040 (50%). While Chile's national strategy aims for a 40% private electric fleet by 2040. Multilateral development banks are further supporting electric mobility projects in the region. The International Finance Corporation (IFC), for instance, has been supporting Brazilian municipalities on how to move forward with these projects by providing technical, financial and institutional advisory.

There is also potential for electrification of rail systems in the medium term, particularly for freight. Rail network is limited to Brazil, Mexico, Colombia and Chile, but there is a significant potential to grow and reduce demand for road transport.

Adaptation and resilience

While no GSS bonds from LAC have yet been labelled as climate resilience bonds, green bonds can and do have a climate-resilience component. One of the reasons for the low volume of dedicated resilience bonds is the lack of a common taxonomy for adaptation, nonetheless, in 2019 the Climate Bonds Initiative published the Climate Resilience Principles,[31] to guide the market.

Increasing vulnerability to climate impacts

In addition to mitigation, there are opportunities to finance adaptation and resilience in LAC, which is highly vulnerable to the physical and economic effects of climate change. In the coming years LAC economies will face increasing climate impacts, and extreme weather events, such as rising temperatures and changing rainfall patterns. Climate change could cost between 1.5% to 5% of GDP per year in the region.[32] It is estimated that an annual 1.7% of GDP has been lost in Latin American countries due to climate-related impacts in the last twenty years, in the Caribbean this figure is around 3% of GDP.[33]

The region is already experiencing extreme weather events. Nicaragua, Honduras and Colombia were devastated by Hurricane Iota in November 2020. The IDB estimates that LAC could suffer climate-related damage of USD100bn per year by 2050. Funding for adaptation is very limited. Adaptation costs in developing countries are estimated at USD70bn, and this is expected to increase to USD140-300bn by 2030 and USD280-500bn by 2050.[34] Public investment can only cover a small share, with private investment increasing in importance.

Addressing adaptation and resilience in LAC through GSS

There have been a few GSS bonds with an adaptation and resilience elements, and there is the potential to expand the resilience labels in sectors such as Water, Agriculture and Infrastructure.

Water

According to the IPCC in its latest report from 2014, rain patterns have already been changing with further disruption in the hydrological system to happen, affecting the water resources available. In June 2017, the Mexican-based company Grupo Rotoplas issued a sustainable bond (USD243m) to finance projects that provide resilient infrastructure that guarantee access to drinking water supply to vulnerable communities[35].

Agriculture

IPCC predicts that the negative impacts on crop yields will become more common, with change in rainfall patterns and longer periods of droughts causing wildfire. These climate-related hazards will cause severe disruption in food production (IPCC 2014).

Infrastructure

A report developed by Global Centre on Adaptation estimated that the investment in resilient infrastructure for the LAC countries should be UDS13bn annually. Currently, the transport and energy infrastructure have lost an average of USD2bn per year in the last 10 years and households and businesses have had direct damages of almost USD100bn to climate-related disasters. Athon Energia, a Brazilian company, issued in 2019 USD11m in green debentures. The proceeds will be used to finance six small-scale distributed solar energy projects. The issuance was the country's first green bond for distributed solar power and aims to ensure network resilience.

Drawing best practices from International Experiences

The European Bank for Reconstruction and Development (EBRB) issued the first dedicated climate resilience bond at USD700m in 2019. Proceeds from the five-year deal went to finance existing and new climate resilience projects (infrastructure, business and commercial operations, and agriculture and ecological systems). There was demand from around 40 investors from 15 countries. The EBRD Bond was aligned to the Climate Bonds Climate Resilience Principles (CRP), demonstrating the practical application of the CRP.

Other deals that have funded climate adaptation and resilience include the Kanagawa Prefecture (Japan), who issued a Green Bond in 2020 to finance projects related to rivers, coasts, and erosion control under the "Kanagawa Prefecture Flood Disaster Prevention Strategy." The other green bond also came from Japan, with Central Nippon Expressway issuing a USD400m deal to finance bridges and earth work. These categories fall under "Climate Change Adaptation Projects" under ICMA's Green Bond Principles.

Taxonomy Development in LAC

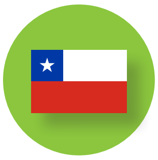
The rise of local taxonomies

Guidelines to select eligible green projects and assets are being implemented across the globe to support issuers and investors, including in LAC. Chile, Colombia, Mexico and Dominican Republic are currently developing their own taxonomies. The rise of local taxonomies demonstrates the interest of countries and their governments in mobilizing capital flows towards sustainable and climate resilient development. However, harmonization between taxonomies is fundamental to facilitate this exchange, as there must be a common global language for what is green and sustainable.

Taxonomies from jurisdictions such as the EU, together with the Climate Bonds Initiative's, have been used as benchmarks for taxonomy development in LAC. The IFC and the Inter-American Development Bank have been active in supporting local taxonomy development in the region.

Taxonomy Development Across LAC

Chile



In May 2021, the Climate Bonds Initiative (CBI) prepared a *Taxonomy Roadmap for Chile*,[36] together with the Inter-American Development Bank. The Roadmap was requested by Chile's Ministry of Finance, who is leading the Chilean Green Finance Public Private Roundtable "La Mesa", and was sponsored by the International Climate Initiative (IKI).

The *Roadmap* assesses the best approach on developing a national taxonomy, including its alignment with international best practices. Priority sectors to be included in taxonomy are construction, transport, buildings and industry. In addition, the Roadmap highlights the opportunities and challenges to leverage a sustainable finance agenda for the country. One opportunity for Chile is to lead global discussions on indicators for mining and nature-based solutions given their relevance in the country.

With the *Roadmap* ready, the institutions involved in the *Chilean Green Taxonomy* will now prepare the next steps to develop the Taxonomy.

Colombia

Colombia began developing its green taxonomy in 2019. The process has been led by the Colombian Financial Regulator, (Superintendencia Financiera de Colombia), the Ministry of Finance, the Department of Planning, the Department of Statistics and the Ministry of Environment and Sustainable development which are all part of the Supervisory Committee. The Colombian Green Taxonomy endorses economic activities and assets with substantial contribution to Paris environment commitments and to government strategies and policies and seeks to be a catalyst for the development of green financing instruments.

The Taxonomy is being developed with a similar architecture to the EU Taxonomy. It focuses primarily on climate change mitigation and adaptation components, including Do No Significant Harm (DNSH) principles; and also complies with minimum social safeguards.

By the time of this report's writing, the taxonomy was still under development and expected to be published for public consultation in August or September 2021.

Green Taxonomy Development

Taxonomies by definition are scientific classification and definition schemes, this is no different within the sustainable finance market.

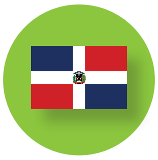
A Green Taxonomy classifies and defines assets and projects according to their climate credentials and environmental benefits, providing the market with a science-based foundation and guidance to credible green investments

In order to achieve Paris targets and diminish climate change impact and the associated financial risks within, the world economy must transition and reduce substantially the GHG emissions. Green taxonomies provide asset level quantifiable and science-based guidance to channel capital flows towards credible transitions and sustainable impact.

In 2013, the Climate Bonds Initiative released the world's first Green Taxonomy. Regularly updated with the latest global climate science and green criteria, the global Climate Bonds Taxonomy serves as a harmonisation approach to the many local taxonomies arising across the globe and the organization's experience in conducting groups of specialists is also supporting these local efforts.

The first local taxonomy was published by China in 2015, the "Green Bond Endorsed Project Catalogue", with the purpose of boosting the low-carbon transition in this highly regulated market. Later, in 2016, the European Union started its efforts to build its own local taxonomy, which culminated in the publication of the European Union's taxonomy of sustainable activities, in 2020.

Dominican Republic



In March 2020, IFC signed a memorandum of understanding (MOU) with the Superintendence of Securities and Stock Market of the Dominican Republic (SIMV).

The Parties expressed their willingness to cooperate in a project that comprises the development of a taxonomy for climate change (mitigation and adaptation), capacity building and coordination mechanisms for green finance market development. Since the subscription of the MOU, SIMV and IFC expanded the stakeholder reach, including the Ministry of Environment as an additional signatory of the project. Other government agencies have been involved as members of the taxonomy's steering committee, including the Superintendence of Banks and the Ministry of Finance. It is expected that the steering committee will lead the process of developing a consolidated taxonomy for climate change in the Dominican Republic.

Mexico

As part of the 30 by 30 zero program, the World Bank Group will support the Ministry of Finance (Secretaría de Hacienda y Crédito Público -SHCP) of Mexico to develop a sustainable taxonomy for the country. SHCP has identified a critical need for a standard sustainable taxonomy to define the activities that should qualify as improving and aligning with Mexico's transition to a low carbon economy and financial ecosystem.

In 2020, the Committee on Sustainable Finance, part of the Ministry of Finance's financial risk and stability committee, established four working groups that aim to build, and eventually implement, a sustainable finance agenda for the country through: 1) taxonomies, 2) ESG disclosure, 3) risks and 4) capital mobilisation.

The 30 by 30 zero program aims to help the financial sector to scale up private sector financing for climate-related projects in line with the NDC unconditional targets being funded by the German ministry of environment IKI/BMU and implemented by the World Bank Group (WB & IFC).

Market Development support in the region

IDB Green Bond Transparency Platform

The Inter-American Development Bank (IDB) launched the Green Bond Transparency Platform (GBTP) in April 2021 as a tool to provide comprehensive information on LAC green bonds and support the harmonisation of reporting, including UoP and impact data (see below).[37] The GBTP developed standardized upload templates[38] which draw on different best-practice reporting frameworks[39] and experiences by issuers to ensure the reporting templates are applicable. All the data reported in the GBTP is first-hand information, directly provided by the issuers and external reviewers. The Climate Bonds Initiative is an advisor to the GBTP.

The GBTP was created in close cooperation with key international, regional and local market players. Its data management, templates and information have been piloted with over 40 market actors including issuers, investors, stock exchanges, standard setters, external reviewers and certifiers.

The platform is taxonomy-neutral, data is publicly and freely available and downloadable, and provides a benchmark for best practice disclosure with benefits from different market actors

- For issuers, it increases the visibility of the green project financed and facilitates reporting on the use of proceeds and impacts of their bonds in a simple format and standardised way, at both the project and project category level. For new prospective issuers, the GBTP can provide a simple first stop shop to understand what other issuers have done with the proceeds and how they reported. This can provide a motivation for the issuer to participate in a race to the top in both reporting and application of the bond proceeds over time. For external reviewers, it provides a way to present their work with issuers (pre- and post-issuance) and the conclusions of these reviews.

- For investors, it enables analysis on the environmental performance and the use of proceeds of specific bonds.
- For public sector authorities, the GBTP is an evidence-based data tool to inform discussions on taxonomies and regulation, and to monitor progress in green finance.
- For researchers, the GBTP data can deepen the understanding of the links between greenness of a bond, investor holding behavior and pricing in the primary and secondary market.
- For registered issuers and external reviewers, the GBPT provides free-of-charge assistance through its User Support Team.

The GBTP includes both public and private placements, green bonds and sustainable bonds with green use of proceeds, bond issuance which have already reported their impacts and disbursements, and those issuances which have recently issued and commit to report in the next 12 months.

IFC Technical Assistance

In 2018, IFC created the Green Bond Technical Assistance Program (GB-TAP) to accelerate the growth of green bonds in emerging markets to support climate smart investments and green transition of the local economies. In partnership with SECO, SIDA, and the Ministry of Finance of Luxembourg, the GB-TAP supports the Amundi Planet Emerging Green One (AP EGO) Fund which aims to deploy US$2 billion into emerging markets green bonds over its seven-year lifetime. The EGO Fund and GB-TAP are expected to have long lasting impact and provide great benefits for the environment and local economies. In the past three years since its inception, AP EGO and GB-TAP jointly impacted the issuances of 56 Green, Social and Sustainability bonds in the amount of $3 billion spanning across 33 countries.

GB-TAP offers a range of activities and initiatives to stimulate the supply of emerging market green bonds, both in terms of volume and quality. Some of its key activities includes the following:

1. Executive Training: The program has trained over 500 key green bond market players/professionals from over 30 countries. In 2021 GB-TAP trained 69 bankers from 21 financials institutions from from Chile, Colombia, Ecuador, Mexico, Peru, Costa Rica, El Salvador, Guatemala, and Panama.

2. Encouraging Disclosure: IFC initiated a project to encourage emerging market bond issuers to disclose material ESG information. It aims to collect the ESG information as defined by IFC's ESG Performance Indicators and make it publicly available as a global public good for the analytical use by the investors and asset management firms.

3. Improving the Quality of Reporting: IFC is developing the Green Finance Review Protocol (GFRP), a voluntary procedure to enhance quality of disclosures and impact reporting by issuers in emerging markets. GFRP plans to create templates on data disclosure for issuers and second-opinion providers to standardize impact reporting and external review reports. This enhances the reporting quality and allows investors to compare data across the issuers.

4. Advisory Service for Policy Makers and Issuers: Under the GB-TAP Green Finance/Green Bond Policy Support, IFC helped 11 emerging market countries to develop green guidelines and taxonomies. GB-TAP has provided direct technical advisory services to 18 financial institutions, 10 of which issued debut green bonds totaling $1,329 million as of December 2020.

5. Knowledge Sharing: More than 20 knowledge sharing events with about 10,000 participants from 1,000 organizations from 118 countries. Over 11 research papers/article/case studies produced first of its kind and flagship including most recently a case study on the evolution of thematic bonds in Colombia and their impact on the country's capital market.

In addition to GB-TAP, **IFC-Green Banking Academy** is the brand for the advisory and capacity building services offered by IFC Climate Finance team in Latin America and The Caribbean to support financial institutions in their transformational journey towards sustainable and responsible banking. Since it was launched, IFC-GBAC has trained several hundreds of bankers across the region in renewable energy and energy efficiency financing through a scholarship program, convened thousands of participants in the Ctrl-Alt-Del: Green rebuild webinar series, among other activities, and provided customized green banking consultancy services to several LAC banks.

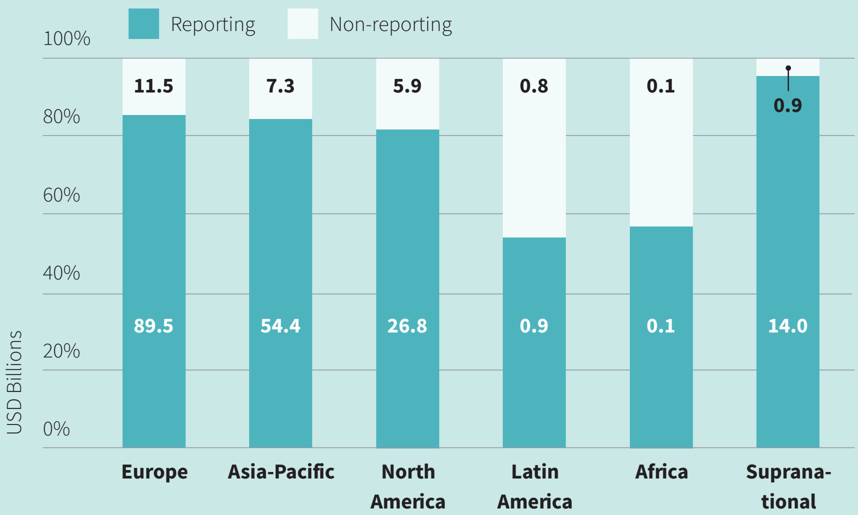
Post issuance reporting

One of the primary objectives of the GBTP is to improve the availability and quality of post-issuance reporting among LAC green bonds, by providing a centralised way for issuers to communicate information on the UoP and impacts as well as supporting documentation in a timely manner. Compared to other regions, LAC's green bond market displays a weaker availability of post-issuance reporting.

According to Climate Bonds' latest global study of post-issuance reporting practices , LAC's green bond market displays a weaker availability of reporting compared to other regions, with 9 out of 17 issuers representing just over 50% of the amount issued reporting at the time of analysis. Regions with larger, more mature green bond markets tend to have higher reporting shares. As well as having a higher number of large issuers that are more likely to report, more developed markets also tend to have more robust and consolidated issuing practices, including around reporting.

The GBTP takes a larger and real-time sample where the share of reporting increases on par with other regions. In the GBTP, more than 90% of deals issued over 12 months ago have reporting on both allocations and impacts.

Higher reporting share in regions with more mature markets



Source: Climate Bonds Initiative

Country overviews

GSS Scorecard by Country

Country	Amount of GSS debt Issued USD	% of LAC GSS bond market	Number of Issuers	Number of Instruments	% Benchmark issuance by amount	Average Instrument Size USD	Sovereign GSS Bond
Chile	17.8bn	36.6%	16	33	76%	540m	Y
Brazil	11.7bn	24.1%	53	90	30%	130m	
Mexico	7.8bn	16.0%	20	43	20%	181m	Y
Peru	1.2bn	2.4%	7	10	0%	118m	
Argentina	1.3bn	2.6%	11	13	0%	97m	
Guatemala	1.2bn	2.4%	1	2	58%	600m	Y
Paraguay	300m	0.6%	1	1	0%	300m	
Bermuda	800m	1.6%	2	2	88%	400m	
Colombia	1.3bn	2.7%	9	16	0%	80m	
Costa Rica	554m	1.1%	3	3	0%	185m	
Uruguay	376m	0.8%	2	3	0%	125m	
Panama	380m	0.8%	4	13	0%	29m	
Ecuador	570m	1.2%	3	3	0%	190m	Y
Barbados	9m	0.02%	2	2	0%	4m	
Supranational	3.4bn	6.9%	3	12	47%	281m	
	48.6bn		**132**	**246**	**45%**	**198**	

Chile

Chile has accelerated its progress on sustainable finance since our/Climate Bonds' previous regional report. Despite the pandemic and the economic challenges, it has brought about, the country's market has seen continued green bonds issuances as well as debuts in social, sustainability and sustainability-linked labelled bonds. Chile is the only sovereign issuer globally with deals labelled under all three main GSS themes. The country's sustainable finance market reached a cumulative USD18.3b across these labels.

Green

Chile Green Scorecard

LAC Ranking	2
Cumulative amount issued	USD9.5bn
Number of entities	9
Repeat issuers	
Number of deals	17
Average size	USD562m
Biggest issuer	Republic of Chile (USD7.4bn)

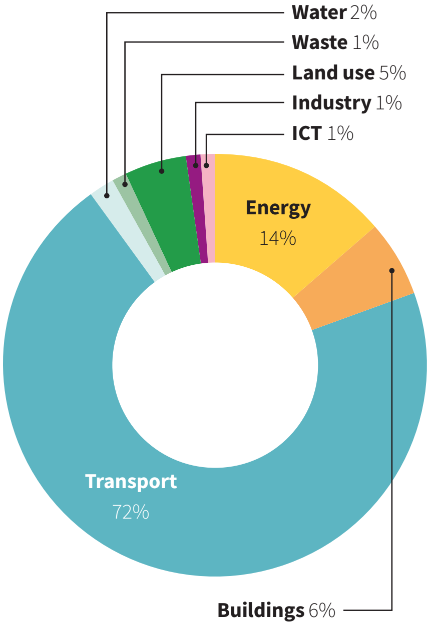
Green bonds represent more than half of Chile's thematic debt issuance volume (52%). Between inception in 2017 and end of H1 2021, the amount issued via green bonds grew from USD500m to USD9.5bn, with a total of 17 deals and 10 issuers. The growth in the Chilean market was driven mainly by its sovereign issuances, though the majority of issuers (80%) in the country are non-financial corporates.

As of our previous report, five issuers have come to market: three non-financial corporates, one loan, and one Sovereign. The last couple years have brought greater issuer type diversification, with issuances from AES Corporation, Arroyo Energy Investors, Inversiones Latin America and Sonda; the Republic of Chile continues as the largest repeat issuer.

Chile second on podium for green

Chile continues to be the second-largest LAC green bond market, with USD5.9bn issued from January 2020 to June 2021. The share of Sovereign deals remains high, representing 86% of the total issue volume. Of the five green deals in 2020, four bonds were issued by the Republic of Chile (USD3.8bn) and one loan was obtained by Arroyo Energy Investors (USD400m), a power and energy infrastructure focused firm. Of the three deals issued up to June 2021, two were from the Republic of Chile (USD1.2bn) and one from Inversiones Latin America Power (USD 404m), a renewable energy producer.

Transport heavily featured in Chile's green bond UoP



Source: Climate Bonds Initiative

Transport dominates in Chile – thanks to sovereign bonds

Due to the predominance of Chile's sovereign deals, which mainly finance extensions and improvements to Santiago's metro system, Transport remains by far the most funded sector within Chile's green bond UoP mix. It represents 72% of the total issue volume, followed by Renewable Energy (14%), Low Carbon Buildings (6%), Land Use (5%) and Water (2%). The categories of Waste, Industry and ICT continue to be negligible.

With the refinancing cycle of Chile's Government slowing down in the coming years, and as the country's green bond market is accessed by a greater variety of issuers operating in different sectors, an increasing diversification of project types is expected.

Sovereign issuance in EUR prevails; local currency makes up rest

57% of Chilean issuance is denominated in USD and 42% in EUR, largely driven by the country's Sovereign deals – however, AES Corporation, Arroyo Energy Investor and Inversiones Latin America Power also issued in hard currency. The remaining 1% was denominated in Chilean Peso and came from Sonda's deal.

Chilean green bonds also tend to have relatively long tenors, with three deals above 20 years and six deals with tenors between 5 to 12 years. Chile's entire sovereign green bond programme is Certified under the Climate Bonds Standard (60% of the market), while the remaining deals with an external review benefit from SPO (30%). The only deal without an external review is Arroyo Energy Investors' loans.

S&S growth speeding up

Social and Sustainability Bonds are also growing within Chile's sustainable finance market (45%), with a cumulative USD8.2bn since 2016. Both themes share a similar percentage in terms of issuance volume: social stands at 23% (USD4.2bn) and sustainability at 22% (USD4bn).

Social

Chile Social Scorecard

LAC Ranking	1
Cumulative amount issued	USD4.2m
Number of entities	6
Repeat issuers	
Number of deals	11
Average size	USD382m
Biggest issuer	Republic of Chile (USD3.6bn)

Chile's first social bonds were issued in 2016 by Banco del Estado de Chile (BancoEstado), the only state-owned bank in the country – the first for USD150m and the second for USD96m, both to finance female empowerment.[40,41]

In 2018, another four deals came to market, of which two again by BancoEstado, for USD83m and USD94m. Based on BancoEstado's Social Bond Framework developed, all the proceeds are destined to support women, micro-, small- and medium-sized enterprises (MSMEs), access to financial services, and social housing.[42] The other bonds were issued by Caja de Compensación Los Héroes (USD39m) to finance a social credit scheme for people excluded from the financial system[43,44]), and Aguas Andinas (USD59m)[45] to finance drinking water supply, resilient infrastructure and sewage sanitation[46]).

The number of Chile's social deals doubled from 2020 to June 2021, with six deals coming to market; three in 2020 and three in 2021. In October 2020, BancoEstado issued a USD94m social bond to improve women entrepreneur's access to a credit scheme.[47] Later in the year, in November 2020, the Republic of Chile issued two sovereign social bonds, with a combined value of USD2bn. According to the Social Bond Framework, the proceeds are to be used in projects linked to women empowerment, SMEs, social housing and access to financial systems.[48]

This year, the Republic of Chile issued another social bond for USD1.5bn, while Banco Santander de Chile became the first commercial bank to issue social bonds in the country, with two deals (USD100m and USD50m) to provide funding for women-led SMEs.[49,50]

Sustainability

Chile Sustainability Scorecard

LAC Ranking	**1**
Cumulative amount issued	**USD4.0bn**
Number of entities	**3**
Repeat issuers	
Number of deals	**5**
Average size	**USD812m**
Biggest issuer	**Republic of Chile (USD3bn)**

Chile's first sustainability bond came to market in 2019 by Esval, a water utility company. The USD61m bond finances water treatment and supply, resilient infrastructure for water-related facilities, sewage treatment (building new facilities or improving existing processes), access to basic services for urban and rural areas and efficiency of energy, fuel and water use. Two other sustainability bonds were issued in the same year by Celulosa Arauco y Constitucion SA, a pulp and paper manufacturer, each for USD500m. The UoP of both deals is aimed at a wide range of projects, including sustainable land use and forest management, sustainable water management, preservation of natural resources and biodiversity, renewable energy, affordable housing, access to essential services, social economic advancement and empowerment and local entrepreneurship.

In 2021, two other sustainability bonds were issued, both by the Republic of Chile (USD1.5bn each). The January deal was listed on the Luxembourg Stock Exchange and the London Exchange, with funds destined to projects that qualify as eligible according to the Green and/or Social Bond Frameworks.[51] The April deal was listed on the Taipei Exchange and the London Stock Exchange, becoming the first sustainability bond to be publicly listed in Taipei by a Sovereign.[52] Chile's Sovereign has also been highlighted in the Ministry of Finance's 2021 Debt-Financing Plan.[53] The Ministry highlights the diversification of thematic bonds in the country and the growing participation of these types of bonds within the Central Government's debt stock (15.5% at the time of the publication 15.5%).

Sustainability-linked

Sustainability-linked deals are also incipient within Chile. The first SLB was issued by CMPC, a pulp and paper producer, for USD500m. The company was the first Chilean company to issue an SLB in the international market. CMPC issued the country's first green bond and also pioneers as the first SLB.[54] The SLB Framework is composed of the following environmental sustainability goals that are linked to mitigation and rational use of resources target: 23.5% CO2 emission reduction by 2025 and 25% industrial water use by 2030 (2018 baseline).[55]

Green bonds and other labels can further support the country in its shift towards carbon neutrality. The Chilean updated Nationally Determined Contribution set a carbon neutral target for 2050. Chile's Sovereigns continue sending an important signal to market in its climate and wider sustainability commitments. Within the thematic labels there have been new issuers, but there is potential for greater diversification in the country's issuer base. Energy, transport and buildings remain as priority sectors for Chile, and thematic labels across these themes could further benefit the financing gap. For instance, to meet its carbon neutrality target there is the need for the electrification of end-use technologies, including electromobility. In the building sector, the recently approved Energy Efficiency Law (January 2021) sets a rating system mandate for all new buildings in the country. An opportunity to raise GSS issuance for low carbon buildings. Although water does not rank as high as other sectors, it could be prioritized considering adaptation and resilience. There is also considerable potential for transition bonds, particularly from the mining sector, which is central to Chile's economy.

Policy as a catalyst for Chilean sustainable finance

Chile's Ministry of Finance is playing a leading role in the green finance scene. In 2019, the member of the Coalition of Finance Ministers for Climate Action published the country's Climate Change Financial Strategy and created the **Green Finance Public-Private Roundtable "La Mesa"** to develop Chile's long-term green finance agenda. La Mesa comprises major market players, such as the Central Bank and the Pension Funds Superintendency.

Important milestones achieved under the La Mesa Group include members' capacity building on climate risk management and a local taxonomy proposal.[56] La Mesa requested support from the Climate Bonds Initiative and the Inter-American Development Bank to develop a Taxonomy Roadmap Report with the primary purpose of assessing the best pathway for developing a sustainable taxonomy in Chile. The Roadmap was launched in May 2021, and points Chile Government towards a national taxonomy that is aligned with international references (especially those of the EU) and that prioritizes energy, transport, buildings and – uniquely – mining.

Additionally, since 2018, the Santiago Stock Exchange (BCS) – a La Mesa member – has given special visibility to thematic bonds with a section dedicated to green and social bonds based both on the Green Bond Principles (GBP) and the Social Bond Principles (SBP).[57] In July 2019, BCS joined the Luxembourg Stock Exchange (LuxSE) in a joint effort to promote cross-listing and exchange of financial securities between the jurisdictions, particularly among green and social deals.

Brazil

Brazil is the second-largest GSS bond market in LAC and the largest green bond market. As of our previous LAC report, Brazil's green bond issuances nearly doubled. The country's sustainable debt market grew significantly over the past seven years, with USD18bn issued across the four thematic bond categories.

Green

Brazil Green Scorecard

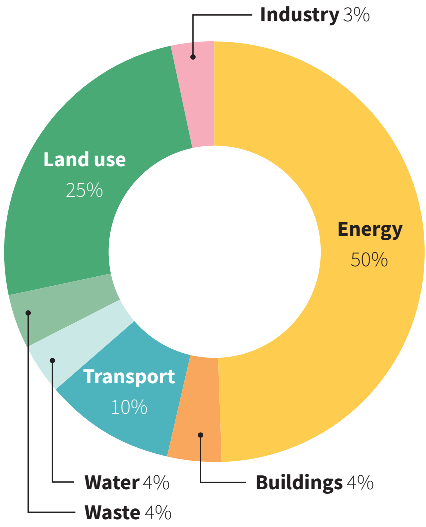
LAC Ranking	1
Cumulative amount issued	USD10.3bn
Number of entities	44
Repeat issuers	
Number of deals	78
Average size	USD132m
Biggest issuer	Suzano Papel e Celulose (USD1.7bn)

Green bonds continue to dominate the country's market with USD10.3bn issued between 2015 and 2021. As of our previous report, the country had 59 more issuances and a higher diversification in the use of proceeds led by benchmark issuances from **Attend Ambiental** BRL55m for water infrastructure, **Rumo** USD500m for low carbon freight transport, **Rizoma Agro** BRL25m for low carbon agriculture, **Metrorio** BRL1.2bn for urban mobility, and **Ciclus Ambiental** BRL 450m for waste management.

During 2020, Brazil briefly lost the number one position in LAC green bond market to Chile due to its aggressive sovereign issuances. The Brazilian green bond market soon recovered and accumulated 23 deals and the volume of USD2.5bn. In this same year, financial corporates debuted, a further and important milestone in the form of a new issuer type. While non-financial corporates still dominated, financial corporates included BV (USD50m), followed by BTG Pactual (USD50m) and Banco Bradesco SA (USD232m).

2021 has already seen 20 deals adding up to USD1.7bn. ABS issuance has increased significantly, with seven deals from energy and agriculture companies: Colombo (USD65m), Rio Amambai (USD11m), Ferrari Agroindustrial (USD15m), Produzindo Certo (USD12m), Solinftec (USD26m), Origo (USD33m) and Echoenergia

Brazil use of proceeds



Source: Climate Bonds Initiative

(USD26m). BTG Pactual also issued a second bond for USD500m to finance categories ranging from renewable energy to sustainable water/ wastewater management and affordable housing.

Most green deals are externally reviewed. Of the green bonds issued in Brazil, 40 have SPOs and 12 are Certified Climate Bonds

Social Bonds entered the market one year ago

Brazil Social Scorecard

LAC Ranking	10
Cumulative amount issued	USD34.2m
Number of entities	9
Repeat issuers	
Number of deals	12
Average size	USD9m
Biggest issuer	Banco ABC (USD24.9m)

Social bonds represent a small share of Brazil's GSS market with USD34m issued. The first issuance was from Banco ABC which issued USD525m in September 2020, with the proceeds being used towards SME loans. An USD8.8m deal followed in October by Gyra+, a fintech company which gives credit to SME business owners. It was structured by Vert Securitizadora. Gyra+ issued a second bond in June 2021 for USD25m, with a three-year tenor. Both deals aimed to increase job generation and to reduce unemployment by providing credit to SMEs specially those led by black women over 60 years old.

Non-financial corporates also lead sustainability issuances

Brazil Sustainability Scorecard

LAC Ranking	3
Cumulative amount issued	USD1.4bn
Number of entities	6
Repeat issuers	
Number of deals	8
Average size	USD174m
Biggest issuer	Amaggi Luxembourg International Sarl (USD750m)

The sustainability theme is also increasing its participation in the Brazilian GSS market, with eight deals and a total of USD1.4bn issued between July 2020 and June 2021.

The producer of agricultural goods Amaggi and the finance corporate Itaú Unibanco issued the largest deals. Amaggi issued a USD750m in January 2021 to finance renewable energy and land use; employment generation and socioeconomic empowerment.[58] Itaú Unibanco issued a USD500m bond to finance projects eligible within the bank's Sustainability Finance Framework that comprises several categories including renewable energy, land use, water, low carbon transport, employment generation among others.[59] Non-financial corporates operating in the water and sanitation sector represented the majority of deals, but only 6% of the issue volume.

SLB rise as the second most used instrument

SLB is the second-largest segment in Brazil's sustainable debt market with USD6.3bn issued, or 35%. FS Bioenergia issued the country's first SLB in June 2020, a small USD6m deal. On the larger end, Suzano debuted in the international market with a USD1.2bn deal in September 2020, **committing for a 15% reduction in GHG emissions by 2030[60] followed by Grupo Boticário who issued a USD1bn bond in December2020 to supply 100% of the electricity of their factories and distribution centres from renewable sources.[61]** SLB issuance exploded in 2021, with 14 deals representing USD4.9bn issued in H1. Natura (USD1bn), Suzano (USD1bn), JBL (USD1bn) and TIM (USD1.6bn) were the largest issuers. . Rumo also came to market, becoming the first freight rail company to access the SBL market(two USD750m deals). Viavarejo (USD772 and USD228m), Suzano (USD 1.25bn and USD 1bn) and Simpar (USD 650mn and BRL 450mn) are also repeated SLB issuers with two bonds each .

Public and Private Sector take Leadership across GSS

Key Brazilian governmental institutions are making substantial progress in their green finance agendas. The **Ministries of Infrastructure and Regional Development both signed MoUs** with CBI respectively in September 2019 and September 2020, aiming to work towards assessing climate and environmental risks in their portfolios and potential funding via green bonds. **Brazil's Ministry of Agriculture,** which also signed an MoU with CBI – in November 2019 – to scale up finance for sustainable agriculture in the country, has also been promoting the green finance agenda closely with **Brazil's Central Bank (BCB)** by integrating green indicators, taxonomies and climate risk into the national financial system for rural credit. In 2020, BCB joined the Central Banks and Supervisors' Network for Greening the Financial System (NGFS) and signed a MoU with Climate Bonds as part of its sustainability agenda. Finally, Brazil's Ministry of Economy does not fall behind and published in 2020 the Decree 10.387/2020 that established a fast track to the issuance of infrastructure debentures with social and/or environmental benefits.

The **Brazilian Federation of Banks (FEBRABAN)**, the main representative of the Brazilian Banking Industry, is also engaged in greening the local economy. In 2020, it published its own Green Taxonomy to classify banking credit operations according to social, environment and climate credentials. In 2021, **FEBRABAN signed an MoU with the IFC** to develop a Sustainable Finance Programme and align the banking sector to Brazil`s NDCs.

Furthermore, the **National Bank for Economic and Social Development (BNDES),** a repeat green bond issuer, is working closely with the IDB to establish a normative framework that supports green funding to eligible projects, and with CBI in a technical cooperation aimed at strengthening the Bank's sustainable finance capacity. In addition, to stimulate companies to decarbonise, the Bank reduced the interest rates on its credit lines for selected sectors. The first sector was biofuel, with lower rates accessible if it GHG emission reduction targets are met.[62]

BNDES also announced it would no longer invest in any thermal power plants and also launched a new Sustainability-Linked credit line. The programme named "BNDES ASG Credit" is for entities that commit to reduce GHG emissions and increase sustainable indicators.The credit line will support deals of up to BRL 150mn that will have up to 0,4% in interest discount if the borrower achieves targets.[63]

In addition, the Brazilian National Treasury has begun discussions on building an ESG Framework. The government has signalled its intent to publish its framework in 2022. While this is an ongoing process, a regulatory barrier would need to be overcome to earmark proceeds as green, as Resolution N° 20/2004 foresees that all proceeds from sovereign bonds must be directed towards paying off the national debt and therefore allocated under the federal budget. Finally, the sustainable finance agenda in Brazil also counts with great support from the country's National Monetary Council (Conselho Monetário Nacional - CMN) who has put in place resolutions[64] for financial institutions that endorse environmental and social risk assessment and integration into decision-making.

Mexico

Third in LACs GSS Ranking

The third LAC market to have had a green bond issued (after Peru and Brazil), Mexico also holds the third position in volume issued with USD11bn across the green, social, sustainable and sustainability-linked themes. Following the same trend as in other established markets, the green label represent the most significant share with 37%, followed by sustainability-linked bonds at 29% and not too far off sustainability bonds, with 28%. The share of social bonds is considerably lower (6%).

Mexico Green Scorecard

LAC Ranking	3
Cumulative amount issued	USD4bn
Number of entities	12
Repeat issuers	
Number of deals	21
Average size	USD192m
Biggest issuer	Fibra Prologis (USD825m)

Mexico Social Scorecard

LAC Ranking	3
Cumulative amount issued	USD678m
Number of entities	3
Repeat issuers	
Number of deals	4
Average size	USD170m
Biggest issuer	FIRA (USD331m)

Green

Since the last publication of LAC State of the Market, Mexico had eleven more deals coming to market. So far, 2020 was the best year for the green bond market in the country, with five deals totalling USD 1.3bn. FEFA issued its second bond (USD159m) to finance protected agriculture and irrigation systems. Vinte Viviendas Integrales borrowed USD20m via a green loan to finance green buildings. In September, Coca-Cola Femsa raised USD705m to finance energy efficiency, renewable energy, low carbon buildings, waste and land use projects, and in December two issuers accessed the market: Fibra Prologis issued a USD375m deal to finance wind and solar energy, energy storage system and green buildings, while Corpovael issued a USD25m deal to finance low carbon buildings.

The market has shown signs of further growth in 2021, with five green bonds issued in H1, three by Fibra Prologis and two by Fibra Storage. Fibra Prologis issued USD80m, USD70m and a USD300m deals with similar eligible categories as before, whereas Fibra Storage's USD17m and USD59m operations had proceeds going towards low carbon buildings.

82% of allocations have been to renewable energy. Buildings and Land use are the next-largest categories, each accounting for 7%, while Transport and Water account for 2% each. Development bank FEFA's Certified Climate Bond is the only one funding sustainable land use, while Mexico City's deals finance the widest range of categories within a single bond.

With seven deals totalling more than USD1.4bn While most green bonds have been issued in Mexican Pesos, they represent 30% of volume issuance, with the larger USD deals representing 70%. Non-financial corporates dominate the country's market.

Social labels issued in the domestic market

Social bonds represent a smaller share of Mexico's sustainable finance market. The first deal was issued by Nafin in July 2017, a USD227m deal to finance various social categories: access to financial services, employment generation through financing of MSMEs, socio-economic advancement, resource efficiency in low-income households and recovery of MSMEs impacted by natural disasters. Mexico's second social bond came three years later, with FIRA issuing a USD155m deal and returning to market in 2021 raising another USD176m. IDB Invest has also issued this year, its MXN2.5bn (USD121m) bond aimed at financing gender equality related projects. All social bonds were issued in Mexican Pesos.

Sustainability

Mexico Sustainability Scorecard

LAC Ranking	**2**
Cumulative amount issued	**USD3.07bn**
Number of entities	**8**
Repeat issuers	
Number of deals	**18**
Average size	**USD171m**
Biggest issuer	**Banobras (USD1.38bn)**

The Mexican sustainability bond market has shown strength, with USD3bn issued between 2017 and June 2021. Four deals came to the market in 2017, the first by Grupo Rotoplas (USD39m) in June to finance projects that are related to SDG 6 (sustainable management of water) and SDG 9 (resilient infrastructure)[65]. The remaining three in September: two by Banobras for USD220m and USD330m to finance eligible projects according to their framework, which includes basic infrastructure, renewable energy, water management, sustainable transport among others;[66] and a USD11m one by Mexico City to finance projects of the following categories: renewable energy, pollution prevention and control, water management, biodiversity conservation, sustainable transport, climate change adaptation and energy efficiency

In 2018, state-owned development bank Banco Nacional de Obras y Servicios Publicos – SNC (USD138m) and Vinte Viviendas Integrales (USD42m) issued bonds, with both returning in 2019; Banobras with two more deals (USD129m and USD219m) and Vinte with a smaller USD15m transaction.

2020 saw five deals between February and November by Vinte (USD19m), Rotoplas (USD185m) and Banobras (USD120m and USD240m), all recurring issuers in the Mexican market. As of end H1 there were no deals this year.

The world's first sustainability sovereign

The most significant sustainability bond was Mexico's Sovereign bond in September 2020 that raised USD888m and was the first sovereign bond with an SDG label. Mexico became the first country in the world to issue a sovereign SDG Bond. According to the Framework developed by the Ministry of Finance (Secretaría de Hacienda), the proceeds will fund selected SDGs (goals 2 Zero Hunger; 3 Good Health and Well-Being; 4 Quality Education; 6 Clean Water and Sanitation; 7 Affordable and Clean Energy; 13 Climate Action; 8 Decent Work and Economic Growth; 9 Industry, Innovation and Infrastructure; 11 Sustainable Cities and Communities; 14 Life Below Water and 15 Life on Land) and the social expenditure will target regions in the country with larger SDGs gaps. Mexico issued a second sovereign SDG bond In July 2021, a 15-year USD1.5bn deal denominated in EUR.

Sustainability-linked in hard currencies only

Several SLBs have been issued by Mexican entities, all in 2021. The first two deals were senior notes issued by FEMSA in April, a USD849m and a USD606m deal linked to performance under two KPIs: achieving zero operational waste to landfill by 2030and increasing the consumption of electricity from renewable sources to 65% by 2025 and 85% by 2030. Metsala became the second issuer to come to market with a USD300m deal, followed by two from Orbia for USD500m and USD600m, in which the sustainability objectives are to reduce sulphuric oxide (SOx) emissions by 44% by 2023 and 60% by 2025. The other SLB in the Mexican market was issued by Corp Inmobiliaria Vesta for USD305m in 2021, with the performance measured by the increase in percentage of Gross Leasable Area (GLA) certified as sustainable.

Social, Sustainability and Sustainability-Linked Market Overview

The development bank Banobras represents 45% of 2021's social, sustainability and sustainability-linked issued amount with four sustainability issuances of: USD53m, USD97m, US209m, and USD129m to fund or refund projects in eight sectors: infrastructure that benefits vulnerable people or in extreme poverty; public infrastructure; natural disaster recovery; sustainable transports; renewable energy; projects that reduce energy consumption or improve energy efficiency; water and wastewater management as well as pollution prevention and control. Non-financial corporates represent the majority of deals, yet represent only 4% of the issue volume. The country's Sovereign issuance represent 29% of issuance volume, followed by government-backed entities with 16%. All sustainability deals were also done in Mexican Pesos. Mexico's three largest SLBs are denominated in USD. The currency represents 71% of issuance, the rest being in MXN. This is not surprising, given the volatility of the Mexican Peso and the country's close ties with the USA. Six of eight bonds are USD100m or above, but only the first green bond issued in the country – Nafin's inaugural USD500m 2015 deal – was benchmark-sized.

Market development led by industry initiatives

In the region, Mexico was one of the firsts countries to have voluntary initiatives aiming to develop the local green bond market. In 2016, **Mexico's Banking Association (ABM) launched a sustainability protocol** that now counts with 25 signatories committed to social or environmental targets in their portfolios.

In 2018, Mexico's Central Bank **BANXICO joined NGFS**. Voluntary initiatives from financial entities also supported initial efforts to develop the country's green market. Mexico's stock exchange (BMV) was the first in LAC to give more visibility to green bonds through a separate listing. Investors, Development Finance Institutions, Associations and international partners formed the **Climate Finance Advisory Board (CCFV)** in 2016**, which in 2018 resulted in creation of the MX Green Bond Principles and two investor declarations**: one in favour of green bond financing and another on ESG corporate disclosure. In 2019, CCFV became the first LAC member in the global FC4S network.

In 2020, the stress in the market caused by COVID-19 led the country's **Financial System Stability Council (CESF)**, composed of Mexico's financial system authorities (Ministry of Finance and Public Credit, BANXICO, the National Banking and Securities Commission and the National Commission for the Retirement Savings System), to approve and establish the **Sustainable Finance Committee** in June 2020. The Committee works to leverage a sustainable finance transition and adopt international best practices. Since its launch, the Committee has already indicated its interest in developing a **green taxonomy for Mexico**.

Colombia

Green leads the GSS market

Colombia has issued USD1.3bn across GSS bonds. Like the rest of LAC, the green theme is the most established in Colombia, with 52% of the total issue volume. Yet sustainability and social labels are increasing their share in the country with a relatively even share, respectively 26% and 22%. Colombian issuers have not tapped international markets; all issuances across all GSS bonds are denominated in Colombian Pesos.

Number of green bonds increases in 2020 vs 2019

As of our previous report, two issuers have come to market: one non-financial corporate and one financial corporate. Financial-corporates continue to represent the majority of green bond issuers in the country, with 65% of the cumulative issue volume. The number of green bonds increased in 2020 compared to 2019 with three green bonds coming to market. Two in August by Interconexion Electrica, whose USD38m and USD43m deals to funded solar and wind energy projects. The other bond was issued in September by Banco de Bogotá in two tranches. Its USD48m and the USD30m tranches went towards renewable energy, low carbon buildings, low carbon transport and land use (agriculture and forestry). Of the three green bond deals issued in 2020, the two issued by Interconexion Electrica received SPO, while the bond issued by Banco de Bogotá received no external review.

Social bonds also pick up in 2020

Both social and sustainability bonds have been issued in Colombia. The first social bond in the country was issued by Bancóldex (USD140m) in May 2018, Ito fund SME and women-led businesses[67]. The next issuances only happened two years later, in August 2020 with Davivienda's deal of USD100m to finance small and medium business owned by women[68] and in September 2020, when Banco W, issued a USD41m deal.

Sustainability bonds debut

Two sustainability issuances have been recorded in the country. The first by Findeter (USD120m) in 2019, a Government-Backed Entity to fund improvement of the population socioeconomic conditions through investment in basic infrastructure[69]. The second issuance, also in 2019, was made by Bancolombia (USD204m), a financial institution. It was a milestone deal for being the first one from a private financial corporate in Colombia. It was the first issuance from a private financial entity in Colombia. The proceeds are destined to eight projects focusing on basic infrastructure and social and affordable housing and ten projects classified as green towards sustainable construction, clean energy and energy efficiency.[70]

Initiatives aligned with international trends

Colombia has developed one of the first Green Protocols for the financial system, the Protocolo Verde de Asobancaria in 2012, an agreement between the national government and the financial sector. The Protocol contains over 20 financial organisations with the objective of implementing policies and practices that are in accordance with sustainable development.[71]

In 2019, the country showed leadership by becoming the first country in LAC to initiate efforts to build its own local Green Taxonomy. The public consultation is expected to happen in September 2020. The Financial Regulator has also shown leadership to promote the development of the green bond market by releasing the Green Bonds Best Practices Guide and the Regulatory Framework 028 of 2020.[72]

Argentina

Argentina's sustainable finance market reached a cumulative USD1.3bn from its first issuance in 2017 through to June 2021. Green bonds represent more than half of the issue volume (58%), with an increasing participation of sustainability bonds (34%) and social bonds (8%). 85% of issuances from the country's sustainable finance market are dollar denominated. Only two issuances – one green (Central Puerto) and one social (Banco de la Ciudad de Buenos Aires) were issued in Argentine Pesos.

The issuer types in Argentina are diversifying. Ten issuers were responsible for the 13 issuances across all three GSS labels. Non-financial corporates represent 42% of Argentinean issuers, with Local Governments representing 42% and Financial Corporates 18%.

New green issuances in 2020

Since the country's first issuances in 2017, there has been a diversification of issuers, with non-financial corporates and financial corporates also coming to markets; though issuances from local governments represent 68% of the total cumulative issue volume in Argentina's green bond market. The first financial corporate to enter the market was Banco Galicia in June 2018. The Bank issued a USD100m deal to finance energy efficiency, renewable energy and sustainable construction, structured and subscribed by the International Finance Corporation - IFC.

As of our previous report on LAC, it took two years for another three bonds to be issued in Argentina. In February 2020, AES Argentina issued a USD48m bond to conclude the construction of the Vientos Neuquinos wind farm (Parque Eólico Vientos Neuquinos)[73]. Later in the year, Central Puerto issued two bonds, a USD35 deal and a USD15m deal to finance wind energy projects. Both received ratings from Fix Ratings, an affiliate of Fitch Ratings.[74]

New labels enter the market

Not only did green bond issuances pick up in Argentina in 2020, but the first social bonds also came to market that year. Banco de la Ciudad de Buenos Aires issued a USD43m deal to finance a credit line to alleviate the impacts from COVID-19[75]. The Bank went to market once again in October with a USD52m bond to grant loans to small and medium-sized companies in Argentina[76]. The country's latest social bond was issued by Fideicomiso Financiero FECOVITA, a federation for winemaking cooperatives. The USD3m deal went towards the purchase of agricultural inputs for improvement of the vineyards of small rural producers associated with Fecovita[77].

Second country to issue an SDG bond

Besides the green and social labels, another sustainability bond from the region besides Mexico's sovereign SDG bond came from Argentina. The inaugural bond was issued by Banco de Inversion y Comercio Exterior in December 2018. The USD30m deal went towards projects with high positive environmental impact and the issuance contributes to 7 out of the 17 Sustainable Development Goals[78]. It took almost three years for another sustainability labelled bond to come to market. In January 2021, Mercado Libre issued the largest bond in the country so far, a USD400m deal to fund eligible green projects that includes clean transportation, land conservation and preservation, energy efficiency, renewable energy, green buildings and pollution prevention and control, and eligible social projects that seek to address or mitigate social issues with positive outcomes to vulnerable population.[79]

GSS Guidelines set by regulator

Regarding milestones to boost the theme of sustainable finance in the country, in 2019, 18 banks signed up the Protocolo de Finanzas Sostenibles (Sustainable Finance Protocol) in which the institutions seek to build a sustainable finance strategy in the country's banking industry.[80] In May 2021, the Argentinian government, through its Ministry of Finance, approved the Roadmap for Sustainable Finance in the country. The guideline presents the next steps and highlights the themes that will be prioritized. Among them are the development of taxonomies and fostering the market for green, social and sustainable bonds[81].

Ecuador

Financial institutions inaugurate the market

Ecuador's sustainable finance market is relatively recent with the first green bond issued in December 2019 by Banco Pichincha, the largest bank in the country, at the Quito Stock Exchange. The USD150m deal will finance renewable energy, low carbon buildings, low carbon transportation, waste and industry.[82] The International Finance Corporation (IFC), IDB Invest, and Proparco (French development agency), were investors, with a participation of USD50m each.[83] In addition, external sources highlight IDB Invest provided technical assistance to the Bank in designing a conceptual framework and SPO by Deloitte.[84] A summary of the Banco Pichincha Framework is available on the Bank's website,[85] but at the time of writing the SPO was not available online. The Banks 2020 Annual Report and Sustainability Report, published in May 2021, details a few of the outcomes of the deal, including 314 thousand m^2 of EDGE certified construction project; 7.2 thousand tons of CO_2 avoided; 20.515MWh of energy and 271,5 thousand m^3 of water savings.

First social sovereign in the region

In addition to its inaugural green bond, Ecuador has also issued social bonds. An important milestone in the market was the issuance of the Republic of Ecuador Social Sovereign Bond for USD400m. It was the first Social labelled Sovereign bond in the world and was backed by a guarantee from the Inter-American Development Bank.[86] According to the Social Bond Framework for Affordable and Decent Housing[87] proceeds from the bond will finance the country's social housing programme,[88] that aims to provide sustainable and affordable housing for over 24 thousand medium and low-income families. Ecuador's Sovereign received a SPO from Vigeo Eiris.[89]

The country's second social bond was a USD20m issuance by Banco Guayaquil.[90,91] It was the first social bond issued by a private financial institution. The deal was structured and subscribed by IDB Invest. As part of the issuance process, IDB Invest provided support on the framework design, including the selection, monitoring and evaluation criteria. It also supported Banco Guayaquil with an SPO issued by Vigeo Eiris.[92] Proceeds from the bond will finance small and medium-sized enterprises.[93] At the time of writing, neither the Framework nor the SPO were available online.

Market guidance set for GSS bonds

To further develop the labelled bond market, the Quito Stock Exchange developed a Green, Social and Sustainable Bonds Guideline in August 2019.[94] The guide includes information on how to issue GSS bonds in the country. It includes information on the various definitions, the standards accepted by the stock exchange, such as the alignment with the Green Bond Principles and the use of an external verification by accredited companies under the Climate Bonds Initiative. The same rationale is valid for the issuance of social and sustainable bonds, which should be aligned, respectively, to ICMA's Social Bond Principles and Green Bond Principles, and use a CBI approved verifier.

Paraguay

Financial institution issues first Green Bond

Paraguay debuted in the thematic bond market in December 2020. Banco Continental issued a USD300m sustainability bond to finance projects across the following green and social categories: efficiency, green buildings, clean transportation, natural resources and land use, sustainable water and wastewater management, renewable energy, affordable basic infrastructure, access to essential services and employment generation.[95] The Bank is the country's largest commercial lender. The Bank published its Sustainability Framework in December 2020[96] and Sustainalytics issued an SPO for Banco Continental's Framework[97].

Financial sector sets sustainable finance initiatives

Although the issuance is still incipient in the country, Paraguay has seen some development in the green finance sector. In 2012, the Mesa de Finanzas Sostenibles del Paraguay (Sustainable Finance Roundtable of Paraguay) was launched with 17 institutions from the Paraguayan financial sector.[98] In 2018, Paraguay's Central Bank approved a guideline for environmental and social risk management to be included in the crisis risk analysis made by financial institutions - the Guide for the management of environmental and social risks for entities regulated and supervised by the Central Bank of Paraguay (Guía para la gestión de riesgos ambientales y sociales para las entidades reguladas y supervisadas por el BCP).[99] Recently, in March 2021, the Paraguayan national securities regulatory body (CVM) issued a resolution with new financial instruments that promote social and environmental benefits through sustainable bonds.[100]

Peru

Peru's sustainable finance market has increased significantly since the first green bond issuance in 2014. With social and sustainability labelled deals coming to market, cumulative issuances across GSS reached USD1.2bn. Green bonds are the most consolidated label with 92% of the issue volume, followed by the social and sustainable labels, with 6% and 3%, respectively. Most of Peru's GSS bonds received some type of external review. Three received ratings (two from S&P and one from Moody) and two other deals received an SPO. This represents 50% of the 10 deals issued across all three labels.

Non-financial & energy deals dominate the market

Since our last Report, Peru had only one green issuance in 2020, a USD 200m deal from Consorcio Transmantaro S.A. for power transmission.The country responsible for the region's first green bond in December 2014 have accumulates six green issuances in total.

Non-financial corporates represent the majority of green bond issuers in the country, five out of the six. Cofide is the only development bank to have issued a green bond in the country, which was in 2019 to finance renewable energy projects. Energy is also the most funded sector in the country via green bonds. All deals except for one had 100% of the UoP going towards financing green energy. Protisa Peru, a pulp and paper company was the one deal (PEN 100m) that also financed water management and pollution prevention.

Incipient sustainability and social markets

Peru entered the social bond market in 2019. The country's first social bond was issued by Banco Pichincha in February. The USD13m deal was structured and subscribed by IDB Invest[101].

Almost a year later, in December 2020, Caja Arequipa issued the second social bond from a financial corporate. The USD16m deal went to fund the growth of enterprises led by women.[102] Among the social label, financial corporates represent the majority of issuers; two out of the three.

In early 2021, Cofide issued Peru's third social deal, a USD39m bond to strengthen financial access for micro and small-sized businesses affected by the COVID-19 pandemic. [103]

Sustainability bonds debut

Cofide was also the first and only Peruvian institution to issue a sustainability bond in October 2019. A USD30m deal to finance micro-enterprises, alternative vehicles, and wastewater treatment plants.[104]

Non-financial corporates represent the majority of green bond issuers in the country, four out of the five. Cofide is the only development bank to have issued a green bond in the country, and was responsible for the only sustainability bond. Among the social label, financial corporates represent the majority of issuers; two out of the three. The GSS market has still not taken off in Peru, but there is potential to grow the market.

Uruguay

Uruguay debuted in the sustainable finance market in July 2018. Since then, USD 376m have been issued across the green and sustainability labels. The first green bond was a USD108m private placement by Atlas Renewable Energy to refinance the El Naranjal and Del Litoral solar Plants. Atlas Renewable Energy was also responsible for the country's second green deal (2020), another private placement, worth USD253m, to finance a solar photovoltaic park. It received a rating from Moodys. Uruguay also debuted in the sustainability bond market in February 2021 with a USD15m deal from BBVA Uruguay. This was the first deal from a financial corporate. The deal was supported by IDB Invest and aims to finance energy efficiency, sustainable agriculture, SMEs, clean transport, sustainable construction, and business owned by women and young people.

Central America & Caribbean

Green, Social and Sustainability issuances in the Central America & Caribbean represent 6% of the LAC market. With a cumulative USD3.4bn the growing number of bonds and diversification of issuers and proceeds demonstrate a growing appetite from investors in the region, particularly as 90% of deals were dollar denominated. In this part of the LAC region, social and sustainable bonds represent 55% of total issue volume and green bonds represent 45%.

Barbados

Barbados first green bond was issued by Williams Caribbean Capital, an investment and business development company, in January 2019. The USD2m Private Placement went toward solar energy projects and certified against the Climate Bonds Standard Solar Energy Criteria, with Sustainalytics as the approved verifier. The company issued a second green bond in March 2021. The USD7m deal was once again a private placement and was also Certified. The UoP of both issuances went towards solar energy projects and were done in Barbados Dollars (BBD).

Bermuda

Bermuda entered the sustainable finance market with a USD100m social bond in May 2020. The country's first labelled issuance was done by MetroCat Re, a special purpose insurer. The three-year deal is a catastrophe bond and comprises related insurance-linked securities (ILS).

In April 2021, a USD700m green bond was issued by Corporacion Multi Inversiones, a financial corporate. The eight-year deal received an SPO from Sustainalytics. UoP under the green bond were directed toward renewable energy projects, including solar, wind and small hydropower.

Costa Rica

The first green bond in the country was issued in April 2016 by Banco Nacional de Costa Rica, a Government-Backed Entity. The USD500m deal received a green rating from Moody's, with the UoP going toward renewable energy – wind, solar and small hydro power – and waste water management. The second green bond from Costa Rica was issued in August 2019 by Ecosolutions. The USD4m deal, a private placement, was the first from a non-financial corporate with UoP financing renewable energy and energy efficiency. Ecosolutions green bond received an SPO from CIPA. The tenors of both bonds were between 5 and 12 years and both were issued in USD.

Costa Rica also entered the wider labelled bond market with a sustainability bond issuance in January 2021. Banco Promerica de Costa Rica, the fourth largest financial institution in the country, issued a USD50m deal. This was the first deal from a financial corporate, and the bond received a SPO from Vigeo Eiris. The issuance was carried out on the Panama Stock Exchange[105].

Guatemala

Guatemala debuted in the labelled bond market in August 2020 with a USD1.2bn Sovereign Social Bond targeting the impacts of Covid-19. The deal was split into two tranches: a USD700m aggregate principal, due in 2050, to be used for budgetary purposes, and the second a USD500m bond. The UoP from the bond will finance investment directly or indirectly related to the prevention, containment and mitigation of the Pandemic[106]. It has been considered a landmark issuance for being the first in the LAC region to include Covid-19 response measures within a Sovereign Social Bond Issuance.

Panama

Panama is the country with the largest number of green and sustainability deals in Central America & the Caribbean, with 12 issuances. Cumulative issuances under the green and sustainable label reached USD380m USD. Green Bonds represent 87% and social bonds 13%.

The first labelled bond came to market in August 2019: a USD50m social bond from Banistmo, a subsidiary of the Bancolombia Group[107]. The bond was the first social gender bond in LAC and received an SPO from Vigeo Eiris. The 5-year deal was structured and bought by IDB Invest[108].

Green bonds also came to market in 2019, with four issuances from CIFI - Corporación Interamericana para el Financiamiento de Infraestructura, a non-bank financial institution. The first in September, for USD27m, and the other three in December, combining USD15m. All with a five-year term. The deals will finance waste management, sewage, wastewater treatment and renewable energy generation.

In 2020, the number of issuances increased with eight deals coming to market with a green label. The first issuance was done by CIFI in February for USD1m, to finance once again water and waste management and renewable energy. In August, CIFI issued two other bonds at USD1m each and Panasolar was the first non-financial corporate to issue a green bond for USD15m. The deal was certified against the Climate Bonds Standard Solar Energy Criteria[109]. Verification was provided by the Pacific Corporate Sustainability, PCS. In October 2020, CIFI issued two green bonds, one for USD4m and the other for USD2m, with the same UoP as previous deals. In December, InterEnergy Holdings issued the largest green bond in the country at USD263m. The second deal from a non-financial corporate. CIFI also issued a green bond in the same month for USD1m. Until June 2021, CIFI had issued a total of USD52m in green bonds.

All issuances in Panama were USD denominated, with the majority of deals (7) with tenors between 3 and 5 years. Of the 12 deals, 10 received SPOs from Sustainalytics (CIFI deals), one was certified (Panasolar) and one (InterEnergy Holdings) did not get an external review of any kind.

The 13 green and social deals in Panama were issued by four issuers, with financial corporates being responsible for 85% of issuances and non-financial corporates for 15% of issuances. The UoP from these deals have gone towards renewable and water management.

Dominican Republic

While there have been no GSS issuance by the Dominican Republic, BVRD, the country's stock exchange published a Green Bond Guide. In 2019, BVRD had launched its first 'Green Finance Forum', which brought together stakeholders from the financial, corporate and public sector. The aim of the Forum is to develop green finance instruments.

Conclusions and outlook

Growth of sustainable finance in the LAC region has continued on a triumphant path. Since our inaugural analysis in 2019 and in less than two years, the region's green bond market has more than doubled from USD13.6bn in September 2019 to USD30.2bn at the end of June 2021. This growth has been driven by the entrance of new issuers from new countries, now totalling 14, and in particular the continued growth of sovereign issuance from regional pioneer Chile.

New segments in the thematic bond market, social and sustainability bonds, have shown equally promising growth with a total USD18.3bn in cumulative issuance to the end of H1 since the inception of this market segment in 2016. The presence of sovereign issuance has been even more pronounced in terms of diversity with LAC boasting the world's first two sovereign social bonds (Ecuador and Guatemala) and an SDG Bond (sustainability bond) from Mexico. Chile has also issued against the full trio of labels – Green, Social and Sustainability or GSS – and more is in the pipeline as Brazil gears up for its debut in the next couple years, and Colombia and Peru having announced their intent to issue down the line.

The increasing ESG agenda in LAC countries, has helped spur activity in the private sector with issuers like Coca-Cola FEMSA, Suzano and Fibra Storage. The outlook for the region is positive and moving forward the Climate Bonds expects to see:

1. Increase in Sovereign Issuances. There have been Sovereign issuances against all GSS labels. Four LAC countries have entered the GSS Sovereign Club. Sovereign labelled bonds continue to be perceived as an instrument to catalyze local market development and attract new investors, as well as communicate government's commitments to address social inequalities and/or mitigate the impacts of climate change. With the need of building back better, labelled Sovereign Bonds can be used to promote green economic recovery and increase climate resilience across LAC countries, moving economies toward a more sustainable-focused pathway. In addition, Sovereign GSS can also facilitate an economy wide transition in line with a net zero carbon future. Further labeled issuances should come to market in the short and medium term.

2. Diversification in thematic labels. Although green continues to lead issuances amongst GSS labels, social and sustainability bonds were responsible for 38% of deals throughout 2020 and 2021. This diversification, including the entry of new labels such as SLBs, SDG-Bonds and transition bonds, will allow for a continued growth in the region's sustainable finance market. Brazil, Chile and Mexico will remain as the largest markets, with opportunities to access sustainable capital markets to fund sectors such as low carbon buildings, low carbon transportation and sustainable agriculture. While these are mature markets, they will continue to benefit from technical assistance to unlock issuances, particularly in innovative labels (e.g. SLB and transition). The same is true, for other LAC countries, which will require support in framework development, external reviews and post-issuance reporting.

3. Debut of climate resilience bonds. Building resilience in the region will be critical as climate change will escalate extreme weather events and other natural hazards. While green bonds can also benefit climate resilience, they have primarily focused on GHG mitigation. Thus, it is important to direct investments that improve the adaptability and transformation of projects, assets and systems, reducing climate risks and exposure. Countries in Central America are particularly vulnerable with devastating hurricanes hitting the region in November 2020, leaving more than half a million people displaced[110]. Resilience bonds labelled bonds could leverage finance for LAC countries adaptation objectives.

4. Rise in sustainable agriculture investment. GSS bonds can be a powerful mechanism to mobilize further funding for sustainable projects and assets in LAC. Agriculture represents a small percentage within the Land Use category, though there have been dedicated issuances in Brazil and Mexico. Policies to drive investment in sustainable agriculture, should be a priority across the region. Financial institutions could play an increasing role in funding sustainable agriculture projects within their portfolios, Banco do Brasil, Brazil's largest public sector bank published its Sustainable Finance Framework, which also includes agriculture and forestry projects that will contribute to the country's Low Carbon Agriculture Plan. While Multilateral Development Banks (MDBs) could continue to support via loans, guarantees and technical assistance. Other organizations can also provide technical and financial support, such as the International Centre for Tropical Agriculture (CIAT), International Fund for Agriculture Development (IFAD), Responsible Commodities Facility & Green Fund.

5. Expansion low carbon transport investment. Issuances in low carbon transport in LAC has been driven by Chile's Sovereign, yet there is a significant infrastructure gap that needs to be addressed in both passenger and freight transportation. Funding for transport modes that produce low carbon or zero direct emissions are also being funded in Brazil, Mexico, Colombia, and Ecuador, such as BRT systems, electric vehicles, urban passenger and freight rail. Further sustainable investments in the transport sector could be facilitated through the consortium debt arrangements, via PPPs or other public private financing structures. These funding structures are available in LAC countries and could encourage private sector involvement.

6. Taxonomy development. 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. Guidance and technical assistance on taxonomy is being supported by organizations such as the IFC, IDB and GIZ. Local taxonomies are becoming more popular as countries seek to provide clarity on eligible activities based on their national contexts. These developments are welcome to build a sustainable finance market, but harmonization is fundamental to facilitate cross border investments and comparability. It is important for countries define a clear scope for their taxonomies e.g. climate change or wider environmental objectives (e.g. adaptation, circular economy, pollution, biodiversity, social objectives), eligibility criteria e.g. quantitative or qualitative, and standardize data to assess compliance.

7. Greater role of Central Banks. Central Banks are being increasingly recognized as key agents within climate action. 8 Central Banks in LAC have joined the Network for Greening the Financial System (NGFS). The growth in participation indicates the prioritization of green finance by central banks and supervisors. Since 2020, globally central banks have made prudential adjustments to green monetary policies and mandates. In LAC, the Brazilian Central Bank launched its sustainability agenda and held public consultations to facilitate green bond issuance in the agricultural sector and incorporation of climate risk.

GSS bonds have been around for just over a decade, but can still be considered a novelty in LAC countries. This requires the need for continued market outreach and engagement to unlock investments across key sectors of the economy. Sustainable investments can support the region's green economic recovery and direct funding towards low carbon solutions.

Appendix

Overview of LAC GSS market

Country		Green	Social	Sustainability
Brazil	USD Issue	10.3bn	34m	1.39bn
	Number of Issuers	44	3	6
Chile	USD Issue	9.5bn	4.20bn	4.06bn
	Number of Issuers	9	6	3
Mexico	USD Issue	4.0bn	678m	3.07bn
	Number of Issuers	12	3	8
Peru	USD Issue	1.08bn	68m	30m
	Number of Issuers	5	3	1
Argentina	USD Issue	735m	99m	430m
	Number of Issuers	6	3	2
Bermuda	USD Issue	700m	100m	-
	Number of Issuers	1	1	-
Colombia	USD Issue	684m	280m	324m
	Number of Issuers	7	3	2
Costa Rica	USD Issue	504m	-	50m
	Number of Issuers	2	-	1
Uruguay	USD Issue	361m	-	15m
	Number of Issuers	1	-	1
Panama	USD Issue	330m	50m	-
	Number of Issuers	3	1	-
Ecuador	USD Issue	150m	420m	-
	Number of Issuers	1	2	-
Barbados	USD Issue	8.5m	-	-
	Number of Issuers	1	-	-
Paraguay	USD Issue	-	-	300m
	Number of Issuers	-	-	1
Guatemala	USD Issue	-	1.2bn	-
	Number of Issuers	-	1	-
Supranational	USD Issue	1.82bn	1.51bn	30m
	Number of Issuers	2	2	1

Endnotes

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