LATIN AMERICA AND THE CARIBBEAN SUSTAINABLE DEBT
STATE OF THE MARKET
2022

Prepared by the Climate Bonds Initiative

Supported by the Inter-American Development Bank Group.
Latin America and the Caribbean Sustainable Debt State of the Market 2022

Climate Bonds Initiative

Content
1. Report Summary 3
2. Introduction and overview 4
3. Methodology and scope 5
4. LAC sustainable finance market analysis 7
5. Key sustainable finance policy development milestones in LAC 19
6. Spotlight on emerging key features 23
   a. Sustainability-linked bonds 23
   b. Blue economy 23
   c. Adaptation and resilience 24
7. Country overviews and deep dives 26
8. Outlook 35
9. Appendix - List of A&R keywords for screening of Climate Bonds databases 36

List of acronyms
A&R Adaptation and resilience
ABS Asset-backed securities
CBS Climate Bonds Standard
CBS v4 Climate Bonds Standard Version 4
CCS Carbon capture and storage
CGT Colombian Green Taxonomy
DNSH Do no significant harm
DM Developed market
EM Emerging market
ESG Environmental, social, and governance
EU European Union
FDI Foreign direct investment
GBDB Green Bond Database
GBP Green Bond Principles
GBTP Green Bond Transparency Platform
GDP Gross domestic product
GHG Greenhouse gases
GSS Green, social and sustainability
GSS+ GSS, SLB, and transition
ICMA International Capital Market Association
ICT Information and communication technologies
IPCC Intergovernmental Panel on Climate Change
KPI Key performance indicator
LAC Latin America and Caribbean
MDB Multilateral development bank
NDC Nationally-Determined Contributions
PPP Public and private partnerships
SDG Sustainable development goals
SLB Sustainability-linked bond
SLD Sustainability-linked debt
SMEs Small and medium-sized enterprises
SNAT Supranational issuers
SPT Sustainability performance target
SRI Socially responsible investment
S&S Social and sustainability
SSBDB Social and Sustainability Bond Database
UNDP United Nations Development Programme
UoP Use of Proceeds
VOY Year-on-year

About the Climate Bonds Initiative
Climate Bonds is an international organisation working to mobilise global capital for climate action. It promotes investment in projects and assets needed for a rapid transition to a low-carbon, climate-resilient, and fair economy. The mission focus is to help drive down the cost of capital for large-scale climate and infrastructure projects and support governments seeking increased capital markets investment to meet climate and greenhouse gas (GHG) emission reduction goals. Climate Bonds conducts market analysis and policy research; undertakes market development activities; advises governments and regulators; and administers a global green bond Standard and Certification scheme. Climate Bonds screens green finance instruments against its global Taxonomy to determine alignment, and shares information about the composition of this market with partners. The Climate Bonds team has also expanded its analysis to other thematic areas, such as social and sustainability bonds via the development of screening methodologies for investments that give rise to positive social impacts and added resilience. This scheme is underpinned by rigorous scientific Criteria to ensure that Certified bonds and issuers are consistent with the well-below 2°C target of the Paris Agreement. Obtaining and maintaining Certification requires initial and ongoing third-party verification to ensure the assets meet the metrics of sector Criteria.

About the Inter-American Development Bank Group
The Inter-American Development Bank Group (IDB Group) is devoted to improving lives. Established in 1959, the IDBG is a leading source of long-term financing for economic, social, and institutional development in LAC. The IDBG also conducts cutting-edge research and provides policy advice, technical assistance, and training to public and private sector clients throughout the region. The Inter-American Development Bank (IDB) is a multilateral development bank (MDB) that aims to promote economic and social development in the region. It provides loans, grants, and technical assistance to countries, with a focus on reducing poverty and inequality, fostering sustainable growth, and improving infrastructure. IDB Invest is the private sector arm of the IDB Group, which provides financing and advisory services to private companies, financial institutions, and governments, with the goal of promoting sustainable and inclusive economic growth in the region. Both the IDB and IDB Invest play important roles in supporting economic and social development in LAC, with the IDB focusing on public sector development and IDB Invest on private sector development. Together, they work towards the common goal of reducing poverty and inequality, and improving the lives of people in the region.
Report Summary

The green, social, sustainability, sustainability-linked, and transition (GSS+) bond markets in Latin America and the Caribbean (LAC) have experienced sustained growth since their inception in 2014 reaching a cumulative total of USD154.1bn to the end of 2022. Despite a contraction in volumes in 2022, the GSS+ segment maintained its 5% share of global debt capital markets, with the GSS+ market in LAC accounting for an impressive 21% on average of the region’s debt. This reflects the vulnerability of LAC economies to the impacts of climate and social-ecological interdependencies, and the need for substantial investment in transition technologies, which is being met by large issuers who have tapped global appetite for ESG investments.

The LAC GSS+ labelled market had a record year in 2021 with USD63.3bn issued mainly in response to the COVID-19 pandemic and representing 34% of the local debt market. In 2022, labelled instruments accounted for 25% of the USD40.8bn from the region. However, persistent financial barriers for the local capital markets remain (e.g., currency risk, lack of liquidity and project risks), and the LAC market is the source of only 4% of global GSS+ debt.

Since Climate Bonds’ Latin America and Caribbean (LAC): State of The Market 2021, three new countries have joined the Sovereign GSS+ Bonds Club and volumes in the region reached a cumulative USD49.9bn across 30 green, social, sustainability and sustainability-linked sovereign deals. Sovereigns have contributed to the development and promotion of the market with supportive policies, regulation, and the establishment of local taxonomies to increase guidance for the market. Colombia (2022) and Mexico (2023) have already published their taxonomies, while Chile, the Dominican Republic, Brazil, and Uruguay have signalled the development of their own frameworks.

Government leadership through policy and taxonomy developments, along with sovereign issues, will support the growth of the LAC sustainable debt market, predominantly in deals supporting decarbonisation, and at much greater scale. The LAC GSS+ market continues to consolidate, with the sustainability theme representing the largest share in cumulative volume of this market, accounting for 35% of the labelled market. Within the social sphere, there is a growing trend in Gender Equality bonds, aimed at improving women’s well-being and reducing gender inequalities. The region’s high exposure to climate change effects already locked into the system, and the nature of its primary economic sectors makes adaptation and resilience (A&R) considerations an imperative in every project and asset. Given the extent of the marine ecosystem covered by LAC, the dependence on ocean-based activities is expected to be a driver of capital flows financing the sustainable management of the blue economy, focusing on marine resources, conservation, and measures to mitigate the negative impact of economic activities from private players.

An increased focus on definitions and standards, innovative instruments, disclosure from issuers, and utilisation of emerging labels such as SLBs and transition instruments, will support future financing opportunities in the debt capital markets. In this context, multilateral institutions, such as the IDB Group, and LAC governments have a crucial role in promoting the local GSS+ markets through leveraging effective policy interventions, enhanced transparency, and market innovation, coupled with key demonstrative issuances.
Introduction and overview

About this report

This report aims to contribute to the growth of the sustainable finance market in the LAC region by providing guidance for issuers, regulators, and investors, and highlighting examples of best practice. The GSS+ market in the LAC region remains relatively small, reflecting the underdeveloped domestic capital markets, with a few exceptions in larger countries. The international market is limited to a handful of LAC issuers with the capital needs to raise large scale finance in hard currencies. The LAC region faces multiple challenges in confronting the climate emergency while working towards social, economic, and institutional progress. The green and just transition perspective is a unique opportunity to address vulnerabilities and grow more inclusively, protecting natural capital with innovative policies and prioritising sustainability factors in decision-making.

LAC is fortunate to possess abundant natural resources, presenting numerous opportunities. The region boasts substantial reserves of two crucial metals essential for electrification: copper and lithium. Additionally, it contains some of the world’s sunniest and windiest locations, which could potentially produce gigawatts of inexpensive electricity to generate and export green hydrogen. Therefore, the region is currently experiencing an enormous technological surge and attracted more private capital during the first half of 2021 than Southeast Asia.2

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Introduction to the report

The global sustainable finance market has experienced rapid growth in recent years, with investors increasingly seeking to align their portfolios with investments that have a positive impact on the environment and society. Although GSS+ instruments remain a small fraction of the global debt market, their share as a proportion of the LAC debt market is five times greater. Increasingly, investors are keen to support instruments meeting the required standards of clarity and transparency. Climate Bonds ongoing pricing studies consistently demonstrate that green and other types of sustainable bonds can attract cheaper financing because of a supply shortage.2

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Methodology and scope

Methodology overview

This report is based on the sustainable debt market as defined by debt instruments included in Climate Bonds’ databases. Climate Bonds screens labelled deals for inclusion in its Green Bond Database (GBDB), Social and Sustainability Bond Database (S&SBDB), and SLB and Transition Database. To qualify for inclusion, debt instruments must have a label. Green, social and sustainability bonds must finance sustainable projects, activities, or expenditures, while complying with Climate Bonds Methodology, according to their label. SLBs and transition bonds must respectively annunciate clear and ambitious transition sustainable performance targets (SPTs) for the entity, have UoP earmarked for activities that are not low- or zero-emission but have a short- or long-term role to play in decarbonising an activity or supporting an issuer in its transition to Paris Agreement alignment. Debt labels describe the types of projects, activities, or expenditures financed, and/or their benefits. Green, social, sustainability, and transition are the most common labels, but a broad range of labels is used.

Climate Bonds tracks labelled debt instruments in the market and reports on them. For the purpose of this report, only bonds and other widely used securities (ABSs), have been included. Labelled loans are not covered in this report.

The Climate Bonds database review and screening process is ongoing, and deals are added as soon as the required information is available to the screening team. Consequently, some figures and data may vary from this report to the Global State of the Market 2022 published in April 2023. While this report primarily relied on desk-analysis, Climate Bonds also incorporated information from conversations and interviews conducted with key stakeholders in the LAC region throughout the report’s development. The disparities in data used for this report, when compared to other sources, can be attributed to Climate Bonds minimum eligibility criteria, including disclosure, for data incorporation into its GB and S&SB databases. Furthermore, the report does not only include data available up to the end 2022 but also incorporates relevant information such as new policy developments, initiatives, and taxonomies that have occurred during 2023 up to this report’s publication date.

Scope of analysis

This report is an evaluation of the GSS+ debt market in LAC up to December 2022, which includes cumulative data since market inception in 2014.

Labelled deals are debt instruments used to finance projects, assets, and activities that support climate change adaptation and mitigation or other clear sustainable objectives. They can be issued by governments, municipalities, banks, and corporates and the label can be applied to any debt format. It is global best practice for bonds to be issued in line with the corresponding principles of their label (as described in the methodologies below), as well as several country-specific guidelines when seeking a label. The key consideration is

Country definitions and amounts

In this report, country refers to the country of the issuing entity, while in the Climate Bonds GBDB, country refers to the country of risk, which may produce differences compared with other Climate Bond reports.
As criteria are developed, Climate Bonds will update its GBDB methodology and then begin screening bonds from issuers in those sectors for inclusion, whether labelled as transition or as green. The Climate Bonds Taxonomy defines the assets and activities that are aligned with a 1.5°C pathway, accepting financing with either label. In 2022, Climate Bonds launched Criteria for Basic Chemicals, Cement, Hydrogen Production, and Steel. Entities operating in those sectors can now refer to the Criteria to determine the appropriate assets, projects, expenditures etc. for inclusion in a green or transition bond.

**Label definitions and composition**

**Green:** All deals in the green theme have been screened to verify the integrity of their green credentials. Screening is based on a set of process rules stipulated in the Climate Bonds GBDB Methodology, including carrying a label and all net proceeds verifiably (through public disclosure) meeting Climate Bonds’ green definitions derived from the Climate Bonds Taxonomy. The methodology is consistent with ICMA’s definition of green bonds stated in the Green Bond Principles (GBP), which provide high level categories for eligible green projects, and recommends the reporting on UoP.

**Social and sustainability (S&S) deals are classified based on the UoP (which is typically related to the deal’s label), as follows. To be incorporated into the Climate Bonds Social and Sustainability Bond Database (SSBD), each bond’s UoP is classified against the relevant social UoP categories (see page 15), must clearly identify an appropriate target population, and the proceeds must not include any categories that could be considered to breach the minimum climate safeguards. Equally, the SSBD methodology is consistent with ICMA’s Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) providing high level categories for eligible projects and recommended reporting on UoP.

**Social:** UoP is exclusively related to social projects, e.g., health, employment, gender equality, affordable housing, etc.

**Sustainability:** UoP includes a combination of green and social projects, activities, or expenditures, e.g., renewable energy, low-carbon transport, employment generation and gender equality.

Any instrument financing only green projects is included in the GBDB should it meet eligibility requirements, irrespective of its label (e.g., an SDG bond that only finances solar energy). A sustainability-labelled bond that only finances social projects will fall under the social theme, whereas one that finances a combination of green and social would be considered to fall under the sustainability theme.

**Sustainability-linked bonds (SLBs) raise general purpose finance and involve coupon step-ups or, occasionally, step-downs linked to the achievement of pre-defined, time-bound SPTs. Climate Bonds has developed a screening methodology for SLB structures, based on the Five Hallmarks for Credibly Transitioning Companies, assessing the ambition of the SPTs through alignment and credibility with a sector-specific 1.5°C pathway. ICMA’s Sustainability-Linked Bond Principles (SLBP) also incentivise the achievement of KPIs and SPTs.

**Transition:** Climate Bonds records but does not screen transition bonds. A transition bond has UoP earmarked for activities that are not low- or zero-emission (i.e., not green), but have a short- or long-term role to play in decarbonising an activity or supporting an issuer in its transition to Paris Agreement alignment. The transition label enables inclusion of a more diverse set of sectors and activities, and includes labels such as blue transition and green transition. At present, transition bonds predominantly originate from highly polluting, and hard-to-abate industries such as extractives like mining, materials such as steel and cement, and industrials including aviation and shipping.
LAC sustainable finance market analysis

By the end of 2022, cumulative green, social, and sustainability debt originating from LAC had reached USD126.8bn, a 160% increase since June 2021 (USD48.6bn). Transition and sustainability-linked bonds, included for the first time in this regional analysis, add a further USD27.3bn. By the end of 2022, the LAC GSS+ market had reached USD154.1bn.

Cumulative GSS+ bonds

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Countries in the LAC GSS+ market by volume issued

<table>
<thead>
<tr>
<th>Country</th>
<th>USD 2022</th>
<th>Issuers</th>
<th>Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>7.2bn</td>
<td>48</td>
<td>126</td>
</tr>
<tr>
<td>Chile</td>
<td>43.2bn</td>
<td>133</td>
<td>234</td>
</tr>
<tr>
<td>Mexico</td>
<td>13.9bn</td>
<td>27</td>
<td>60</td>
</tr>
<tr>
<td>Peru</td>
<td>6.5bn</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>1. Chile</td>
<td>43.2bn</td>
<td>27</td>
<td>60</td>
</tr>
<tr>
<td>2. Brazil</td>
<td>7.2bn</td>
<td>48</td>
<td>126</td>
</tr>
<tr>
<td>3. Brazil</td>
<td>31.9bn</td>
<td>133</td>
<td>234</td>
</tr>
<tr>
<td>4. Supranational</td>
<td>25bn*</td>
<td>10</td>
<td>72</td>
</tr>
<tr>
<td>5. Peru</td>
<td>6.5bn</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>6. Argentina</td>
<td>8.8bn</td>
<td>26</td>
<td>48</td>
</tr>
<tr>
<td>7. Colombia</td>
<td>2.8bn</td>
<td>24</td>
<td>41</td>
</tr>
<tr>
<td>8. Guatemala</td>
<td>2.3bn</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>9. Uruguay</td>
<td>8.8bn</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>10. Bermuda</td>
<td>1.1bn</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>11. Costa Rica</td>
<td>1.8bn</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>12. British Virgin Islands</td>
<td>18.4bn</td>
<td>33</td>
<td>3</td>
</tr>
<tr>
<td>13. Ecuador</td>
<td>160m</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>14. Panama</td>
<td>780m</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>15. Belize</td>
<td>364m</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>16. Dominican Republic</td>
<td>20m</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>17. Paraguay</td>
<td>300m</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>18. Barbados</td>
<td>8.7m</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>19. Trinidad and Tobago</td>
<td>44.2m</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>20. El Salvador</td>
<td>20m</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Argentina</td>
<td>1.8bn</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Barbados</td>
<td>73m</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Belize</td>
<td>364m</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>8.8bn</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>156m</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Colombia</td>
<td>1.1bn</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>300m</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1.2bn</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Guatemala</td>
<td>1.1bn</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Hungary</td>
<td>30m</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Mexico</td>
<td>18.4bn</td>
<td>14</td>
<td>37</td>
</tr>
<tr>
<td>Peru</td>
<td>6.6bn</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
| 2014-2021

Source: Climate Bonds Initiative Green, Social and Sustainability, SLB and Transition Databases.

*Supranational entities are organisations or authorities that go beyond the boundaries of a single country, representing a higher level of cooperation and decision-making among participating countries which can include regional development banks, international agencies, among others.
In LAC, the sustainable debt market share of the total debt issued year-on-year (YOY) is larger than the global average. While global GSS+ debt has maintained 5% of global capital markets volume over the past couple of years, thematic debt originating from LAC accounted for approximately 21% of the regional USD535bn volume between 2019 and 2022. This demonstrates the shifting priorities of issuing entities in the LAC market. Thematic debt instruments can attract capital to support the regions vulnerability to environmental and social shocks. This suggests that the thematic debt markets in the region will continue to grow.

The Russian invasion of Ukraine caused energy price spikes, driving high inflation. The expectations and consequences of rising interest rates rapidly hit the debt market, and issuance in all categories of bonds declined in 2022, which extended to bonds bearing thematic labels (-24% YOY).

The sustainability label accounts for 35% of the GSS+ market, with USD54.4bn. Development banks account for 37% of this amount, with sovereign issuers at 35%. The largest sustainability bond issuers in the region are the supranational IDB Group with cumulative volume of USD14bn, and the Mexican Government, with USD7.7bn. In 2022, Mexico had the largest sustainability bond market in the region with cumulative issuance of USD17.8bn mostly from sovereign bonds (43%) and government-backed deals (26%). The growing relevance of sustainability bonds is driven by the increased flexibility they offer to issuers as their UoP can be allocated towards both green and social projects.

Green is the second largest label, with cumulative volume of USD42.4bn by the end of 2022, and 40% growth over the last 2.5 years. Non-financial corporate issuers made the largest contribution (53%) followed by sovereigns (19%). The largest green issuer was the Chilean Government with four deals worth USD7.4bn, and the country has the second largest green bond market in the region (USD12.7bn). The largest green market in the region is Brazil (totalling USD15.2bn spread out over 86 bonds).
The Japanese Ministry of Economy, Trade, and Industry (METI) published the Basic Guidelines on Climate Transition Finance in 2021, which serve as an example for LAC on how to promote more transition-labelled issuances. These guidelines have contributed to making Japan one of the largest transition-themed markets globally, as a result of strong policy support.13

Aligned with ICMA’s Climate Transition Finance Handbook they propose four key elements for disclosure best-practice:

- Strategy and Governance;
- Environmental Materiality;
- Science-based Strategies; and
- Transparency.

To accompany the guidelines, relevant Japanese Ministries have been developing sector-specific roadmaps for carbon-intensive industries, such as chemicals, iron and steel, aviation, oil, and gas.

Policy frameworks such as these could be deployed to add momentum to transition finance efforts in LAC countries, trigger the achievement of national climate goals, and assist local entities to design and communicate credible transition plans.

The social label experienced the most remarkable growth, recording an increase of 247% with volumes reaching USD19.9bn by the end of 2022, compared with USD8.8bn in June 2020. This growth can be attributed to the social bonds issued to finance social needs in response to the COVID-19 pandemic. Once again, sovereigns and development banks were the source of the most of the volumes (65% and 20% respectively). The largest social issuer was the Chilean Government with twelve deals totalling USD18.5bn, contributing to Chile’s pole position as the country originating the largest social volume in the region (USD19.3bn).

Transition bonds and SLBs debuted in the market in 2019 and 2020 respectively. The transition theme is in its infancy, representing 0.5% of the region’s GSS+ market, with three deals and combined volume of USD770.4m. The dissemination of definitions and guidelines on transition is still necessary to scale up this market. Climate Bonds is currently developing standards and sector criteria for defining credible transitions. Other institutions also provide guidance for transition finance, such as ICMA’s Climate Transition Finance Guidebook or OECD’s Guidance on Transition Finance.14,15

Hard currencies make up 74% of the total LAC GSS+ market. USD, EUR, CHF, GBP, and JPY have maintained a consistent presence in the region. Hard currencies were the source of 72% of green bonds, 75% of sustainability deals and 80% of SLBs, while social bonds were slightly lower at 67% of the volume. Entities in the LAC region issuing sustainable securities tend to utilise hard currencies when accessing international capital markets, given their stability and wider acceptance in global financial transactions. This also allows them to tap into a larger pool of international investors and potentially benefit from increased liquidity and lower borrowing costs. Additionally, hard currencies facilitate cross-border transactions and simplify the process of raising funds on international markets by reducing the need for currency conversion and eliminating some of the risks associated with exchange rate fluctuations. The development of local debt capital markets in local currency can help reduce the volatility of issuers profits due to external currency movements. It also reduces the dependency of the private sector on external borrowing and protect economies from capital flow volatility.

The SLB segment has flourished in LAC, with USD26.5bn. The average YOY increase of 238% for the last three years is consistent with the global average, lagging behind only Asia-Pacific and North America. The SLB market in LAC is dominated by non-financial corporates (82%) yet encompasses the only two sovereigns in the world. The two largest issuers in the region are Suzano with three deals amounting to USD2.75bn and the Chilean Government, which pioneered the sovereign SLB label in early 2022, with its debut USD2bn deal. The largest LAC country source of SLBs is Brazil with USD11.9bn.

Currencies in the LAC GSS+ market

<table>
<thead>
<tr>
<th>Year</th>
<th>International currencies</th>
<th>Local currencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2015</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2016</td>
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<tr>
<td>2017</td>
<td>40%</td>
<td>60%</td>
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<tr>
<td>2018</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2019</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2020</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2021</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2022</td>
<td>40%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Source: Climate Bonds Initiative
LAC countries have embraced sovereign GSS+ issuance, with a cumulative USD49.9bn at the end of 2022, a 442% increase on the USD9.2bn that had been recorded in June 2020. Chile is a GSS+ bond market pioneer and as of mid-2023 was the only sovereign to have issued across the green, social, sustainability, and SLB themes, for total volume of USD34.5bn. In 2020, Climate Bonds published the Sovereign Green, Social, and Sustainability Bond Survey based on interviews with 22 issuers of sovereign GSS bonds. During the interviews, 16 issuers repeatedly remarked that local green market creation was both a motivation for and outcome of sovereign GSS bond issuance. The activity of issuing a thematic deal sends a signal to the market that the government is committed to transition, which attracts crowding in from the private sector.

The sustainability and social themes have dominated LAC sovereign issuance. In March 2022, Chile became the first sovereign globally to price an SLB. In November, Uruguay priced the first SLB with a step-down feature (see Uruguay’s case study). Brazil has signalled its intention to join the Sovereign GSS+ Bond Club and would become the eighth country in the region to do so.
In 2022, green bonds amounting to USD5.3bn originated from LAC, a 48% decline on the prior year, reflecting the broader global market slowdown. By the end of the year, cumulative issuance in the region had reached USD42.4bn, representing 4% of the total LAC market in 2022.

Brazil topped the ranking with a total volume of USD15.2bn, boosted by numerous deals from non-financial corporates. Chile was the second largest source with USD12.7bn, followed by Mexico with a volume of USD3.3bn. Since June 2020, Guatemala, the British Virgin Islands, Dominican Republic, and Bermuda have joined the green bond market.

The LAC green bond market is dominated by non-financial corporates (53%) and sovereigns (19%). Financial corporates have increased their volume (USD2.1bn to USD4.5bn) adding 2% to their market share since 2020, now totalling 10%. Development bank market share has declined by 4%, amounting to only 11% of the green market at the end of 2022, compared to 15% at the end of 2020. Local governments have the lowest green market share with only 1.5%, a decline from 2.3% in 2020.

USD was the currency of choice for green deals originating from LAC (57%), which demonstrates a regional market preference for tapping international demand for green assets. Among local currencies, BRL had the largest share with USD9bn (21%), demonstrating the importance of the Brazilian domestic market. EUR, which is the preferred currency for green deals globally, was the third largest currency in the region with 12% of the amount issued, spread over six transactions.

The largest share of the volume is in the 5–10-year maturity bucket (31%), closely followed by 10–20 years (30%). The average ticket size of the 66 bonds in the 10–20Y bucket is larger because three sovereign green bonds from Chile constitute 39% of its volume. The up to 5-year bucket includes 102 smaller bonds, where 21 deals with tenors longer than 20 years are largely represented by the Chilean sovereign (30%).

External reviews, prepared by a recognised independent party advising on the conformity with the conceptual framework and compliance, are a common best practice adopted by 89% of LAC green bonds by volume. The Second-Party Opinion (SPO) is the most popular external review type covering 77% of volume at the end of 2022. Ratings and Climate Bonds Certifications have declined slightly since 2020, finishing 2022 at 6% and 5% respectively.

Since the inception of this market, SPOs have advanced the transparency and reporting methodologies of green bonds, particularly across sectors where scientific thresholds and criteria were still emerging. The market continues to embrace these external reviews, which incorporate Climate Bonds Criteria and local taxonomy thresholds, offering cost-effective, tailored solutions for clients. The transparency and credibility of an SPO or Certification is the market standard for communicating the robust credentials of deals to investors.

Sustainalytics remains the main external review provider for both SPO (39%) and certification (64%) modalities. Moody’s ESG Solutions (formerly Vigeo Eiris) continues to be the second largest external reviewer largely due to their work on the Chilean and Colombian sovereigns that corresponds to 83% of their green market share. Having market leaders...
CASE STUDY: Colombia’s sovereign green bonds

In September 2021, Colombia became the first country in the LAC region to price a sovereign green bond in local currency with its debut COP denominated deal. The COP2.1tn (USD549m) 2031 maturity was placed via three auctions. The first clip was originally COP500bn but upsized to COP750bn when it was 4.6 times oversubscribed. The subsequent auction was oversubscribed by 1.5 times apiece.

Colombia modelled Germany’s twin bond structure, whereby a vanilla bond is priced sharing similar characteristics to a corresponding green bond. This makes it possible to directly measure the impact of the green label, and Colombia’s sovereign green bond has consistently traded inside its vanilla twin in the secondary market (7 to 15 bps). This suggests high investor appetite for a large, liquid, COP instrument bearing the green label, supported by the fact that almost 32% of the deal was placed with offshore funds.

Proceeds from the sale of the bond will be used to fund a portfolio of 27 expenditures in six categories, which reference the United Nations Sustainable Development Goals (SDGs):

1. Water management, sustainable use, and sanitation – 40%
2. Clean and sustainable transportation – 27%
3. Ecosystem services and biodiversity – 16%
4. Non-conventional energy sources, energy efficiency and connectivity – 14%
5. Waste and circular economy – 2%
6. Sustainable, low-emission agricultural production adapted to climate change – 1%

The top three SPO providers in the region, Moody’s ESG Solutions, Sustainalytics, and NINT, provide 83% of the green SPOs. However, only 27% of the reviewed deals were in local currency, namely BRL, CLF, COP, MXN, and PEN.

SECTORS AND USE OF PROCEEDS CATEGORIES

The sector of a bond describes the economic activity of its issuer. The International Standard Industrial Classification, and the North American Industrial Classification System (NAICS) are examples of sector classification standards. The UoP category describes how the funds raised from the sale of the instrument will be deployed. Climate Bonds, the EU, and countries such as Mexico and Colombia have taxonomies that provide examples of UoP categorisations. The sector of a bond issuer is unrelated to the UoP categories. For example, a bank (financial sector) can issue green bonds with Energy or Transport UoP.

Following global trends, renewable energy continues to be the most funded UoP category. The fact that renewable energy must increase to 70-85% of electricity generation by 2050 to limit global warming to 1.5°C, means it is essential to

<table>
<thead>
<tr>
<th>Green Use of Proceeds and Emission Percentages</th>
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<tbody>
<tr>
<td><strong>Sector</strong></td>
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<tr>
<td>Energy</td>
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<tr>
<td>Transport</td>
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<tr>
<td>Buildings</td>
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<tr>
<td>Land Use</td>
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<tr>
<td>Waste</td>
</tr>
<tr>
<td>Industry</td>
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<tr>
<td>Other (including Water and ICT)</td>
</tr>
</tbody>
</table>

Source: Climate Bonds Initiative

20/09/21 01/10/21 08/10/21 13/10/21 20/10/21 27/10/21

Source: Ministry of Finance and Public Credit

In August 2022, Colombia’s green financing framework was updated to reflect the Colombian Green Taxonomy (CGT) whenever possible and a broader scope by including social and sustainable issues with IDB support. Both the framework and the taxonomy are consistent with European practices and the government’s strategic sustainability priorities.

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Proceeds from the sale of the bond will be used to fund a portfolio of 27 expenditures in six categories, which reference the United Nations Sustainable Development Goals (SDGs):
accelerate the deployment of renewable energy solutions to meet the growing demand while reducing emissions. LAC’s geography provides massive potential for solar and wind farms, and hydropower facilities to generate electricity. Any issuer with scope 1 or 2 emissions could price a bond with Energy UoP.

**Low-carbon transport and buildings** can address the challenges posed by population growth and increasing energy demand while reducing carbon emissions. Both sectors have already identified pathways to decarbonisation, and with the ease of implementation and maturity of solutions, they have reached cost parity. The main obstacle to complete decarbonisation lies in scaling up these solutions. The green bond market can support this, hence zero-carbon solutions should be prioritised. Green transport policies will enable decarbonisation, provide varied investment opportunities in green private transport, expand public transport, and enable self-powered mobility, and green public procurement is an obvious way to support this. Net-zero transport will be delivered by system redesign, not solely technology switching and electrification.

**Water is a crucial resource for life**, but the latest report from the IPCC paints a troubling picture regarding its availability, especially in LAC which is one of the most vulnerable regions. Today, half the global population faces water insecurity at least once a month. Investments in water infrastructure, distribution, and treatment must increase and there are green sector criteria available to support the prioritisation of this.

**The waste industry can reduce global GHG emissions** by 10-15% through waste prevention, recycling, and energy recovery. This can manifest through reduced emissions from landfill, resource extraction, and production, while also providing an alternative energy source. The waste sector in Latin America faces unique challenges due to inadequate infrastructure, and limited resources and regulations, leading to environmental and health hazards. Regions and local authorities could tap the GSS+ market to support efforts in sustainable waste management.

**Land Use**. Forestry, agriculture, bioenergy and food production activities are key contributors to this sector. LAC is an important agriculture producer as it is the world largest net food exporting region and also home to the Amazon rain forest, which has vast potential to sequester carbon and foster biodiversity if managed sustainably. LAC countries are already looking at developing low-carbon agriculture as part of their climate commitments. Most of this market is funded through bilateral loans. However, these could be aggregated and recycled in the sustainable debt market, freeing up lender capital for further investment. Climate Bonds’ Brazil Sustainable Agriculture, State of the Market 2022 report identifies actions to support the expansion of the securitisation market which could be scaled and replicated across the LAC region.

**Industry and Information and Communication Technologies (ICT)** play a crucial role in the transition towards a low-carbon economy. The development and deployment of low-carbon technologies and practices, such as energy-efficient processes and materials, renewable energy integration, and circular economy models, must be prioritised. Similarly, the ICT sector has great potential to reduce emissions through digitalisation and the use of smart technologies. The measures outlined in national industrial policy are also relevant, and if clear decarbonisation pathways are lacking, governments should focus on funding R&D and encouraging early-stage investment in innovative technologies.

**The success of the transition to net-zero emissions relies on systemic decarbonisation through the electrification of all economic sectors.** The more activities that are defined, the easier it will be for borrowers to identify sustainable development opportunities, and for lenders to prioritise sustainable UoP. These two actions in combination could lead to rapid growth in the GSS+ bond market. By mid-2023, Climate Bonds had criteria to define sustainable UoP in 19 sectors including: Solar Energy, Wind Energy, Industry, ICT, Electrical Grid and Storage, Forestry, Land Conservation and Restoration, and Shipping. In 2022, criteria for Steel, Cement, Basic Chemicals, and Hydrogen were introduced, and Climate Bonds is prioritising work on three new sectors: Crop and Livestock, Value Chain, and Fisheries.

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**New Climate Bonds sector Criteria for UoP bonds**

<table>
<thead>
<tr>
<th>Steel</th>
<th>Cement</th>
<th>Basic Chemicals</th>
<th>Hydrogen</th>
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<tbody>
<tr>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</table>

**Transition**

Transition bonds originating from the LAC region amount to 1% of the GSS+ volume, or USD770m spread over three deals. In comparison, globally, the transition label represents 5% of the total GSS+ market. However, given that this label is usually applied to debt coming from entities operating in the hard-to-abate sectors such as metals and mining, it has huge potential for further penetration in the region. Two out of the three transition bonds have come from Brazilian non-financial corporates: one from Marfrig in 2019 for USD500m and the other from Eneva in 2020 issued in two tranches for BRL948m (USD170m). The other transition bond came from the IDB which issued a USD100m bond in 2021 to support companies with climate-related commitments, practices for technological change, and effective climate measures. The average tenor of these bonds is 5-10 years, and all of these have an SPO either from Moody’s ESG Solutions or NINT.

Having clear definitions of which activities can use the transition label will support market growth for this sector. Such definitions can also support the creation of credible transition plans and sector-specific roadmaps for carbon-intensive industries.
Social

By the end of 2022, cumulative social bond issuance from the LAC region had reached USD29.9bn, a 247% increase on the USD8.6bn that had been recorded by Climate Bonds in June 2020. The social theme accounts for 19% of the LAC GSS+ market.

Chile continues to lead the ranking with USD19.3bn followed by Mexico, which was the source of USD3bn, and Colombia with USD1bn. In 2022, there was an increase in social bonds originating from Mexico which accounted for 43% of the market through nine deals, surpassing the amount issued by supranationals the same year (USD1.5bn). Many LAC countries have joined the social bond market since June 2020, including Argentina, which has done more than ten deals since then, followed by Costa Rica and Trinidad and Tobago, both with a single social bond each from a local financial corporate.

Chile (USD18.5bn), Guatemala (USD500m), and Ecuador (USD400m) are the only sovereigns globally to have priced social bonds, and as a result, sovereigns are the largest issuer type in LAC with a cumulative volume of USD19.4bn (65%). They are followed by Development Banks, with USD5.9bn accounting for 20%.

Most social bonds originating from LAC have multiple UoP. Of all social bonds originating from LAC, 18% of UoP is earmarked for employment and training, amounting to USD5.9bn. This is followed by equality (15%), education and microfinance (each have 13% of the UoP) with other social categories making up the rest of the social bond market share.

Inclusion of social bonds in the Climate Bonds SSBDB depends on the declared UoP, which is classified against the relevant eligible categories for assets, projects, and activities (e.g., food security). Each bond must clearly identify an appropriate target population, i.e., the group(s) of people that will benefit from the UoP. Moreover, the proceeds should not include any categories that can be considered to breach minimum climate safeguards. A detailed classification of the UoP used for the analysis can be seen in the table below.

USD is the dominant currency for social bonds originating from LAC, with 35% of the total (USD10.4bn) while EUR accounts for 25% (USD7.5bn), followed by PEN with 11% (USD3.3bn).

Shorter dated paper prevails in the LAC social bond market with 34% of the total volume having a maturity shorter than 5-years, while 26% and 21% fall into the 10-20 year and 5–10-year buckets respectively.

Most (95%) of the LAC social bond issues obtained an SPO. Moody’s ESG Solutions was the main SPO provider in the region with 71% of the market share, which included Chile’s sovereign social deals, followed by Sustainalytics with 20%.
### Analytical Framework for classifying use of proceeds

<table>
<thead>
<tr>
<th>ICMA SBP (2019 version)</th>
<th>Climate Bonds Initiative social and sustainability use of proceeds category</th>
<th>Social assets, projects or activities</th>
</tr>
</thead>
</table>
| Access to essential services (e.g., health, education and vocational training, healthcare, financing, and financial services) | Education | • Education infrastructure  
  • Education equipment  
  • Educational activities  
  • Research and development |
|                         | Healthcare | • Medical equipment manufacturing  
  • Healthcare infrastructure  
  • Healthcare services  
  • Research and development |
|                         | Employment and training | • Vocational training  
  • Job creation  
  • Job retention  
  • Welfare and wellbeing |
| Employment generation including through the potential effect of SME financing and microfinance | Microfinance | • Financial services for micro and small-sized enterprises  
  • Poverty alleviation |
| Food security | Food security | • Food availability  
  • Price stability |
| Affordable basic infrastructure (e.g., clean drinking water, sewers, sanitation, transport, energy) | Non-green affordable infrastructure | • Energy  
  • Transport  
  • Building  
  • Waste  
  • Others |
| Affordable housing | Non-green affordable infrastructure | • Housing |
| Socioeconomic advancement and empowerment | Equality | • Gender equality  
  • Human rights |
| Social adaptation and resilience (A&R) | | • Crisis response  
  • Creating more robust social systems |

### Gender as social UoP

**Women in LAC face important social and economic challenges with violence against women a significant problem.**

Women also face underpayment in every sector of employment and are more exposed to informal terms of employment. In the field of entrepreneurship, women also encounter difficulties accessing finance, restricting their capacity to make investments needed to contribute to productivity and growth. They also continue to be underrepresented in leadership positions, hindering their advocacy for full and effective participation and equal opportunities. These inequalities could be tackled by mobilising finance towards three gender UoP: 1. companies led or funded by women, 2. implementing gender-inclusive policies and legislation and 3. developing activities promoting the empowerment of women. Gender-lens investing has been incorporated into a variety of investment vehicles such as index funds, exchange traded funds and private equity.

The gender UoP category sits underneath the social bond label, and can be applied to deals addressing gender inequality to mobilise private capital towards the advancement and empowerment of women. To date, LAC is the leading region in gender bond issuance accounting for over half of all gender bonds issued globally. IDB group is a leader in fostering financial innovation towards promoting gender equality, diversity and inclusion (EDI) through gender bonds.

By the end of 2022, IDB Group had supported a total of eight gender bond issues with a cumulative volume of USD470m. In 2022, IDB Invest participated in three local gender bonds issued by the private sector including Ecuador’s first gender bond, a USD100m deal from Banco Pichincha. On the public side, the IDB supported Mexico’s first gender bond, issued by FIRA, aiming to expand the resources available to finance projects led by women in rural areas.
Sustainability

The flexibility to incorporate a wider range of green and social UoP to the sustainable framework attracts more issuers and has supported the growth of the label. Since the last Climate Bonds LAC market update in June 2020, issuers from Barbados, Belize, Costa Rica, Ecuador, El Salvador, Paraguay, and Uruguay have joined the sustainability bond market.

The LAC sustainability market ended 2022 with cumulative volume of USD54.4bn. Supranational deals constituted this label’s largest share (33%), comprising bonds from the Central American Bank for Economic Integration (CABEI) (USD30m), the IDB (USD14bn), and IDB Invest (USD4bn).

The second largest share of LAC’s sustainability volume originated from Mexico (32%) with USD17.8bn. The Chilean sustainability bond market is the third largest, representing 15% of the region’s sustainability volume with USD8.5bn.

Development banks and sovereigns dominate the LAC sustainability market with 37% and 35% of the market share, respectively.

USD was the preferred hard currency with 62% of the total volume (USD33.9bn), followed by EUR with 7% (USD3.7bn). MXN is the local currency with the largest presence in the LAC sustainability market, with 18% of the volume (USD10.2bn), which reflects the presence of a deeper local sustainable bond market in Mexico.

The LAC sustainability bond market largely comprises shorter tenors. Tenors of up to 5-years account for USD23.7bn, of which 56% belong to supranationals, namely IDB and IDB Invest. The 5-10-year bucket was dominated by Mexican issuers with a 53% market share of this ticket size and USD6.5bn issued.

Maturities ranging between 10 to 20 years, totalling USD13.3bn, are led by sovereign deals (77%). Seven deals totalling USD4.6bn are longer than 20 years, which is understandable given that investors would more comfortably invest in long-dated sovereign than long-dated corporate debt. Sovereign bonds are often seen as safer investments because they are backed by the full faith and credit of the issuing government. This reflects the perception of lower risk and higher stability associated with government issuers compared to corporates, which highlights the importance of creditworthiness and investor confidence when considering investment options with extended maturities.

Most of the LAC sustainability bond deals obtained an SPO (90%). Only seven deals did not disclose an external review.

Moody’s ESG Solutions and Sustainalytics were the main SPO providers of the region covering 52% and 29% of the market, respectively.

Currencies in the LAC sustainability bond market

- USD: 62%
- MXN: 19%
- EUR: 7%
- Other: 6%
- GBP: 4%
- BRL: 2%
Sustainability Use of Proceeds

The green UoP with the largest allocations from sustainability deals were, Energy (17%), Water (16%) and Buildings (14%). The most frequently cited social UoP were Affordable Infrastructure (19%), Employment and Training (15%) and Healthcare (14%).

Sustainability-linked bonds

By the end of 2022, the cumulative volume of SLBs originating from LAC reached USD26.5bn representing 17% of the GSS+ market, compared to only 5.4% globally. The largest local market was Brazil with 45% (USD11.9bn) of the regional amount, made up of 37 deals from 26 corporate issuers. Mexico followed with approximately 30% (USD8.1bn) of LAC market share across 25 deals from 15 corporate issuers. Chile was the third largest source, contributing USD2.5bn from two deals, including from its sovereign (80% of its local market). The increase in SLBs in the region can be attributed to the growing demand from dedicated investors seeking portfolio diversification.

The LAC SLB market is dominated by non-financial corporates (82%), followed by sovereign deals from Chile and Uruguay comprising 16%. It mainly consists of issuers with a presence in debt capital markets which were looking to advance their sustainability strategies.

Hard currencies are preferred, with 72% denominated in USD, and 8% in EUR. Relevant local currencies include BRL with 11% and MXN with 8%. General-purpose UoP, a feature of sustainability-linked instruments, allows corporate issuers to raise larger ticket sizes helping to meet international investor appetite. Longer tenors dominate the SLB market, with the two sovereign deals falling into the 10-20-year maturity bucket.

Currencies in the LAC SLB market

Issuance in the LAC SLB market by year

Issuance in the LAC SLB market by country
Almost all the SLBs (97%) obtained SPOs, which provided assurance for investors given that the SLB is still a relatively new asset class, with Sustainalytics and ISS ESG the main opinion providers. The former was responsible for reviewing USD13.8bn across 29 deals in the region, including both SLB sovereigns, while the latter reviewed 15 deals totalling USD7.3bn.

GHG emission reduction targets were included among key performance indicators (KPIs) for 47% of the deals, with most including two scopes of emissions, meaning that close to half had not included any mention of GHG reductions. Renewable energy (9%), waste (8%) and corporate social (7%) KPIs were the next largest categories.

Scope 3 emissions were referenced by 26% (USD3.3bn) of the volume linked to emissions. These included two bonds from Simpar (USD625m and BRL450m (USD83.8m)), and deals from Movida (USD800m), Natura Cosméticos (USD1bn), and Arcos Dorados BV (USD350m).

Most of the deals originating from LAC are aligned with ICMA's Sustainability-Linked Bond Principles, and—in lesser volume—with the Science-based Targets initiative (SBTi), which focus on setting a standard for emission reduction targets that could become a benchmark.

**Bancolombia: First bank to issue an SLB in LAC**

Bancolombia, the largest private bank in Colombia with a presence across Central America, was the first LAC financial institution to price an SLB. The structuring of the COP640bn deal was supported by IDB Invest and LAGreen Fund. This SLB includes two KPIs:

- **KPI 1**: Number of individuals given access to credit.
  - SPT: 1,506,580 un-banked or underserved low-income individuals given access to credit.
  - SPT observation date: 31 December 2025

- **KPI 2**: Intensity reduction of financed CO₂ emissions.
  - SPT: Reduction of intensity CO₂ financed emissions to a 0.0238-ton CO₂e/COP million level.
  - SPT observation date: 31 December 2025

Failure to achieve each SPT would incur a coupon step-up of 17.5bps for the residual life of the bond. The private placement obtained an SPO from Sustainalytics confirming alignment with ICMA’s SLB Principles. IDB received COP334bn, IDB Invest COP206bn, and the LAGreen Fund COP90bn.

**Challenges and barriers to growth**

Reporting commitments are one of the main challenges for thematic issuers in the LAC market. Thematic debt issuers globally face challenges in meeting reporting commitments. The absence of clear guidelines and frameworks for reporting creates uncertainty, heterogeneity and hinders the fulfilment of reporting obligations. Regions with larger markets tend to present more robust issuing practices, including reporting commitments.

More specifically in the LAC region, issuers often lack clarity regarding the specific details of what information is material for investors and how to report in a consistent way. For instance, in 2021, when Climate Bonds analysed a sample of the market, only about half of Latin American issuers reported the allocation of proceeds post-issuance.

Overcoming this challenge requires the development and employment of standardised reporting frameworks and providing issuers with clear guidance on the information they need to disclose. Initiatives such as IDB’s Green Bond Transparency Platform (GBTP), which centralises and harmonises data disclosure, are crucial to providing the market with greater transparency.

**The LAC region is vulnerable to external shocks, uncertainties, and economic deceleration** from key commercial partners such as China. This has diluted the potential of macroeconomic policy to address economic recovery and protect the most affected groups.
while looking to solve environmental challenges. It is estimated that 32.1% of the LAC total population live in poverty, and 13.1% in extreme poverty, putting enormous pressure on public sector resources.\(^{25}\)

**The current political trends in the region are expected to continue in 2023,** with growing slow growth, higher interest rates, falling commodity prices, weakened consumer and business confidence, and struggling small businesses. Additionally, the possibility of unrest and political paralysis could further erode confidence and weigh on economic activity.\(^{26}\) Governmental expenditure has been tilted towards social objectives.

**Given their size and reach, debt capital markets can play a critical role in supporting the development of a sustainable economy** by facilitating access to large-scale, and long-term financing. Climate Bonds’ green pricing work confirms that there are investors willing to buy labelled debt with the required credentials, which is driving favourable pricing dynamics in the market. However, many investors with a mandate to buy EM debt are not permitted to combine currency risk and credit risk, or consider small ticket sizes and less liquid assets. As a result, unlocking the supply of capital in the Latin American region remains a challenge. While SLBs have shown promising growth potential, most of the issuers tapping the international markets are already well known. Therefore, broader adoption and increased participation from a wider range of investors may be necessary to fully unlock the region’s capital supply and support the development of smaller, lesser-known issuers.

Small and medium-sized enterprises (SMEs) in the region, requiring modest capital, struggle to access capital markets and obtain loans. While the global and LAC markets decreased from 2021 to 2022, development banks such as the IDB and the World Bank were channelling resources to support de-risking, finance, capital markets, banking, and business services allowing more issuers to come to market.\(^{27}\) MDBs have supported institutional reforms aimed at increasing financial inclusion for rural populations, SMEs, and other groups that currently do not have access to formal-sector financial services.\(^{28}\)

Green or GSS+ tagging in the market expands the availability of credit and funding options. In LAC, there is a huge untapped pipeline of small-scale, sustainable projects and assets, especially in agriculture, green buildings, waste management, distributed renewable energy, and urban mobility that could benefit from green tagging. The development of aggregation mechanisms for smaller GSS+ projects could be deployed to unlock private capital to support these types of assets that may otherwise lack resources. Climate Bonds recommends three actions to address these issues. Two of the recommendations are taken from Climate Bonds March 2023 101 Sustainable Finance Policies for 1.5°C, research report, which outlined 101 policy levers available to government, regulators, and central bank policy makers to facilitate the transition to net-zero.\(^{29}\)

1. **Regulators must step in to encourage local investors’ participation in deals from local issuers.** As an example, central banks can adjust risk weightings and reserve requirements by including green-supporting or brown-penalisating factors to account for climate risks (Policy 88) or adjusting green foreign exchange reserves to consider climate risk, which can incentivise sustainable investments (Policy 82).

2. **Service providers, such as banks or securitisation companies, can design innovative solutions, including aggregation mechanisms or blended finance structures for labelled debt.**

3. **Stock exchanges can support the development of GSS+ instruments by introducing dedicated segments to showcase best practice, etc.** For instance, the Colombian Stock Exchange launched a platform for trading green bonds and the B3 in Brazil introduced a sustainability segment for listing companies that meet specific ESG criteria. Through the provision of standardisation and transparency, such initiatives have the potential to attract funding to support entities on their sustainability journeys and bring more actors to the market, thereby diversifying investors.
Key sustainable finance policy development milestones in LAC

**Current and new policies and regulations**
While the LAC region may not be considered a major contributor to global GHG emissions under the Kyoto Protocol, LAC countries recognise the interdependencies between sustainability, economic development, trade, and investment. Aside from the 20 international environmental agreements countries have collectively ratified as of 2022 in LAC, the region has progressed in integrating sustainability policies into the agendas of both private and public institutions, whether through voluntary measures and guidelines, or mandatory requirements. This development has been facilitated through the signing of protocols, public commitments, and the implementation of new regulations for ESG incorporation, including information disclosure and transparency for financial products.

The LAC sustainable finance market remains in its nascent stages. Understandably, sustainable finance has penetrated the more mature markets within the region, such as Chile, Brazil, Mexico, and Colombia. With solid policies and regulations to support market development, smaller LAC markets could also benefit from the growing global momentum around sustainability investments.

Robust public and corporate policies and regulations are crucial for market development, facilitating the transition towards a net-zero and resilient economy. The chart below presents policy developments in the region from 2021 to 2023 and reaffirms the ongoing transformation process. As emerging markets, LAC countries can reference public policies from other countries.

**Key policy milestones supporting sustainable finance across LAC from 2021 to date.**

1. **Market development committees**: The establishment of a market development committee with representation from key stakeholders can accelerate the progress of regulatory frameworks. The introduction of more sophisticated policies can channel resources towards a low-carbon economy.

2. **National taxonomies**: The development of criteria for sectors with a large presence in local markets can help lenders to prioritise green projects and increase borrower understanding of acceptable project categories.

3. **Commitments or protocols**: agreed with local public or private entities on sustainable initiatives can increase the adoption of sustainability and transparency principles by local organisations, especially in small markets.

4. **Market education materials**: shared by local institutions, such as stock exchanges, engage local market participants. The most impactful are those aligned with international standards.

5. **ESG and reporting regulations**: bring rigour and uniformity to the market.

**Financial policy makers and regulators can steer growth**

Regulations that increase clarity, transparency, and comparability for investors can promote market growth

Financial strategies should aim to mobilise resources from both the public and private sectors. Policy can address systemic risks to the financial system, mitigating market failures resulting from inaccurate information, and ensure robust investor protection, to facilitate market growth.

The risk of negative fiscal shocks increases with frequent severe climate-related natural disasters. This can lead to problems such as public debt increases, investment project delays or abandonment, and fiscal policy instability. To effectively manage such situations, ministries, financial regulators, supervisors, and other relevant market players need accurate information to assess the effects of climate change on financial accounts, as well as financial tools to manage natural disaster impacts, and a governance framework to address fiscal risks.

**Knowledge sharing and education are critical**

Several stock exchanges in LAC have developed and published voluntary guidelines for GSS+ labelled issuance for the benefit of issuers and investors. Such documentation can socialise the concept of labelled debt issuance. From an investor perspective, these materials focus attention on the importance of labelled debt and introduce definitions and key milestones. From the local issuer’s point of view, these documents can introduce the concept and mechanics of sustainable finance and provide guidance on the issuance process. Examples include:


**CASE STUDY**

**The merger of the Colombian, Peruvian, and Chilean stock exchanges**

In 2023, the regional holding company composed of the Colombian, Chilean and Peruvian stock exchanges is expected to launch, becoming fully operative by 2024. Projections estimate that it will generate income of around USD81m and net revenues of around USD20m, with a reach of 568 potential issuing companies. This merger can facilitate greater participation of companies in the capital markets, expanding the pool of issuers committed to sustainability and providing financial returns for investors. The regional holding company aims to simplify access to regional capital markets, reduce issuance costs, diversify products and services, and provide financial liquidity for investors, including cross border investments in GSS+ instruments, thereby mobilising resources for sustainable projects. However, harmonizing regulations and processes across countries poses a challenge. Currently, a committee is discussing the common ruleset for the holding company’s transactions to comply with all the jurisdictions’ requirements, which will apply to sustainability principles, ESG considerations, and investor protection, in order to enhance transparency and accountability in the financial markets.


Stock exchanges can establish green segments to increase the visibility of sustainable finance instruments. The segments’ listing requirements provide investors with transparency and reassurance that best practices have been observed, reducing due diligence requirements. According to the Sustainable Stock Exchange Initiative, 38% of exchanges have ESG bond segments. Capacity building can also be provided to support the development of local expertise in green bond verification and second-party opinion provision. This can help kick-start local green bond markets and reduce the cost of obtaining verification.
Key policy milestones supporting sustainable finance across LAC from 2021 to date.

### 2021

- **The International Sustainability Standards Board (ISSB)** was created at COP26 in Glasgow with the mission to develop standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.  
- **Latin America and the Caribbean Sustainable Debt State of the Market 2022** launched under the UK PACT Programme, aiming to improve SMEs’ access to sustainable finance and contribute to the greening of the agribusiness sector.  
- **The Greening Finance in Argentina to Combat Climate Change Platform** was launched, the Ministry of Finance (MHCP).  
- **Costa Rica** approves a law to promote financing and investment for sustainable development through the use of thematic public offering securities, becoming the first country in Central America to make the adoption of ESG investment by financial institutions mandatory and to establish incentives for thematic issuers.  
- **Paraguay** launched the Public-Private Alliance on Sustainable Finance, created by the Sustainable Finance Roundtable (MFS) which includes almost the entire banking sector, and the public sector.  
- **In Brazil, the Securities and Exchange Commission (CVM)** required listed companies to indicate ESG information according to international standards.

### 2022

- **At COP27, 11 LAC countries** signed a joint statement on climate finance, reaffirming their commitment to ESG information access and climate policies.  
- **Colombia** was the first country in LAC to adopt a National Green Taxonomy, having its development process lead by the Superintendencia Financiera de Colombia (SFC) and the Ministry of Finance (MHCP).  
- **The SFC in Colombia** also issued Rules 008 and 020, which require ESG bonds to meet international ESG disclosure standards.  
- **In Uruguay, the government** published a framework for potential issuers of Uruguay’s Bonds Indexed to Climate Change Indicators (BIIIC), based on the five core components of ICMA’s 2020 Sustainability-Linked Bond Principles.  
- **In Mexico, the National Banking and Securities Commission (CNBV)** launched a tool for the voluntary self-diagnosis of ESG and climate-related risks by financial institutions.  
- **In Brazil, the Association of Financial and Capital Market Entities (Anbima)** expanded its self-regulation requirements for fixed-income and equity funds identification.  
- **The CVM in Brazil** launched a new Regulatory Framework for Investment Funds which limits the use of terms related to sustainable finance exclusively to funds whose investment policies seek to generate environmental benefits.  
- **In December 2022, Anbima** launched guidelines for the issuance of labelled GSS+ Bonds.  
- **In the Dominican Republic**, the Dominican Association of Multiple Banks (ABA) joined the IFC Sustainable Banking Network.

### 2023

- **Launched at the III Central Banks Conference on Environmental Risk in Mexico City, the Climate Financial Risk Center (CFRCenter)** was created as a new hub in LAC to convene central banks, supervisory authorities, and other public and private financial institutions to develop best practices for managing climate-related risks in the region’s financial systems. It aims to encourage open discussion, build capacity, and share knowledge and experiences on identifying, assessing, disclosing, and managing climate-related financial risks.  
- **In Mexico, the Ministry of Finance** launched the National Sustainable Taxonomy, to encourage investment in economic activities that protect the environment and reduce social and gender gaps.

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**Methodology**: A high-level overview of most relevant developments in LAC from Climate Bonds Policy Database, based on the most relevant developments in LAC since the last Climate Bonds update. These regulations have played a crucial role in the region, serving as catalysts for the introduction of various debt instruments and reshaping the narrative around the financial system. They have successfully integrated physical climate-related risks into credit risk assessments and prompted greater transparency when disclosing information about company assets and projects. While LAC can be seen as an exemplary case for global developments, there is also an opportunity for the region to learn from other countries that are implementing key policies in this realm.
Opportunities in policy
The transition towards a low-carbon economy offers opportunities to all players, especially policy makers who can seize the chance to steer the real and financial economies towards a green future. Awareness of the benefits provided by investment in the transition can motivate policy ambition, supporting economic development, energy sovereignty and bringing other benefits. However, choosing inaction will stunt growth and increase costs. Therefore, a regulatory standard is key to channel investments into projects contributing to the transition.

There are three main pillars of policy to direct capital into sustainable development needs:
1. **Speed** ensure rapid action by all decision makers,
2. **Steer** tilt the whole economy to transition,
3. **Simplify** clarify and streamline sustainable investment.

In all areas of responsibility, policymakers need to expect volatility. Delayed action, i.e., after 2030, will require more severe policies to limit carbon emissions, sudden technology shifts, and likely see the carbon budget exceeded before emissions fall. Rapid transition is essential to minimising this volatility.

Policymakers are key to this reorientation of finance flows. It is essential that all government departments, central banks, and regulators actively work towards transition, within a clear and coordinated policy framework. A sustainable finance policy framework enables policymakers to capture private finance flows and deliver greater decarbonisation levels. This means governments could increase the climate ambitions of their nationally determined contributions (NDCs) if they consider the increased levels of finance that they are able to access to fund decarbonisation.

Climate Bonds 101 Sustainable Finance Policies for 1.5°C, referenced above, suggests policies to leverage this market. Some examples encourage the use of green and sustainable financial instruments through subsidies and incentives (Policy 10), and the availability of green finance subsidies for small and medium-sized enterprises (Policy 12). Furthermore, developed markets can support LAC countries by providing sovereign-to-sovereign guarantees (Policy 13), increasing blended finance provision (Policy 19), and offering green export and development finance (Policy 23).

Mechanisms such as blended finance, de-risking guarantees, debt-for-nature swaps, and larger deal sizes can help to channel funding to EM based issuers. Encouraging national development banks and setting government policies to increase blended finance provision for green projects can facilitate the flow of capital to riskier projects. Development institutions assume the higher risk (junior capital) portion of a bond or loan which leaves a lower-risk (senior capital) portion for more risk-averse private investors. A broader range of investors can then support green and sustainable projects in EM countries and diversify their investments. This in turn can help grow the pipeline of investable projects and enable private investment to smaller green projects.

**Taxonomies in the region**
As noted in the previous section, the development of national taxonomies can contribute to local market growth. Taxonomies have become central to the sustainable finance market and national taxonomies enable the recognition of local market characteristics such as dominant economic sectors, or areas that are crucial to enable domestic sustainability objectives.

- A **green or sustainable taxonomy is a classification system that identifies and defines activities, assets, or investment project** with positive environmental and social impacts, based on established goals and criteria.
- A **taxonomy provides clarity, transparency, and security for financial markets** by establishing precise and consistent definitions for sustainable activities, which in turn can encourage investment and better tracking of sustainability financing flows. By promoting common green definitions across global markets, it can be an important resource for building a cohesive thematic debt market that supports the growth of a low-carbon economy.
- **Definitions create clarity in the market**, a shared understanding of sustainable investments, and prevent market fragmentation. Scrutiny against greenwashing is leading issuers to settle towards climate-aligned bonds, but it is crucial to showcase the rewards for those putting in the effort to label their instruments and set robust transition agendas. Transparent UoP and pathways are necessary to avoid greenwashing, so that achievable material guidelines and principles should be followed.

- **The Climate Bonds taxonomy defines the projects and assets that are aligned with a 1.5°C pathway**. It is a tool for issuers, investors, governments, and municipalities to establish whether they have green assets, prior to issuing a green bond. It identifies broad areas of inclusion that are subject to further criteria and screening.69
- **The Climate Bonds taxonomy is grounded in the latest climate science** and has been developed through an extensive multi-stakeholder approach, leveraging the work of technical and industry working groups.
- **The presence of several taxonomies provides healthy competition as each requires a different level of analysis and activity detail.** This promotes a more robust assessment of the projects because it pushes issuers to analyse their portfolios for eligible products.65 However, international actors such as Climate Bonds work together to ensure there is interoperability between all regional and national taxonomies. This is important to create cohesion in the structure and content by sector and activity.
- **Taxonomies can be used by issuers to assess whether they have green assets, prior to issuing a green bond or by project developers to consider their projects according to the metrics and thresholds aligning to a low-carbon economy.**
- **Actions are required to complement and update the assets and economic activities**, as well as eligibility criteria and sometimes compliance requirements. This incorporates governance proposals that contemplate the strategies defined for their updating and strengthening.
- **Implementation strategies are necessary to utilise taxonomies effectively**. This includes guidance to project developers and financial institutions to align their portfolios with eligible projects. Disseminating the content and applications of a taxonomy is critical to ensure widespread adoption and impact.
- **Taxonomies can reflect any environmental objective**. Some taxonomies are sustainable, incorporating social aspects.
A LAC Common Taxonomy Framework was developed in 2022 and recently launched in July 2023, led by the UNEP-FI, World Bank, UNDP, CEPAL, IMF, IDB, CAD, FAO, ISC, and Euroclima+, which has a focus on mitigation and adaptation. This provides a common framework to guide LAC taxonomy developments to enhance comparability and ensure interoperability of sustainable finance taxonomies in the region, while considering local specificities.

Colombia The Colombian Government launched the Colombian Taxonomy, the first in LAC, on 11 April 2022. The Colombian Green Taxonomy is aligned with the country’s environmental commitments, strategies, and policies, ensuring compliance with high standards of international environmental sustainability and increasing transparency in these investments.

It is structured to contribute to the following environmental goals: mitigation and adaptation to climate change, water management, soil management, circular economy, pollution prevention and control, conservation of ecosystems and biodiversity.

The priority sectors were selected according to their economic relevance for the country and their potential contribution to the environmental goals; Buildings, Energy, Transport, Water, Industry, Waste Management, Information and Communication Technologies (ICT), and Agriculture, Forestry, and Other Land Use (AFOLU).

Mexico On 16 March 2023, the Ministry of Finance launched Mexico’s Sustainable Taxonomy during the ABM Banking Convention. During its first stage, Mexico’s Taxonomy focused on developing three main objectives: climate change, contribution to gender equality, and access to basic services related to sustainable cities for 171 economic activities.

Dominican Republic The Securities Superintendency launched the Green Taxonomy in the Dominican Republic. The local taxonomy will model national and international environmental priorities, including commitments made under the Paris Agreement, and will use the European Union as a methodological reference.

Chile The Ministry of Finance is working on the development of a Chilean Taxonomy. In 2021, the Taxonomy Framework was published, with input from Climate Bonds and IBD. Interoperability with international standards is expected, while local factors such as hard-to-abate sectors like mining will also be incorporated.

Peru started its taxonomy development in 2023 led by the Ministry of Environment. The country is expected to pay particular attention to the agricultural sector, given its economic importance. Panama, which has already started its taxonomy development, funded by the UNEP, will focus on the shipping sector. Both taxonomies, together with the Costa Rican taxonomy, the development of which was announced in early 2023, are following the LAC Common Taxonomy framework.

Brazil is exploring a local taxonomy. FEBRABAN, the local banking association, developed a taxonomy involving a broad range of stakeholders to provide financial institutions with a climate risk assessment tool but this is not an official taxonomy. Uruguay has also announced its intention to start taxonomy development, using a process in line with its neighbour Chile.
Spotlight on market developments

This section highlights developments that are shaping the sustainable finance landscape in LAC delving into three key themes: SLBs, the blue economy, and adaptation and resilience (A&R). These topics highlight the innovative approaches being taken to address environmental challenges, foster economic growth, and build climate resilience within the region.

**Sustainability-linked bonds**

Sustainability-Linked Debt (SLD) comprises SLBs and loans (SLLs), both target-linked instruments. SLBs raise general purpose finance and involve penalties/rewards (e.g., coupon step-ups/step-downs, early repayment obligations, etc.) linked to whether the issuer meets pre-defined, time bound SPTs, typically at the entity level. By the end of 2022, 77 SLBs with cumulative volume of USD22.9bn had been issued in LAC. SLBs make up a much larger share of the market in LAC than globally with 17.2% versus 5.4% respectively. The largest market in the region is Brazil with 37 deals amounting to USD11.9bn and 45.2% of the volume.

SLBs can be used by a broad range of issuers because unlike UoP deals, the proceeds from the bond do not have to be earmarked for specific activities. However, the SLD structure has been criticised for a lack of ambition in the KPIs and investors are starting to scrutinise company level transition plans more closely, to determine whether issuers have robust and practicable strategies in place. The introduction of new market standards such as the new Climate Bonds Standard v4 (see box below) seeks to address concerns around credibility.

ICMA’s SLD principles, launched in 2020, have been widely deployed as they offer guidance for structuring features, disclosure, and reporting to enhance capital allocation to financial products. These guidelines, intended to promote transparency, are currently aimed at market participants, but in the future will also scope sovereign issuers. ICMA has also published an illustrative KPI Registry which includes high-level recommendations and examples for the selection of KPIs which continue to be reviewed together with their SLBP public consultation. At the end of 2022, Climate Bonds observed that most SLB KPIs pertained to the reduction of scopes 1 and 2 GHG emissions.

**Blue economy**

The blue economy refers to the sustainable use of water-bodies resources for economic development, improved livelihoods, and job creation while preserving the health of water-bodies ecosystems, such as rivers, lakes, oceans, etc. It includes many activities, i.e., fisheries and aquaculture, marine renewable energy, biotechnology, tourism, shipping, and coastal development. In addition to recognising the economic potential of the water bodies, especially oceans, the damage caused by overfishing, water pollution, and climate change must be acknowledged, which all threaten the health of the ocean and coastal communities. Goal 14 of the United Nations’ SDGs recognises current marine ecosystem challenges.

The LAC region, with several coastal and island states, holds vast potential for the sustainable expansion of the blue economy. Its large ocean area accounts for 60% or more of the sovereign territory of 22 countries in the region, and a coastline extending over 70,000km contains a rich marine biodiversity and many of the region’s largest urban and rural areas.

Promoting the blue economy involves prioritising sustainable use of water-bodies resources through policies, practices, and governance. This includes investing in research and innovation for the development of new technologies, such as ocean waste recollection and off-shore wind farms, ocean-based activities, improving ocean governance and marine biodiversity protection. Oceans are one of the world’s major reservoirs of biodiversity. They constitute more than 90% of the planet’s habitable space and contain some 250,000 known species so conserving marine biodiversity is vital to maintaining a healthy planet. In 2020, it was estimated that around 40 million jobs will be related to the oceans by 2030. Blue economy governance should involve multiple stakeholders including governments, industry, civil society, and local communities, with science-based decision-making to allow it to flourish and be transparent.

Blue economy technologies, such as those described below, are solutions that can be used to promote the sustainable use of water-bodies resources while driving economic development, especially in ocean-based activities.

1. **Offshore wind energy**

   Such farms have been developed in many parts of the world to harness the power of the wind and generate clean energy. Offshore wind facilities are eligible for Climate Bonds Certification under the Marine Renewable Energy Criteria.

2. **Aquaculture technologies**

   Advances in aquaculture technology allow the development of sustainable fish and farming practices, thus reducing the pressure on wild fisheries. Some examples of these technologies are recirculating aquaculture systems (RAS), integrated multi-trophic aquaculture (IMTA), and cage farming.

3. **Coastal management technologies**

   Technologies such as coastal mapping and remote sensing are being used to improve coastal management and decision-making. These tools can provide detailed information on coastal ecosystems, shoreline changes, and oceanographic conditions to support effective planning and management.

4. **Sustainable fishing technologies**

   Sustainable fishing technologies such as fish aggregating devices, selective fishing gear, and real-time monitoring systems are being developed and implemented to reduce bycatch and promote responsible fishing practices.
The GSS+ debt market can attract capital to support the development and proliferation of these technologies such as remote sensing, molecular technologies, bio-acoustics, etc.

There has been growing interest in blue bonds in Latin America to support sustainable ocean development and conservation efforts. The IDB has contributed to the development of blue bonds: in 2021 IDB Invest issued the first blue bond in the region and in July 2023 partnered with Banco Bolivariano for the issuance of a blue bond with incentives linked to meeting objectives, the first of its kind in the world.46

Ecuador with support from the IDB and the US Development Finance Corporation, completed a debt conversion that will allow the country to allocate resources for long-term marine conservation in the Galápagos Islands to promote greater sustainability, and Barbados has also issued blue bonds (see box).47

Belize has also taken positive action towards ocean conservation by becoming the first country in the Americas to convert its debt for environmental purposes, specifically focusing on ocean conservation. By restructuring around 30% of its external commercial debt, amounting to approximately USD550m, Belize aims to reduce its national debt by 12%. This represents a substantial investment in marine protection, as the country will allocate around USD4m annually until 2041 towards marine conservation and expand its marine protection parks, including coral reefs, mangroves, and sea grass beds through this debt-for-nature swap.48,49

CASE STUDY Barbados debt-for-nature conversion

In 2022, the Barbados Government, together with the IDB, The Nature Conservancy (TNC), and Credit Suisse completed a debt-for-nature conversion that allowed the country to reduce borrowing costs and use savings to finance a long-term marine conservation programme. This operation comprised of a USD100m guarantee from the IDB and another USD50m guarantee from TNC that enhanced a loan provided to Barbados (Blue Loan) to buyback existing debt. The savings generated by the operation, currently estimated in USD50m, will be used to fund a conservation fund to achieve conservation commitments, which include the protection of up to 30% of Barbados marine space, and the development of a blue economy.46

The Blue Loan, which consisted of a USD146.5m dual currency term loan facility, was used to repurchase specific Barbados debt. USD73.25m of the Blue Loan was financed through the issuance of two Blue Bonds arranged by Credit Suisse, and the remaining USD73.25m of the loan was funded by CIBC First Caribbean in Barbadian dollars.47

This was the third time TNC have partnered with a country on a debt-for-nature conversion, having previously collaborated with Seychelles and Belize. The operation features the first financial instrument to be guaranteed by both a multilateral institution and a non-governmental organization, and also features the first sustainability-linked debt framework focused on nature conservation developed by the IDB and Barbados as part of this transaction.48 The Barbados transaction demonstrates how the GSS+ debt market can attract capital to support sustainable development, environmental management, and national development priorities.

CASE STUDY Ecuador debt-for-nature conversion

In May 2023, the Government of Ecuador, the IDB and the US Development Finance Corporation (DFC) completed a USD1.65bn debt-for-nature conversion that will help expand the conservation of the Galápagos Islands’ natural capital and the management of its marine reserves. It will also promote the development of sustainable fisheries, and a sustainable blue economy for local communities.

The debt conversion consisted of a market operation through which the Ecuadorian government repurchased, at an average discount of 60%, USD1.65bn of outstanding sovereign debt, which was financed by a USD656m loan granted to the country by a Special Purpose Vehicle (SPV). This loan was enhanced by an IDB guarantee of USD85m and political-risk insurance from the DFC for USD656m. In turn, the SPV financed the loan through the issuance of a marine conservation-linked bond (Galápagos Marine Bond) for USD656m with maturity in 2041. The issuance was arranged and structured by Credit Suisse and 11 private-sector insurers provided over 50% in reinsurance to give Ecuador’s ambitions even more credibility. This type of operation allows countries to improve their debt management, while boosting investment in environmental sustainability and biodiversity protection. As a result of this, Moody’s Investors Service rated Ecuador’s new bond investment-grade, 16 notches above its sovereign issuer rating.

This transaction allowed the country to generate financial savings of approximately USD1.45bn, of which USD323m will be transferred over the course of 18.5 years to finance the conservation activities of the Galapagos Life Fund (GLF), a public-private conservation fund established for this operation.45,46

IDB Invest is also currently working with Banco Bolivariano in Ecuador on a blue bond, the UoP of which will promote and further extend financing projects and opportunities for sustainable, water-related ocean businesses that address the challenges of the blue economy, create sustainable business opportunities in the oceans and manage oceans responsibly.

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Adaptation and resilience

As global warming accelerates, climate risks are increasing. According to the Intergovernmental Panel on Climate Change (IPCC), even under low-emission scenarios, the world will face severe climate risks before the end of this century, which calls attention to the urgency of ambitious and accelerated adaptation efforts.50,51 Adaptation financing is particularly important in LAC countries, as the region includes 9 of the world’s 20 countries most exposed to climate change related hazards.51 The region already faces natural disasters, prolonged droughts, and heatwaves.52

Transitioning to a resilient economy and ecosystems requires significant capital mobilisation but current global financial flows for adaptation fall short, particularly in developing countries.53 The adaptation finance gap in these countries is probably five to ten times greater than current international adaptation finance flows and continues to widen.54 In the LAC region, an additional annual increase of up to USD18.1bn is required to address and prevent ongoing losses.55

Investing in adaptation and resilience (A&R) today can yield up to four times greater economic benefits in the future, preventing the need for larger investments and recovery costs from climate change impacts.56 GSS+ bonds offer a way to channel investments towards A&R projects, strengthening the capacity of systems to cope with climate shocks.

Resilience is already being financed in the sustainable debt market through a variety of thematic labels. However, financial instruments clearly designed and labelled to support resilient investments remain scarce. A major barrier is the absence of a pipeline of investable projects, mainly due to a lack of clear, evidence-based definitions of what constitutes a resilience investment.

Clear definitions and rule sets can broaden the current range of investments that are eligible for inclusion in the UoP of green and other

Latin America and the Caribbean Sustainable Debt State of the Market 2022 Climate Bonds Initiative
thematic labelled bonds, which can be expanded to include those that build resilience. This expansion will include not only investments that reduce the direct physical impacts of climate change (e.g., flood barriers, early warning systems, etc.) but also investments that address the underlying vulnerability of people and ecosystems to climate change (e.g., healthcare, housing, gender equity, deforestation, etc.).

In order to provide these definitions, guidelines for A&R have emerged. Climate Bonds published the Adaptation and Resilience Principles. To provide a framework for Climate Resilience Criteria that require issuers to assess climate risks and demonstrate that they have addressed those risks by taking measures to reduce them and adopt flexible management plans. These definitions have supported the growth of A&R projects in GSS+ instruments globally, providing guidance to monitor and report risk assessment and management.

To continue driving market ambition and facilitate the rapid mobilisation of global capital for investments in resilience of physical, social, ecological, and financial systems, Climate Bonds is launching a Global Climate Resilience Programme. This aims to support: (i) the identification of credible, science-based investment opportunities that build resilience (including the development of a Climate Resilience Taxonomy), (ii) mobilisation of finance towards credible resilience measures, and (iii) acceleration of growth of resilience investments through a supportive policy and regulatory environment.

At the start of 2023, Climate Bonds started the development of the Climate Resilience Taxonomy, a common framework for issuers, investors, market regulators, observers, and policymakers to identify and/or develop projects, assets, activities, and entities that make significant, consistent, and verifiable contributions towards climate resilience. The IDB is collaborating with the taxonomy development by funding research and engagement activities that ensure the usability and applicability of the Climate Resilience Taxonomy for LAC countries.

The broad applicability in the region will enable the Taxonomy to be used for mobilising finance for additional climate resilience costs in projects and assets, or enabling activities.

Mapping the adaptation and resilience GSS+ universe

The description of eligibility categories for the UoP is based on information made public through a bond’s framework, final terms, or prospectus. The total capital flows towards climate being directed to A&R investments through GSS+ bond instruments are estimates. Disclosure and tagging practices must evolve to accurately capture and track A&R-related finance.

LAC Adaptation and Resilience market highlights

- Of the 654 GSS+ deals identified in LAC by end of 2022, 147 (22%) of them presented resilience-related UoP. This is above the global average (19%).
- Development banks were the largest source of resilience-related UoP originating from LAC (46 deals), followed by sovereigns (32 deals) and non-financial corporates (31 deals). There are also 24 deals from financial corporates, 11 from government-backed entities, two from local governments and one from a not-for-profit.
- Country shares came from Mexico (26%), Supranational (24%), Chile (16%), Brazil (14%), Colombia (8%), Argentina (7%), and Ecuador (1%). Guatemala, Panama, Peru, and Uruguay represent 0.7% of this market each.
- A&R UoP have been increasingly added to sovereign GSS+ deals. In 2021, 57% of the LAC sovereign GSS+ deals included resilience-related UoP. By the end of 2022, this had increased to 83% with allocations from Chile, Mexico, and Colombia.
- Regional numbers confirm the global tendency:
  - There is a hidden market for resilience liabilities which are currently being funded by bonds bearing one of the existing GSS+ labels.
  - However, overall, the UoP allocated to A&R measures still needs to grow. This confirms that the current market is tilted towards low-carbon solutions as opposed to measures to address A&R. This is unsurprising given the low profile of such projects, and a dedicated taxonomy will allow borrowers to identify and prioritise appropriate assets and projects.

When compared with the global and regional bonds market rebound, numbers between 2021 and 2022 show relative stability of A&R components in the market, demonstrating the growing importance of resilience investments in LAC. Naturally, these issuances are concentrated in more mature markets, such as Brazil, Mexico, Colombia, Chile, and Argentina, which are leading the way in addressing climate and social risks. New frameworks, definitions and guidelines on resilience will be key to increasing and channelling more resources towards this systemically important class of assets.

Examples of GSS+ issuances with resilience related UoP are:

- The five sustainability bonds issued by the Mexican Government with JPY75.6m cumulative (USD 543.4m), which have UoP earmarked for: early warning systems for monitoring and forecasting water-related hazards,
  - water-related hazard emergency plans and procedures,
  - the construction, operation, and maintenance of public sanitation infrastructure,
  - public hydraulic infrastructure, and,
  - rehabilitation and conservation of dams and projects from renewable energy sources.
- The USD1.2m green bond issued by Interchile S.A. in 2021 has UoP designated for upgrading, improving, and retrofitting of transmission infrastructure and substations, aiming to enhance the resilience of the system to weather-related events.

### GSS+ bonds for climate resilience in LAC scorecard

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### GSS+ Bonds for climate resilience in LAC scorecard between 2021 and 2022

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<tr>
<td>Number of currencies</td>
<td>9</td>
<td>10</td>
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</table>
Country overviews and deep dives

Chile

Over the last decade, Chile has been among the fastest growing economies in Latin America and has rapidly recovered from the COVID-19 pandemic through measures such as fiscal support, consumption incentives, pension fund withdrawals, and high vaccination rates. However, similar to many other countries in 2022, Chile encountered high inflation (12.8%) and increased unemployment (7.9%) due to global geopolitics. As of December 2022, Chile’s foreign currency debt (7.9%) was rated A- by Fitch Ratings indicating a solid macroeconomic environment, declining public debt, with opportunities for economic growth and an increase in the GDP per capita.101

Chile aims to achieve GHG emission neutrality and resilience by 2050 through its Climate Change Framework Law.102 The long-term strategy (ECLP) focuses on technological development, knowledge transfer, climate performance indicators, capacity building, and the development of climate finance.103 In 2020, Chile updated its NDCs based on eight criteria: synergies with the SDG, just transition, water safety, gender equality, cost efficiency, NbS, knowledge types, and active participation. This ambition is present in all Chile’s sovereign thematic debt frameworks.104

In 2018, Chile launched the Energy Route 2018–2022 to modernise energy regulation, promote renewable technologies, improve transport efficiency, and enhance quality of life.105 Over the last decade, Chile’s solar and wind power capacity has grown from 0.6% to 21.4% and renewable energy generation reached 44% in 2019. Chile is a global leader in the mining industry, particularly in copper production and its abundant reserves play a pivotal role in meeting global demand for this essential component of renewable energy and low-carbon vehicles. Chile has investments in infrastructure, technology, and human capital for efficient and sustainable mineral supply.

Sustainable finance market

Chile is the largest country source of thematic bonds in the Latin American region (USD43.2bn) dominated by multiple sovereign deals contributing 80% of volume. By mid-2023, Chile was the only country to have issued sovereign bonds under four of the five thematic labels.

Green

The green bond market is dominated by sovereigns with USD7.4bn representing 58%. Non-financial corporates follow with a larger number of smaller deals, contributing volume of USD3.8bn with 29%. Hard currencies prevail with 61% of the volume in USD (USD26.6bn) and 20% in EUR (USD8.8bn). The only green bond in local currency (CLF) was from non-financial corporate Sonda. Most (92%) green bonds have obtained an SPO, with the main source being Moody’s ESG Solutions, followed by Sustainalytics, S&P Global, and ISS-ESG.

Transport (60%), Energy (26%), Low Carbon Buildings (6%), and Adaptation (4%) are the largest UoP categories. Most of the UoP (64%) from non-financial corporate deals is earmarked for Renewable Energy: Industry, ICT, and Waste are almost non-existent at present.

The UoP from the Chilean sovereign bonds is earmarked for low-carbon transport projects including electric bus fleets and metro lines in Santiago de Chile and its metropolitan area.106 54% of the deals fall into the 10-20-year range while 3% extend beyond 20-years. This longer time horizon is influenced by the infrastructure UoP of the sovereign deals.

Social

Banco del Estado de Chile kick-started the country’s social bond market in 2016 with two deals: USD149.6m and USD95.9m. In 2021, the market volume reached USD124.4bn, primarily driven by the sovereign. In 2022, only two social bonds were issued, totalling USD121m, by Caja de Compensación de Asignación Familiar de Los Andes. The Chilean Government is the largest player with USD18.5bn, followed by Banco del Estado de Chile (USD423.6m), Banco Santander de Chile (USD150m), and compensation funds Asignación Familiar de Los Heroes (USD143.3m) and Asignación Familiar de los Andes (USD77.8m).

Most social bonds are in hard currency, offering investor protection against currency risk, and have a tenor of 10-years or less. 99.7% of the social deals have obtained an SPO from either Moody’s ESG Solutions or Sustainalytics.

Affordable Infrastructure (15%), Equality (15%), and Employment & Training (14.5%) were the largest UoP categories. The UoP of the sovereign deals was earmarked for the social priorities established in the Sustainable Bond Framework, including support to vulnerable groups, access to pension, healthcare, and education.107

Sustainability

Chile’s sustainability bond market is the second largest in LAC, and Aguas Andinas priced the first deal (USD66.8m) in 2018. The government is the largest issuer with USD11.6bn cumulative including USD5bn priced in 2022, followed by non-financial corporates Celulosa Arauco y Constitución (USD1bn cumulative) and Empresa Nacional de Telecomunicaciones S.A. (USD800m).

Chile’s Scorecard

<table>
<thead>
<tr>
<th>Total Amount</th>
<th>LAC Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green</td>
<td>12.7bn</td>
</tr>
<tr>
<td>Social</td>
<td>19.3bn</td>
</tr>
<tr>
<td>Sustainability</td>
<td>8.5bn</td>
</tr>
<tr>
<td>SLB</td>
<td>2.5bn</td>
</tr>
</tbody>
</table>

The deal achieved an order book 5.75 times the deal size, and primary market spread compression was reported as 40bps. Climate Bonds observed a normal new issue premium. Investors describing themselves as green or socially responsible were allocated 68% of the deal, and the order book included a broad range of international accounts, diversifying the investor base.

SLBs represent opportunities and challenges for sovereign issuers. The structure offers an effective mechanism to link borrowing costs to the country’s sustainability progress but requires robust strategic sustainability plans that can set clear and measurable targets for the proposed KPIs.

CASE STUDY  Chile priced the first sovereign SLB.

The Chilean Ministry of Finance referenced the World Bank’s suggested KPIs in its March 2022 SLB framework complying with ICMA’s SLB Principles.

Later that month, Chile priced the first sovereign SLB. The USD2bn 2042 maturity deal included coupon step-ups of up to 25bps in total, based on specific targets:

1. Failure to achieve annual GHG emissions of 95 MtCO2e by 2030, and a maximum of 1,100 MtCO2e between 2020 and 2030 would incur a coupon step-up of 12.5bps.
2. Failure to achieve 50% electricity generated from non-conventional renewable sources by 2038, and 60% by 2032 would incur a coupon step-up of 12.5bps.
Smaller non-financial corporate issuers include Aguas Andinas (USD149.4m cumulative), Esval S.A. (USD61m) and Hortifruti (USD44.4m) with social UoP categories named as Affordable Housing, Infrastructure, and Equality as well as Buildings, Water, and Waste for green UoP.

These deals demonstrate how the thematic debt market can support the diverse financing needs of entities which either may not have enough qualifying assets to price a deal under the green or social labels or wish to prioritise a just transition.

Most sustainability deals from Chile were issued in USD (86%), followed by CLP (12%) and CLF (2%). Over 81% of the cumulative volume have tenors of more than 10-years with 37% falling in the 20+ year bucket and 45% in the 10-20-year bucket. All sustainability deals obtained an SPO either by Moody’s ESG Solutions or Sustainalytics.

The largest green UoP categories in the sustainability market are Industry, Waste, and Buildings, each accounting for 14%, while Affordable Infrastructure (24%), Education (14%) and Employment and Training (14%) dominate the social categories. None of the sustainability deals name adaptation among the UoP and only sovereign deals earmark UoP for Healthcare, Microfinance, Food Security and Social A&R. Non-financial corporate issuers focus on Employment and Training, Education, Affordable Infrastructure, and Equality for social UoP.

Chile’s SLB market ranks third largest in LAC following Brazil and Mexico, with two SLBs

In 2021, Inversiones CMPC S.A. issued a USD500m 10-year deal. The SLB included two main KPIs: GHG emissions reduction and intensity of industrial water use. The SPT for GHG emissions on scope 1 and 2 is a 23.5% reduction by 2025, while the SPT for water intensity is 25% by 2025. This deal aligned to ICMA’s SLB Principles and obtained an SPO from DVN GL. In 2022 the first sovereign SLB was priced by Chile.

Mexico

Mexico, the second largest economy in Latin America faces a complex socio-economic situation with high inequality and poverty. The COVID-19 pandemic exacerbated economic challenges, resulting in business closures and increased unemployment rates. As of 2020, around 43.9% of the population lived in poverty.109 In addition to economic issues, Mexico grapples with social and political setbacks such as corruption and violence, hindering its overall development. However, Mexico has taken steps towards improving education and healthcare, implementing inclusive growth policies and reducing inequality, which could be supported through a sovereign social bond. Climate change costs in Mexico, excluding extreme weather events and biodiversity loss, are projected to range from 6.2% to 30% of GDP by 2100. In contrast, the costs for mitigation efforts are predicted to be lower, ranging from 0.7% to 2.2% of GDP.110

Trade between Mexico and the US reached a record high in 2022 totalling US779.3bn, with American investment in Mexico at 42.56% of the total FDI, fostering regional integration and growth.111 Mexico and Central America have enormous potential as the US seeks to bring manufacturing closer to its shores reducing transportation costs, emissions, and political risks.112 Smart factories, sustainable infrastructure, low-carbon buildings, and transport can be financed through green bonds. These sectors already have well-defined transition pathways providing an opportunity for companies to implement environmental compliance programmes and adopt sustainable practices.113 However, the challenge lies in the simultaneous transition to clean energy and nearshoring, which poses a challenge, especially in northern areas that face water and energy scarcity.114

Mexico has ambitious climate change goals, including generating 35% of its power from clean technologies by 2024 and reducing emissions by 30% by 2030, with a further target of 50% reduction by 2050, compared to 2000 levels.115 The sustainable debt market can finance emission reduction projects. At COP27, Mexico submitted an updated NDC with an unconditional emissions reduction target of up to 35% by 2030 for all GHGs.116 The NDC specifies that 30% of the reduction is to be achieved with its own resources, and 5% through agreed international cooperation. Furthermore, it set a conditional target to reduce emissions by up to 40% in 2030, with international support. The thematic debt market can attract finance to support these objectives.

Mexico has taken various steps to promote sustainability in the banking sector. The Sustainability Committee of the banking association (ABM), active since 2007, created the voluntary Sustainability Protocol, which has been signed by 31 commercial banks and seven development banks.117 In March 2022, banks with a total credit portfolio exceeding MXN6.4tn signed a declaration which commits them to foster a greener financial system, strengthen ESG strategies, and collaborate with regulators and stakeholders. The banks will track progress towards climate finance goals and align with the national climate finance agenda to promote sustainability in the banking sector.

Mexico has abundant lithium reserves that can support battery production, but sustainable mining practices are crucial to minimise environmental impact. The country also has vast desert areas ideal for solar and wind farms. To fully leverage this potential, policy support is needed to incentivise financing aligned with sustainability criteria and the taxonomy. By promoting sustainable mining and renewable energy, Mexico can lead the transition to a greener economy and capitalise on the demand for lithium and renewable energy sources.

Sustainable finance market

Since its inception in 2015, Mexico’s sustainable bond market has experienced growth of 11% YOY from 2021 to 2022. This can be attributed to Mexico’s steadfast commitment to sustainable development and the willingness to address social and environmental concerns for long-term economic growth and stability.

Green

Green bonds represent 10% of Mexico’s GSS+ market but there were no new deals in 2022, as other thematic labels were prioritised. The largest contribution to the label has been from non-financial corporates (35%) with USD1.1bn, followed by financial corporates and development banks with 31% and 30% respectively. External review is at 96%, of which SPOs constitute 62%, Certifications 20%, and ratings 14%. Sustainalytics was the preferred external reviewer for both SPOs and Certifications while S&P provided most ratings, followed by HR Ratings. 73% of deals were issued in USD and 27% in MXN with smaller ticket sizes.
Renewable Energy is the largest UoP of green bonds originating from Mexico (55%). This is followed by Low Carbon Buildings (19%) a growing sector; the country even has its local green proxy for residential buildings (EcoCasa-certified). Land Use UoP is mostly earmarked for protected agriculture and irrigation systems. One of the main issuers in this category is FIRA, the country’s agricultural development bank, whose bonds, such as their recently issued MXN2.8bn (USD142m) resilience bond (the first in LAC), have led the market. UoP for waste has come from Grupo Aeroportuario del Pacífico and Coca Cola FEMSA which named pollution prevention and control among their UoP.

Social

Social bonds originating from Mexico represent the smallest share (9%) but in 2022, USD2.19bn was priced, representing YOY growth of 359%. All deals had external reviews and were mainly issued in MXN, except one EUR750m (USD832m) deal from Banco Sabadell. Affordable infrastructure received the highest share of UoP, followed by equality. The diversified range of social expenditures is related to the issuer types. Non-financial corporates priced most of the social volume (37%), followed by development banks (25%) with USD1bn including NAFIN (4.3%) and FIRA (57%). Coca-Cola FEMSA was the only non-financial corporate, contributing 9%.

Sustainability

Mexico’s sustainability theme dominates the GSS+ market with 55% and is the largest in the region reaching its peak of USD11.2bn in 2022 to total USD17.8bn. All deals have SPOs, mostly from Sustainalytics and Moody’s ESG Solutions, signifying disclosure importance. Local currency dominates with 57%, followed by USD with 25% and EUR with 15%.

CASE STUDY State of Mexico local government

Sub-sovereign municipalities are following national trends; the local municipality of the State of Mexico, located in the centre of the country, issued a 15 year, MXN2.8bn (USD142m) sustainability bond in 2022. It obtained an SPO from Sustainalytics. The placement attracted 10 participants who placed 22 bids amounting to 1.25 times the deal size. The financing projects are aligned with the Development Plan of the State of Mexico 2017-2023 and the Sustainable Development Goals of the UN Agenda 2030. The funds will be allocated to 18 projects, including two emblematic “Ciudad Mujer” projects (safe spaces for women) and low-carbon public transport powered by electricity and solar energy. This placement demonstrates investor confidence in the stability and strength of the State of Mexico’s public finances, endorsed by its possession of the second-highest credit rating in the country.

By December 2022, USD7.7bn of Mexican sovereign sustainability bonds had been issued spread over four currencies (MXN, USD, EUR, and JPY). Most the deals had tenors of between 5 to 20 years, supporting the financing of long-term infrastructure projects and development initiatives. Such instruments are ideal for real money investors with long-term liabilities including pension funds and insurance companies. UoP is distributed between all green and social UoP categories, aligned with the SDGs, and supports the 2030 agenda objectives with Affordable infrastructure and Energy leading with 26% and 17% respectively.

Sustainability-linked bonds

Mexico is the second largest source of SLBs in the region. Deals in 2022 amounted to USD2.05bn, reaching USD8.1bn in the local market. All deals obtained an SPO and had tenors below 10 years except for the 2021 USD606m Fomento Economico Mexicano SLB and the Braskem 2021 USD1.2bn SLB. 49% of Mexican SLBs were priced in USD, and 25% in EUR, with the remaining 26% priced in Mexican pesos.
Brazil

Similar to many other countries, in 2022, Brazil faced rising energy and food prices, and subsequent high inflation due to global geopolitics. By April, the IPCA (Consumer Price Index) reached 12.13%, the highest in 20 years.¹²³ To combat inflation, restrictive monetary and fiscal policies were implemented, including high interest rates. Brazil’s policy rate, the Selic, reached 13.75%, the highest since 2016 and the second highest in world.¹²³ While Brazil’s GDP initially showed strong growth in 2022 as the economy rebounded from the impact of the COVID-19 pandemic, the growth rate gradually declined ending the year below expectations at 2.9%.¹²³

Brazil’s climate goals are outlined in its National Policy on Climate Change (PNMC).¹²³ This policy aims to mitigate GHG emissions and promote adaptation initiatives. Brazil has set a target to reduce its projected GHG emissions for 2020 to between 36.1% and 38.9% through sector-specific mitigation plans.¹²³ Brazil first published its NDC after COP21, in 2016. In its most recent update from 2020, the country set more ambitious goals, committing to reduce GHG emissions by 37% in 2025 and 43% in 2030 from a 2005 baseline.¹²³

Brazil boasts rich natural resources and is particularly renowned for its biodiversity. The country’s crown jewel, the Amazon rainforest, holds immense biodiversity. The country’s crown jewel, the Amazon rainforest, holds immense biodiversity.

Sustainable financial market

By the end of 2022, Brazil was the third largest sustainable debt market in LAC. Adding USD7.2bn in 2022, it reached a volume of USD31.9bn and it is the only country in LAC to include all five thematic labels: green, social, sustainable, SLB, and transition. Brazil is yet to price a GSS+ sovereign deal.

Green

Brazil continues to dominate the green bond market in LAC with the largest number of issuers. The green theme represents 48% of Brazil GSS+ debt, led by non-financial corporates (79%), financial corporates (11%), and development banks (8%). Most green deals have maturities of 5-10 years (48%), with shorter deals making up 26%, and 15% are longer than 20 years. 59% are denominated in USD and 37% in BRL. Food manufacturer BRF SA issued the largest bond, pricing a USD500m, 2029 deal. Sustainable corporates accounted for 60% of the deals, followed by financial entities (35%) and government-backed entities (3%). Nearly all (98%) of the bonds had a 5-10-year maturity. Most social deals from Brazil are denominated in BRL, (11), representing 28% of the total volume. The majority, accounting for 72% of the volume, come from a USD bond issued by Banco do Brasil. The USD500m bond follows a country-wide UoP distribution, with 21% allocated to Microfinance and Employment and Training, and 19% for Healthcare.

Sustainability

By the end of 2022, sustainability bonds comprised 10% of the Brazilian GSS+ volume, or USD3.2bn. Deals priced in 2022 amounted to USD1.3bn. Non-financial corporates accounted for 60% of the deals, followed by financial entities (35%) and government-backed entities (3%). Nearly all (98%) of the bonds had SPOs, with Sustainalytics providing the majority (70%), followed by NINT and Bureau Veritas. USD was the dominant currency for Brazilian sustainability deals (61%), followed by BRL (39%).

The most frequently mentioned social UoP categories for sustainable bonds include Affordable Infrastructure (34%), Social Adaptation & Resilience (22%), Equality (11%) and Employment & Training (11%). The dominant green UoP is Energy (26%), followed by ICT (16%), Water (13%) and Buildings (12%).

In November 2021, Rio Smart Lighting Sarl issued Brazil’s largest sustainability bond, for USD952m. The UoP was earmarked for Renewable Energy and ICT on the green side, and Affordable Infrastructure on the social side. In 2022, Banco Bradesco SA priced a USD500m bond earmarked for Renewable Energy, Low Carbon Buildings, Water and Sanitation, Waste Management, Land Management, Food Security, and Affordable Infrastructure.

Sustainability-linked bonds

Brazil’s second largest thematic debt category is SLBs, and Brazil’s presence in the market is the largest in LAC with volume reaching USD11.9bn by the end of 2022. Non-financial corporate issuers dominate the market, accounting for 94% of the total, followed by financial corporates. All Brazilian SLBs have obtained SPOs, mostly from

CASE STUDY  Globo Comunicação e Participações S.A.: First LAC SLBs with absolute scope 1, 2 and 3 KPIs

Globo Comunicação e Participações S.A. is the largest mass media communication group in Brazil. The group operates a large broadcast television network, paid TV programming, publishing, internet content and music label companies. In April 2022 Globo priced its first SLB for USD400m with coupon rates linked to the achievement of absolute scope 1, 2 and 3 GHG emissions (tCO2e) reduction.¹²⁷ Sustainalytics reviewed Globo’s Sustainability Framework and defined the calibration of their SPTs. Globo has set six goals to achieve the SPTs: deployment of uninterruptible power supply (UPS) for live entertainment, deployment of biodiesel-powered generators, recycling refrigerant gas, wide deployment of photovoltaic power (PV) generation systems, use of technology for reducing business travel, and a zero-landfill goal.¹²⁸ Through its SLB, Globo aims to demonstrate its commitment to its emissions goals, by tying the interest rate to reducing absolute scope 1, 2 and 3 GHG emissions to 15% by 2026, against a 2019 baseline. The innovative approach to scope 3 emissions reduction as a KPI is ground-breaking in its efforts to address climate impacts along the supply chain.

Brazil’s Scorecard

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<th>Total Amount (USD)</th>
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<td>SLB</td>
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<tr>
<td>Transition</td>
<td>670.4m</td>
<td>1st &amp; only</td>
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</table>

Latin America and the Caribbean Sustainable Debt State of the Market 2022  Climate Bonds Initiative
ISS ESG, NINT, and Sustainalytics. The dominant currency is USD with 75% of the volume, while the rest was BRL. In late 2021, the Brazilian Stock Exchange, B3 SA Brasil Bolsa Balcão, issued a USD100m bond to finance its corporate social responsibility (CSR) activities, with an SPO from Sustainalytics. Aegae Finance Sarl also issued a USD500m bond with two KPIs focusing on energy efficiency for water facilities and general CSR and environmental actions.

GHG emissions were the target for half of the KPIs in Brazilian SLBs, while CSR was chosen for 16%, circular economy 7.7%, and renewable Energy 4.3%.

**Transition**

Two transition deals from different issuers represent 2.1% of the thematic debt market originating from Brazil. Mayfrig priced a USD500m deal in 2019, and Eneva priced a two-tranche BRL bond in 2020, for BRL948m (USD170m). Both deals obtained an SPO.

Transition finance from companies in carbon-intensive sectors, such as the agro-industry or energy generation, is driving the market towards structured measures to align with the 1.5°C future. Eneva, a company that operates generation, exploration and production of oil and natural gas and sale of electricity is using transition bonds to support projects that enhance energy efficiency and reduce emissions. For Mayfrig, financing its cattle sourcing operation from deforestation-free suppliers also indicates to the market that the company is raising expectations in its supply chain, and addressing transition. In both cases, transition bonds were deployed to raise finance for projects which limit the material negative impacts on the environment. Additional information on transition bonds can be found in the Climate Bonds Initiative Financing Credible Transition paper.134

**Uruguay**

In 2022, the Uruguayan economy rebounded with a growth rate of 4.4% driven by increased exports and investments in infrastructure projects.131 However, inflation reached 9.5% leading to a rise in borrowing costs and a decline in household consumption. Uruguay’s GDP deflated by nearly 2% improved due to increased income from the economic recovery and controlled expenses supported by government assets and credit lines from multilateral organisations.132 The Ministry of Economy and Finance projects a 2.6% fiscal deficit of GDP for 2023, with central government financing needs estimated at USD4.094m.133 Industries including agro-exporters, infrastructure construction, and manufacturing benefited from an increase in external demand. While Uruguay’s thematic bond deals are relatively few, there is potential for climate-focused initiatives to attract local and international investors. GSS+ instruments offer an opportunity to raise debt at favourable rates while addressing climate risks and supporting Uruguay’s sustainable development goals.

Uruguay is one of the world’s most sustainable countries, with 98% of its energy coming from renewable sources.

**CASE STUDY** **Arcos Dorados BV: first SLB issuance from a LAC restaurant chain**

Arcos Dorados Holdings is Latin America’s largest restaurant chain and the world’s largest independent McDonald’s franchisee. In April 2022, Arcos priced its first SLB, with the goal of reducing GHG emissions throughout its operations. The USD350m deal had a coupon step-up linked to a single KPI, the reduction of scope 1, 2 and 3 GHG emissions.

The SPTs specified a commitment to reduce 15% of GHG emissions from its restaurants and offices and 10% from its supply chain by 2025, both using 2021 as the baseline.134 The inclusion of scope 3 emissions is a rare, but welcome development. Upstream scope 3 emissions, in the form of the carbon footprint in its supply chain accounts for more than 93% of Arcos Dorados total GHG emissions, so the SLB framework addresses almost 100% of their total emissions footprint.135

Sustainalytics reviewed the deal, and the framework was confirmed to align with ICMA’s Sustainability-Linked Bond Principles (SLBP).

**CASE STUDY** **Uruguay’s Sovereign SLB**

In October 2022, Uruguay issued its first GSS+ bond, an SLB, with support from the IDB. The USD1.5bn 2034 maturity deal had a unique structure incorporating both step-up penalties and step-down rewards according to whether the SPTs are exceeded by 2025. This model could incentivise EM climate progress by reducing debt servicing costs for those that hit climate or nature-based goals.

If Uruguay overshoots its GHG emission NDC (-3.2%/year) it would save around USD33.7m in borrowing costs. If both targets were achieved, the potential saving would be around USD67.1m. The deal attracted a reconciled order book of 2.6 times the deal size, from 188 accounts from the USA, Europe, Asia, Uruguay, and other LAC countries. Among these were 40 accounts participating in a Uruguay USD deal for the first time, many with a sustainability focus. This interest enabled spread compression of 25bps, and the Ministry of Economics and Finance reported a greenium. The deal moved further inside the curve in the secondary market.

**Uruguay’s Scorecard**

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<tr>
<td>SLB</td>
<td>1.5bn</td>
<td>4th</td>
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</table>

**KPI Commitments of Uruguay’s SLB**

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<th>Metric</th>
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<td>KPI 2.1</td>
<td>Forest conservation</td>
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</tr>
<tr>
<td>KPI 2.2</td>
<td>103%</td>
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</tbody>
</table>
Sustainable finance market

To date, Uruguay has had a modest presence in the GSS+ markets with total volume from the country reaching USD1.8bn. Most of this came from the USD1.5bn sovereign SLB priced in November 2022.

The local market pioneer, Inenergy placed two green bonds worth USD135.8m and USD 64.7m, respectively, in 2017 and January 2018, to finance its Campo Palomais wind farm and La Jacinta solar farm. In 2018, Atlas Renewable Energy issued a green private placement totalling USD 108.4m directed towards solar plant refinancing and the development of a photovoltaic park. In 2020, the Spanish Solaria Energía y Medio Ambiente (NATELU) issued USD 24m in green proceeds to refinance solar farms in Uruguay. In February 2021, BBVA Uruguay priced the country’s only sustainability bond, a USD15m deal supported by IDB Invest to finance energy efficiency, sustainable agriculture, SMEs, clean transport, sustainable construction, and businesses owned by women and young people.

Despite its small size, Uruguay is a major exporter of frozen bovine meat (beef and buffalo), sulphuric chemical wood pulp, concentrated milk, and electricity, mainly to China, Brazil, United States, Argentina, and the Netherlands. The country also targeted growth in the software industry by combining high tech hubs, education, and government policies to become one of the main technology exporters in the region. The GSS+ bond market can absorb borrowing via thematic debt to support strategies aligned with the transition pathways of each sector.
Other countries

Colombia

Colombia’s strong macroeconomic and fiscal management has supported its consistent economic growth. Combined with ambitious climate mitigation and adaptation goals, aiming to reduce GHG emissions by 51% by 2030 and achieve carbon neutrality and climate-resilient development, it has supported several initiatives to mobilise resources for a sustainable economy, indicating Colombia’s high potential to make strides in this area.

The Colombian sustainable finance market ranks sixth in the LAC region with a total volume of USD2.8bn. Green bonds comprise 44% of this market, with the first green bond issued by Bancolombia for COP350bn (USD115m) in 2016. Two years later, the first social bond was priced with a COP400bn (USD139m) deal from Bancoldex and in 2019, the national development bank Findeter issued the first sustainability bond. One of the dominant issuers is the Republic of Colombia with sovereign green bonds totalling USD549.4m. Climate Bonds explored the Colombian sustainable debt market in detail in its 2022 Colombian Sustainable Finance State of the Market report.143

Peru

Peru has made substantial progress in sustainable finance, attracting private investment for infrastructure funding. Initiatives like ProInversion have successfully mobilised public-private partnerships and project pipelines. The country has tapped into international financial markets, through foreign direct investments (FDI), focusing on the energy, transport, and mining sectors aligned with green investments. Despite the pandemic’s impact on FDI, Peru expects opportunities in these sectors to increase. While the sustainable finance market has grown more slowly compared to neighbouring countries, Peru has implemented climate policies and initiatives to foster market expansion. Peru’s pioneering efforts in LAC include the region’s first labelled bond in 2014 by Energía Eólica for USD204m and a sovereign sustainable bond in 2021. Amounting to USD6.5bn, Peru ranks fourth in the LAC GSS+ market. Climate Bonds has explored the Peruvian sustainable debt market in detail in its 2022 Peru Sustainable Finance State of the Market report.144

Ecuador

Ecuador’s sustainable finance market is still in the early stages of development but has achieved some impact with deals including Banco Pichincha’s bond, which was the country’s first green bond in December 2019. However, accessing the debt capital markets poses challenges for the financial market in Ecuador. Despite this, the country has demonstrated innovation in developing new financial products with the support of MDBs. Ecuador also achieved a regional milestone when it priced the first sovereign social bond in 2020. Social bonds have great potential to support the local economy such as the Cooperativa de Ahorro y Crédito (COAC) Chibuleo USD15m bond in 2022 with UoP for Microfinance and Equality and three other social bonds from financial corporates which dominate the issuer type in the country. As Ecuador’s sustainable finance market evolves, overcoming challenges and expanding access to financial resources will be vital for its growth and development.

The wider LAC GSS+ market overview

<table>
<thead>
<tr>
<th>Country</th>
<th>Green USD issued</th>
<th>SLB USD issued</th>
<th>Social USD issued</th>
<th>Sustainability USD issued</th>
<th>Transition USD issued</th>
<th>TOTAL GSS+ USD issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>2.2bn</td>
<td>185m</td>
<td>63.4m</td>
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</table>

*Totals do not always add up, given that one issuer may issue bonds with different thematic labels and from multiple countries.*
<table>
<thead>
<tr>
<th>Country</th>
<th>Green USD issued</th>
<th>SLB USD issued</th>
<th>Social USD issued</th>
<th>Sustainability USD issued</th>
<th>Transition USD issued</th>
<th>TOTAL GSS+ USD issued</th>
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</thead>
<tbody>
<tr>
<td>Guatemala</td>
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<td>Paraguay</td>
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<td>Supranational</td>
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<td>Trinidad and Tobago</td>
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<td>Uruguay</td>
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<td>26.5bn</td>
<td>29.9bn</td>
<td>54.4bn</td>
<td>770.4m</td>
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</table>

*Totals do not always add up, given that one issuer may issue bonds with different thematic labels and from multiple countries.*
Conclusions and outlook

By the end of 2022, Climate Bonds had recorded GSS+ debt originating from Latin America with a cumulative total of USD535.3bn. Sustainability is the dominant theme with (35%) followed by green (28%), SLBs (17%), and social (19%). The GSS+ market in the region continues to grow, and the LAC themed-market corresponded to around 21% of the regional total bond market of USD535.3bn between 2019 and 2022, which suggests great potential for sustainable finance to support climate objectives. Climate Bonds has identified five recommendations to strengthen and extend the LAC GSS+ debt market focusing on definitions, policy development, innovative instruments, transparency, and collaboration.

1. Establish definitions, standards, and criteria

A standardised approach to sustainable finance with clearer and harmonised definitions can scale GSS+ finance. The key to developing this route is making sure that regional and local key actors are using a clear set of definitions and criteria to prioritise the channeling of resources to qualifying projects. Standardisation can facilitate the structuring of sustainable securitisation instruments and aggregation facilities, scale financing for smaller projects, and meet investor demand for larger tickets and longer maturities.

This enables investors to make use of the common definitions and scientific criteria to identify sustainable development opportunities. Equally, it allows issuers to more easily aggregate projects and assets suitable for the inclusion in sustainable instruments sold in the capital markets for which the proceeds are used to further lending capacity, potentially at preferential rates.

2. Supportive policies

Public policy has the power to guide the capital market toward sustainable transition, by attracting investors, supporting the identification of pipeline and fast tracking, and incentivising and de-risking green and sustainable projects and assets.

To accelerate the transition, governments can issue labelled sovereign bonds, implement fiscal incentives for the use of low-carbon technologies, provide de-risking facilities and guarantees for sustainable debt, introduce green requirements in tenders and public procurement processes, and develop taxonomies. These public interventions send a market signal and make a substantial contribution to achieving sustainability targets by providing consistency for sustainable investments through taxonomies, so that green public procurement can drive investment in specific sectors. By implementing policies such as subsidies to guarantee preferential treatment or establishing credit rating requirements, national and supranational governments can eliminate entry barriers associated with regulation and issuance costs in the sustainable finance market.

In this way, governments and other key actors create an enabling environment for increased utilisation of guarantees, as mandated by the G20, serving the purpose of reducing transaction costs and promoting greater financial inclusion. Investment in research and development, and gradual implementation of mandatory criteria for project development and prioritisation of investment portfolios, can help ensure the long-term bankability of projects, prevent higher costs of maladaptation to climate change and the risks of a late economic transition.

3. Enhanced disclosure

All stakeholders have a role in promoting transparency in the market. Entities must strive to meet the required standards of clarity in the disclosure of their UoP to reassure investors of the legitimacy of their commitments and enable comparison across deals. Equally, standardisation of disclosure metrics would make it more attractive and easier for entities to access thematic debt markets. The IDB’s GBTP establishes a key instrument to support standardised disclosure, and clarity around the UoP of thematic deals. Stock exchanges and regulators have a role to support the adoption and adherence to such international standards. Their support is vital in ensuring the usability and effective application of taxonomies, providing clarity to the investment community.

4. SLBs and transition bonds

SLBs and transition bonds can address capital needs for transitioning industries while ensuring credibility and alignment with sustainability goals. The flexibility of the UoP offered by the SLB structure offers the potential to channel financing via thematic debt to the entities operating in the hard-to-abate sectors in LAC. The application of the CBS v4 to financial instruments, sectors, entities, and solutions, will enlarge the investable opportunity set and give investors even more reasons to commit to sustainable investment mandates.

5. More sovereign bonds

Governments must support the transition to net-zero by endorsing clear transition pathways, fostering supportive policies, ensuring future demand for climate solutions, and addressing risks. Government can issue sovereign GSS+ bonds to demonstrate leadership and stimulate market creation. The seven LAC nations that have already entered this space have made an enormous impact, by encouraging local participation, attracting international investors, and contributing to the visibility and success of the market. However, there remains a challenge in continuing to build institutional capacities in terms of commitments, inter-institutional relationships, and interoperability. The region has emerged as a leader in sovereign bonds. The sharing of experiences among countries can provide support to nascent markets, particularly after the initial issuance, and ensure sustained growth and success.
# Appendix - List of A&R keywords for screening of Climate Bonds databases

<table>
<thead>
<tr>
<th>Sector</th>
<th>Keywords/Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social resilience and wellbeing</td>
<td>Social protection, Welfare, Livelihoods, Disease surveillance systems, E-Health, Rapid diagnostic tests</td>
</tr>
<tr>
<td>Disaster risk management and insurance</td>
<td>Early warning system, Weather monitoring, Weather forecast, Flood forecasting, Drought monitoring, Climate monitoring, Climate modelling, Relocation, Managed retreat, Climate Information System, Parametric insurance, Index insurance, Catastrophe insurance</td>
</tr>
<tr>
<td>Energy</td>
<td>Distributed generation, Distributed PV, Microgrids, Minigrids, Energy storage, Underground cabling, Structural strengthening</td>
</tr>
<tr>
<td>Agriculture, forestry, land use, and natural resource management</td>
<td>Soil conservation, Climate-smart agriculture, Agricultural insurance, Climate-resilient rural infrastructure, Drought resistant crops, Non-perennial crops, Regenerative agriculture, Soil sequestration, Wild brush cleaning, Species diversification, Afforestation, Reforestation, Mangrove conservation and replanting, Restoration of natural habitats, Pest control measures, Regeneration or extension of natural forests, Sustainable aquaculture, Ecosystem-based adaptation, Integrated water resources management, Ecosystem Services, Soil Erosion, Biodiversity, Evapotranspiration, Land degradation</td>
</tr>
<tr>
<td>Infrastructure and built environment</td>
<td>Green roofs and walls, Water retention gardens, Porous pavements, Reduce urban heat zones, Grid resilience, Back-up generation and storage, Increased cooling requirement, Urban flood protection, Climate-resilient urban infrastructure, Resilient shelters, Natural infrastructure, Green infrastructure, Natural assets, Wildlife buffer zone</td>
</tr>
<tr>
<td>Coasts</td>
<td>Coastal natural buffer zones, Flood warning systems, Coastal, Setbacks, Managed realignment, Flood shelter, Cyclone shelter, Slope management, Coastal protection, Wetland protection, Marine protected area, Artificial reef</td>
</tr>
<tr>
<td>Industry</td>
<td>Supply chain resilience, Business continuity planning, Climate-related physical risk assessment, Climate-related transition risk assessment</td>
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