

Latin American Sustainable Bond Issuance To Rise In 2024

Feb. 27, 2024

Sustainable bonds could increase to more than 30% of Latin America's total bond issuance this year, showing resilience to fluctuations in the bond market over the past three years.

This research report explores an evolving topic relating to sustainability. It reflects research conducted by and contributions from S&P Global Ratings' sustainability research and sustainable finance teams as well as our credit rating analysts (where listed).

This report does not constitute a rating action



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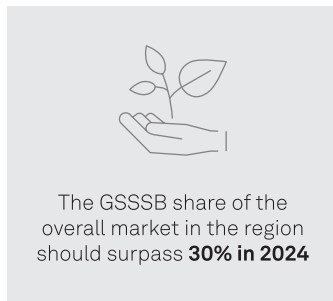
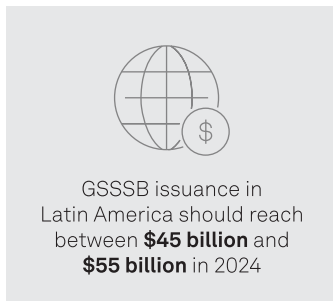
S&P Global Ratings recently published "[Sustainable Bond Issuance To Approach \\$1 Trillion in 2024](#)" on Feb. 13, 2024. That report forecasts that global bond issuance via green, social, sustainable, and sustainability-linked bonds (GSSSBs) will rise modestly this year to \$0.95 trillion to \$1.05 trillion. Here, we provide our outlook for the Latin American GSSSB market for 2024. For the purposes of this report, "Latin America" refers to Mexico, Central America, South America, and the Caribbean.

Consistent with our recent reports about GSSSB, this research draws on Environmental Finance's Bond Database of global GSSSB issuance for non-financial corporates, sovereigns, financial institutions, and international public finance issuers. Because the database is continuously updated, some figures may not exactly match those cited in previous years. Our GSSSB forecasts in this research are informed by S&P Global Ratings' global bond forecasts, issuer surveys, and market analysis by our sustainable finance and credit ratings analytical teams.

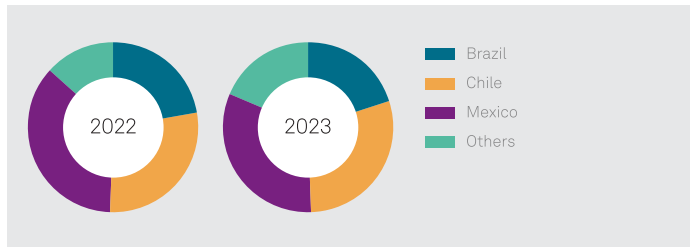
Key Findings

- We estimate GSSSB issuance in Latin America will reach \$45 billion–\$55 billion in 2024, with Brazil, Chile, and Mexico likely remaining the market leaders, particularly through issuance of sustainability and sustainability-linked bonds (SLBs).
- Developing local guidance and taxonomies for sustainable financing are likely to continue to foster standardization and transparency, fueling investor appetite and encouraging new issuers to enter the region's GSSSB market.
- SLBs remain relatively more prevalent in Latin America than in any other region; we expect to see an increase in the number of social performance indicators in new SLBs, given the region's socioeconomic development needs.

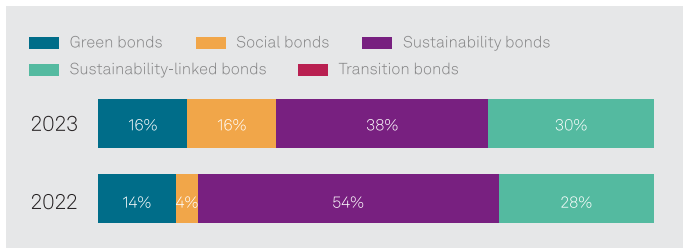
Key Figures



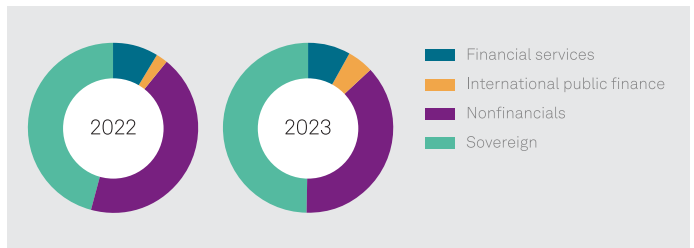
Brazil, Chile, and Mexico will remain the largest GSSSB issuers



Sustainability bonds will likely remain dominant



New entrants will help **sovereigns** maintain a leading position



Donut charts show the share of total issuance. GSSSB--Green, social, sustainability, and sustainability-linked bonds. Sources: Environmental Finance Bond Database. S&P Global Ratings. Copyright © 2024 by Standard and Poor's Financial Services LLC. All rights reserved.

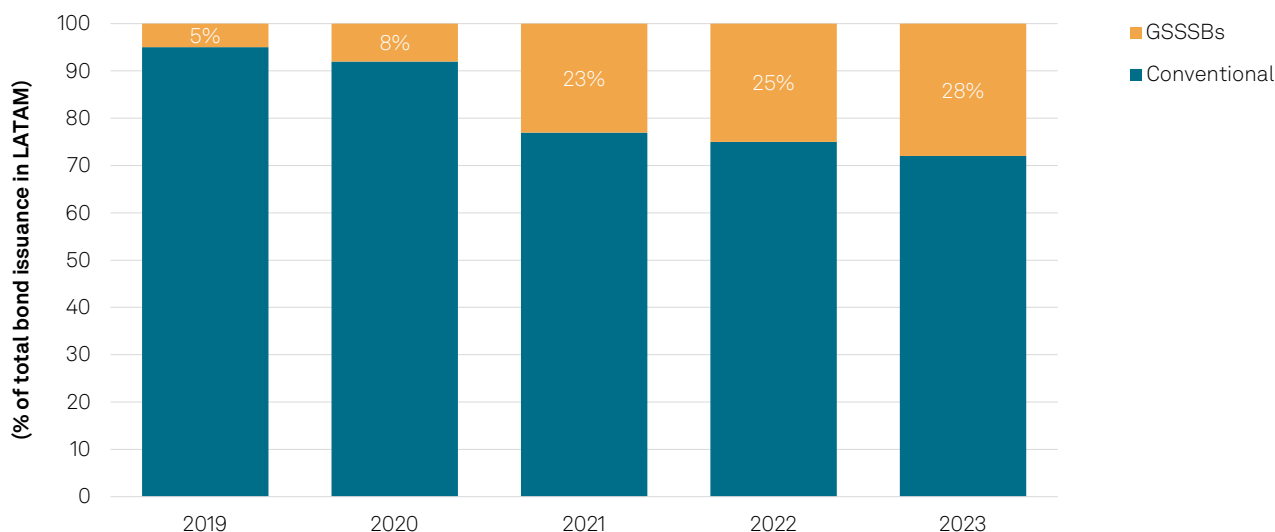
GSSSB Growth To Outpace The Region's Bond Market In 2024

We expect GSSSB issuance in Latin America to surpass 30% of conventional bond issuance in the region, supported by ongoing global and local efforts to accelerate the energy transition and address socioeconomic development needs.

GSSSBs are already a prominent contributor to Latin America's overall bond issuance, and the region's issuance has surpassed 5% of the global GSSSB market. GSSSBs in Latin America accounted for approximately 28% of total regional bond issuance in 2023 (see chart 1), an increase from that in previous years. By contrast, the share of GSSSBs in global bond markets is currently at about 12%. Such prevalence stems from an increasing number of issuers accessing the GSSSB market and national governments advancing their sustainability agendas. Moreover, we believe developing local guidance and taxonomies on sustainable financing will continue to foster standardization and transparency, investor appetite, and issuance volume growth.

Chart 1

GSSSBs accounted for 28% of total bond issuance in Latin America in 2023



Excludes sovereign and structured finance issuance. GSSSBs--Green, social, sustainable, and sustainability-linked bonds.

Sources: Environmental Finance Bond Database. S&P Global Ratings.

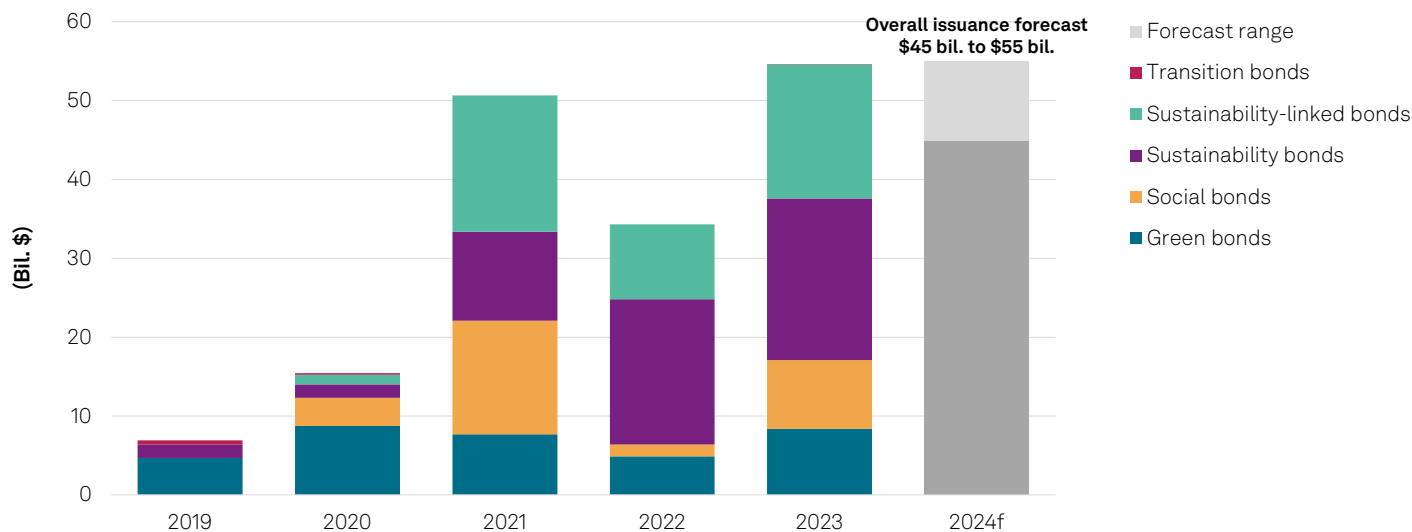
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We estimate GSSSB issuance in the region at \$45 billion–\$55 billion in 2024, after reaching a new high of \$55 billion in 2023 (see chart 2). This year's presidential election in Mexico may reduce investors' risk appetite, as well as local bond issuance in the country. This in our view could limit the nominal growth potential for the regional market, since Mexico represents roughly one-third of Latin America's GSSSB issuance. Momentum may also be limited if narrowed access to global capital markets persists. Nevertheless, local currency issuances were the main reason for the strong issuance in 2023, representing 52% of total GSSSB issuance in Latin America.

We expect sovereigns will continue to lead GSSSB issuance in the region, thanks in particular to new sustainable bond issuers, such as Brazil. Moreover, we believe an increasing number of banks could make progress in structuring both use-of-proceeds-linked and sustainability-linked financings, while corporates may benefit from the monetary easing cycle of most countries in the region.

Chart 2

GSSSB issuance should remain resilient in Latin America in 2024



Excludes structured finance issuance. GSSSB--Green, social, sustainable, and sustainability-linked bond. f--Forecast. Sources: Environmental Finance Bond Database. S&P Global Ratings. Copyright © 2024 by Standard and Poor's Financial Services LLC. All rights reserved.

We expect use-of-proceeds bonds to continue dominating GSSSB issuance in 2024. Use-of-proceeds bonds refer to bonds whose proceeds are exclusively used to finance or refinance, in part or in full, new or existing eligible green and/or social projects. Over the past three years, green, social, and sustainability bonds have represented about 70% of the region's total GSSSB issuance. After a weak 2022, issuance totals for green and social bonds recovered in 2023, and sustainability bonds remained the most common instruments, representing 38% of total new GSSSBs in the region (see table 1). As sustainability strategies advance in the region, issuers tend to complement their green financing with projects focused on social objectives, such as access to essential services, housing, and financial inclusion. A greater number of project categories also improves the possibilities for future issuances, considering that the proceeds finance green and social projects, and bonds generally require a minimum amount to go to market.

Latin America issues the largest proportion of SLBs in a global context, 30% of the region's GSSSB issuance, compared to the global SLB tally of 7%. This is despite ongoing questions from market participants about whether issuers' targets are ambitious enough to address sustainability issues, and about the effectiveness of financial penalties if those targets are not achieved. Mexican issuers represent almost half of total sustainability-linked issuances by number, although Chile is the main contributor in terms of issuance volumes. We expect Chile and other sovereigns to tap the market with SLBs in 2024. We also understand several governments may launch SLBs in the future; Barbados, for example, has announced its intention to issue a request for proposals on its SLB early in 2024.

Table 1

Latin America GSSSB issuance by type

(Bil. US\$)	Green bond	Social bond	Sustainability bond	Sustainability-linked bond	Transition bond	Total
2019	4.67	--	1.73	--	0.50	6.90
2020	8.73	3.57	1.70	1.25	0.17	15.43
2021	7.85	14.41	11.28	17.32	--	50.86
2022	5.60	1.53	18.39	9.48	--	35.00
2023	8.39	8.72	20.47	17.01	0.004	54.59

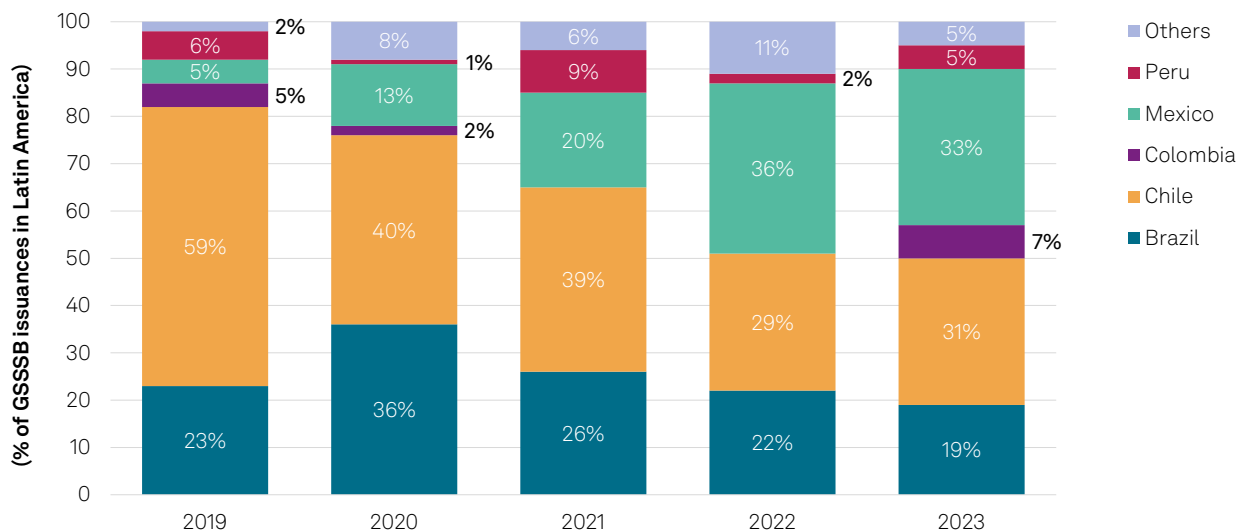
Note: Excludes structured finance data.
 Source: Environmental Finance Bond Database, S&P Global Ratings.
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The Region’s Largest Economies Lead GSSSB Issuance

In our view, issuers from Brazil, Chile, and Mexico will remain the GSSSB heavyweights in Latin America. This is primarily due to the size of their economies and their established issuer bases. These countries have represented 80%-90% of issuance in the region over the past few years (see chart 3).

Chart 3

Brazil, Chile, and Mexico have led GSSSB issuance volumes since 2020



Excludes structured finance issuance. GSSSB--Green, social, sustainable, and sustainability-linked bond.
 Sources: Environmental Finance Bond Database. S&P Global Ratings.
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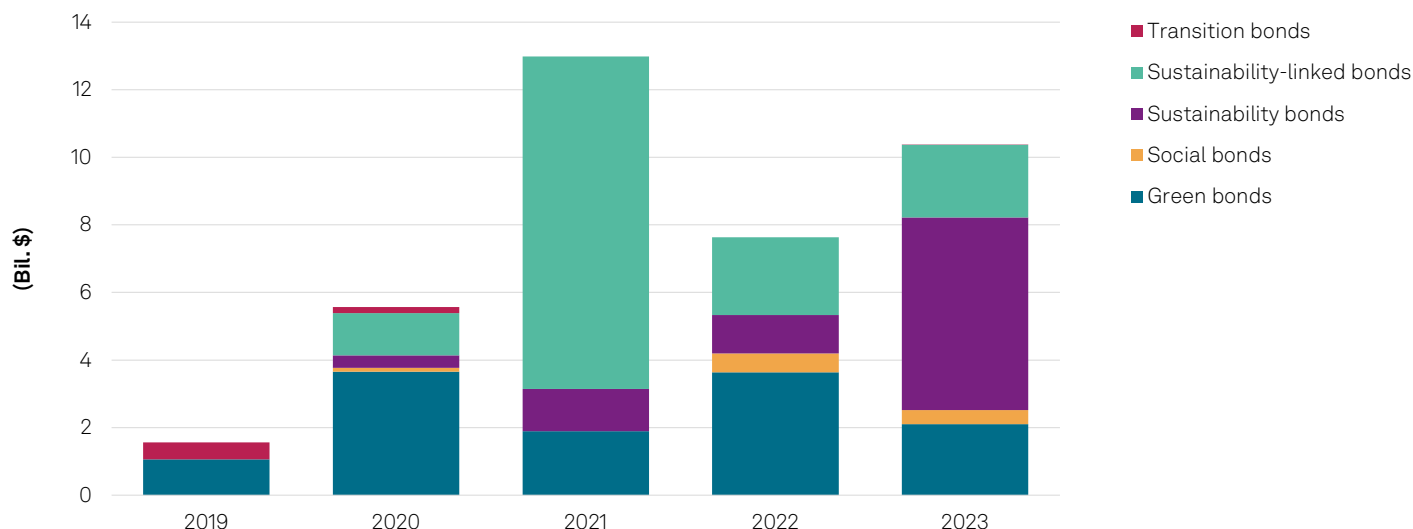
Brazil: Government's transition plan could lead to an uptick in issuance

As part of a long-term program to fulfill Brazil's national commitments to achieve climate neutrality by 2050, the government announced a transition plan last year covering six major areas: sustainable finance, energy transition, technological deepening, circular economy, bioeconomy, and infrastructure adaptation.

The government raised \$2 billion from its first sustainable bond issuance in 2023. This bond represented 19.3% of the country's total GSSSB issuance that year (see chart 4). The bond's demand reached \$6 billion, far exceeding what was issued, and attracted increased diversification in terms of the investor base. Based on public statements from the Brazilian government, we expect the sovereign to leverage sustainable finance (backed by Brazil's sovereign sustainable bond framework, released in September 2023) and continue to issue GSSSBs every year for the next few years, which could encourage similar issuances from corporate entities.

Chart 4

Sustainability bonds in Brazil increased faster than other issuance types in 2023



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Moreover, Brazil's expected release of a sustainable taxonomy this year and its hosting of COP30 in 2025 should help enhance the country's appeal to GSSSB investors. Consequently, we expect more issuers from the country to enter the GSSSB market in 2024. Brazil already has the largest issuer base in the region, with more than 200 issuers accessing the market over the past 10 years. On the other hand, SLB issuance in the country decreased sharply in 2022 and remained muted in 2023.

We see positive GSSSB issuance trends for certain sectors, such as sanitation, transport, energy, health care, and education. The transportation and energy sectors will likely benefit from the government's Brazilian real (R\$) 300 billion (about \$60 billion) New Industry Brazil program. This program focuses on industry modernization, but also sets priorities to advance the production of electric and hybrid vehicles and increase the use of biofuels in the transport energy matrix. In addition, we see issuance opportunities in the health care and education sectors, in particular, stemming from the government's decision to extend benefits for tax-exempt financial instruments to certain social-related sectors. Bonds focused on sanitation represented roughly 15% of the country's total GSSSB issuance in 2023, but this sector's issuance will likely be smaller this year, mainly in the North and Northeast of Brazil. Nevertheless, sanitation will continue to attract private investment to improve sewage coverage, currently at approximately 56%, owing to the regulatory framework update in 2020, which has boosted auctions and investments in the sector.

Chile: Sovereign issuance continues to set the trend for GSSSBs

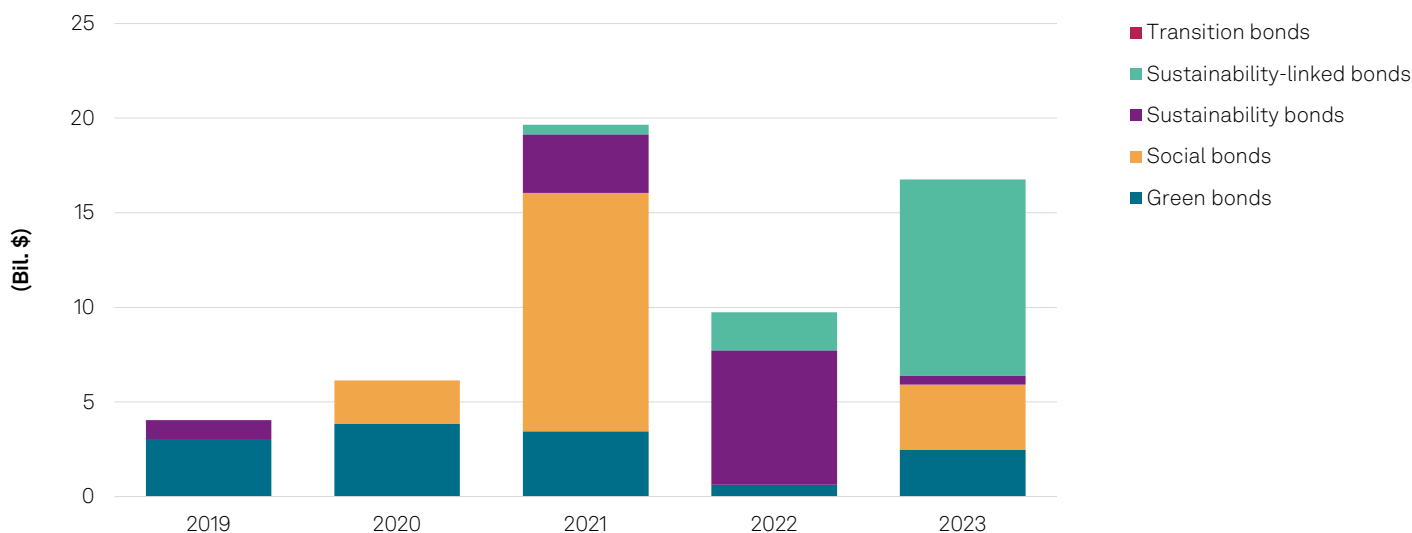
We expect the government to continue leading the country's sustainable bond issuances, with narrow participation of private players.

Total GSSSB volumes were up 51% in 2023 compared to the year before, with the sovereign representing 74% of issuance totals (44% in terms of the number of issuances). Only a few corporate issuers--mainly in the pulp and paper, and financial sectors--tap Chile's GSSSB market. This is largely due to the country's generally weak local debt market in recent years and investors' low interest in such instruments in the local market. Nevertheless, we expect issuances to improve gradually in 2024 amid an accelerated cycle of monetary easing in Chile, where interest rates have been cut by a cumulative 400 basis points since July.

The government has also updated its sustainable debt offering every year, signaling potential for further issuance growth (see chart 5). A year after becoming the first sovereign in Latin America to issue an SLB, Chile continues to innovate by providing investors the option of replacing conventional bonds with SLBs. In addition, the government became the first in the region to incorporate social targets in the documentation for its sovereign SLB. The Finance Ministry expects 38% of the country's debt to be sustainable instruments by the end of 2024, up from about 36% in 2023, which should continue to drive strong sustainable bond issuances this year.

Chart 5

Sustainability-linked bonds have gained momentum in Chile over the past two years



Sources: Environmental Finance Bond Database. S&P Global Ratings.
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Mexico: Political uncertainties could hamper overall bond issuance

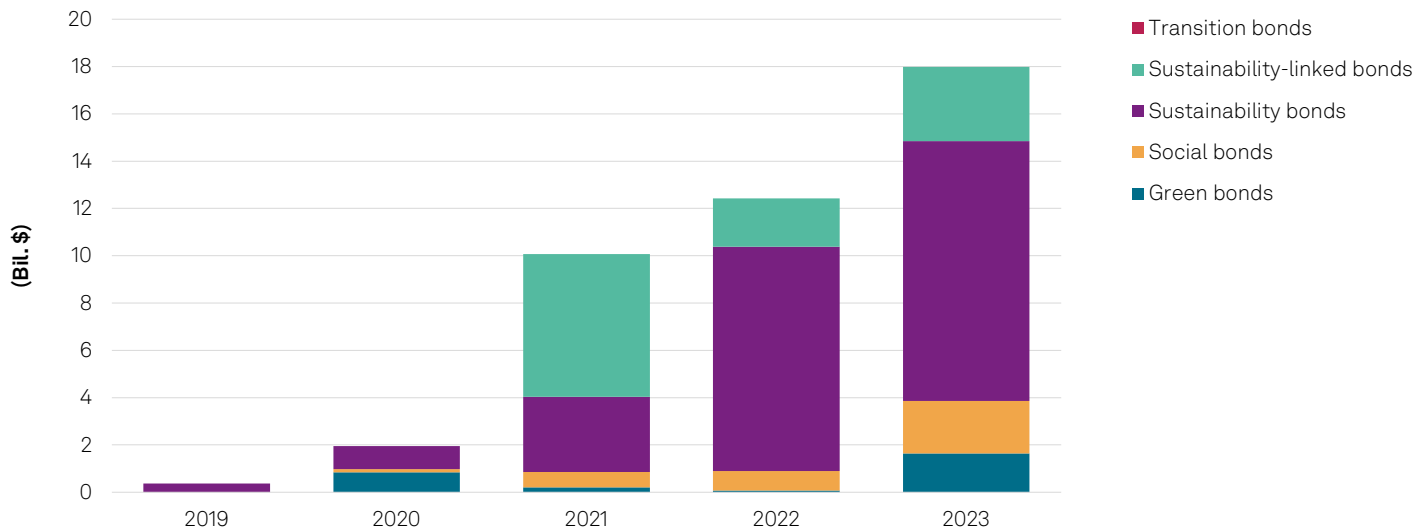
GSSSB issuance growth in Mexico is likely to slow in 2024 after four consecutive years of growth (see chart 6). We expect issuances to decline because of June's national elections, the transition period for the incoming president, and the start of the next administration.

In 2023, GSSSB represented more than 40% of total issuances, increasing substantially over the past three years. We understand some issuances during 2023 were to avoid the political uncertainties of the election cycle in 2024. However, we still expect the growth of sustainable issuances to outpace that of conventional bonds in the country.

The political landscape will influence the country's renewable energy expansion in the medium term, in view of potentially extensive regulatory changes. Progress on increasing the share of renewable energy sources in Mexico has been slow over the past few years. The presidential candidates are still defining their policy priorities, and different approaches to policy in the energy sector--such as on private investment and the green transition--are likely. Moreover, prospects for shifting production to countries closer to Mexico may also trigger higher investments to meet certain underlying sustainability challenges, such as energy and water security, infrastructure needs, qualified labor, and the rule of law.

Chart 6

GSSSB issuance in Mexico has surged since 2020



GSSSB--Green, social, sustainable, and sustainability-linked bond. Sources: Environmental Finance Bond Database. S&P Global Ratings. Copyright © 2024 by Standard and Poor's Financial Services LLC. All rights reserved.

Taxonomies Will Likely Encourage GSSSB Growth

We believe the number of sustainable taxonomies in Latin America will continue to rise, supporting the design of sustainable bonds to address major financing gaps in the region.

We believe the transparency and standardization taxonomies bring are key to increasing the number of new GSSSB issuers in Latin America. Moreover, we expect taxonomies to improve the appeal of sustainability-labeled issuances to local and international investors. Currently, Latin America's sustainable bond market contains relatively few issuers compared to that in other regions. We also consider that some investors may prefer a single regional taxonomy to multiple local ones that may have differences or inconsistencies among them.

Although many Latin American taxonomies will likely resemble the EU Taxonomy, we expect broader scopes tailored to the region's most material challenges (see table 2). Following Colombia and Mexico's footsteps, other countries in the region will likely have taxonomies with green components that suit the region's emissions profile and biodiversity challenges. We also expect a larger number of sustainable taxonomies (green and social economic activities), such as Mexico's, that include features to address the significant social gaps of Latin American countries.

Table 2

A snapshot of the regional taxonomy landscape

Country/economy	Scope	Status	Innovation	Recent developments
Colombia	Green	Released in April 2022	First national taxonomy in the region and closely aligned with the EU Taxonomy. Addresses five different environmental objectives as a substantial contribution to land-use sectors.	In 2022, an external circular provided instructions--including to green bond issuers--for adopting this taxonomy. In 2023, a resolution was published to encourage the use of the taxonomy for the issuance of thematic instruments.
Mexico	Sustainable	Released in March 2023	First in the world to consider social objectives from inception: gender equality (assessed through an index); access to basic services related to sustainable cities, health, education; and financial inclusion. Introduces minimum social safeguards based on local regulation and key international frameworks, such as the UN Guiding Principles on Business and Human Rights.	The Mexican government has announced a voluntary testing phase aimed at institutions from different sectors of the financial system, but results are yet to be shared. It also plans to develop an e-learning tool. Financial authorities are analyzing proposals for regulation related to the taxonomy.
Brazil	Sustainable	Under development	Plans to include socioeconomic objectives related to decent work and higher incomes; reduction of socioeconomic, regional, and territorial inequalities; guarantee of rights; and access to basic social services.	The government launched an action plan during COP28 that contemplates the taxonomy's development and literacy strategies during 2024, with the aim of mandatory use of the taxonomy by 2026.
Others	Please see Appendix I.			

Sources: Climate Bonds Initiative and Local Governments' Publications. S&P Global Ratings. Copyright © 2024 by Standard and Poor's Financial Services LLC. All rights reserved.

We view as positive that various stakeholders in the region appear willing to develop voluntary sustainable finance guidelines. An example of such guidelines is the Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean, published by the United Nations Environmental Program (UNEP). These guidelines foster increasing international cooperation on sustainable finance frameworks, aimed at preserving comparability and interoperability. We also highlight the influence of subregional working groups, such as the Central American Green Taxonomy Project, in promoting cooperation in the development of sustainable taxonomies.

Moreover, we expect the regulatory landscape to evolve to support the implementation and adoption of recently released and upcoming taxonomies. Considering this context, taxonomies could play a central role in shaping the selection of projects and commitments linked to potential financing, in line with the trajectories and ambitions of NDCs (nationally determined contributions).

Blue Bonds Could Become More Prominent

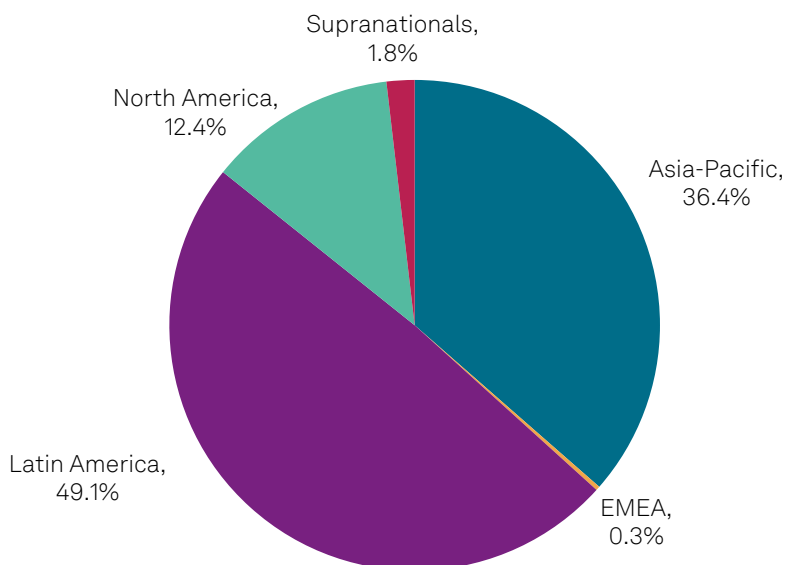
Blue bonds refer to instruments issued with the objective of using the proceeds exclusively for ocean friendly projects and to protect clean water resources, according to the International Finance Corp.'s (IFC's) Guidelines for Blue Finance (2022). The IFC's guidelines also consider a broader scope, including sanitation. The first blue bond globally was issued in 2019. We believe that, in 2024, issuers all over the world will increasingly incorporate blue categories into their sustainable financing instruments.

Latin America represented almost half of blue bonds issued globally in 2023 (see chart 7). As of Dec. 31, 2023, blue bonds worth \$6.8 billion had been issued, equivalent to about 0.2% of global GSSSB issuance. Approximately 60% of all blue bonds were issued in 2023, with Latin America (mainly the sanitation sector) responsible for about \$2 billion last year.

Sovereigns and supranationals could play a key role in directing financing to blue projects. A recent analysis by UNEP on NDCs indicates that 95 countries have goals, policies, or measures aimed at preserving and restoring marine ecosystems. Along these lines, Ecuador issued the world's largest debt-for-nature swap in 2023. It bought back roughly \$1.6 billion of the country's debt at a near 60% discount, while issuing a \$656 million bond that will direct at least \$12 million a year to the conservation of the Galapagos Islands until 2041. \$85 million of the bond is guaranteed by the Inter-American Development Bank and all \$656 million of it is covered by political risk insurance from the U.S. International Development Finance Corp. We expect blue bond issuances will increase alongside the availability of data and policies that promote the blue economy, which the World Bank defines as the sustainable use of ocean resources for economic growth.

Chart 7

Latin America was the largest market for blue bonds in 2023



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GSSSBs To Include More Social Performance Indicators

We expect issuers in Latin America to increase the number of social key performance indicators (KPIs) in SLBs, amid the region's significant social challenges, such as gender gaps, informal labor, insufficient public services, and mounting inequality.

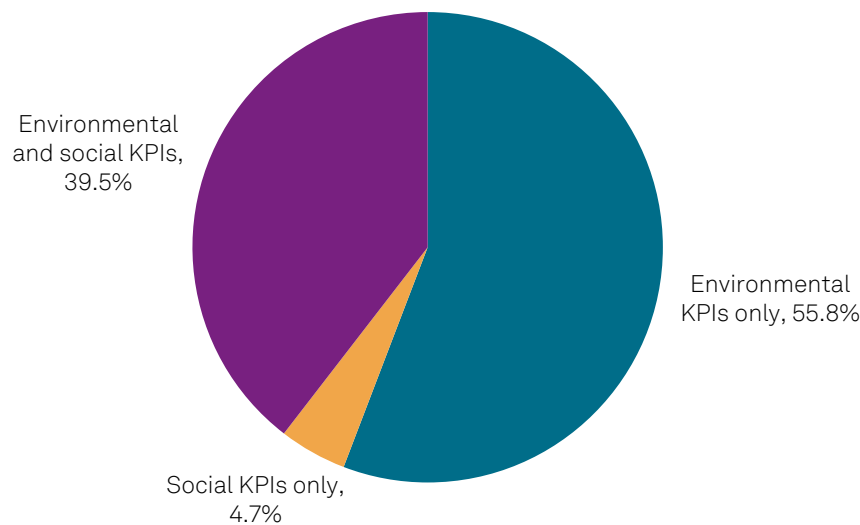
We observe that issuers are gradually integrating social KPIs into their GSSSB frameworks as their sustainability strategies take shape. However, environmental KPIs, particularly relating to greenhouse gas emissions, should remain the most common given their maturity.

Advances in measurement and comparability also imply social KPIs' increasing use in issuing SLBs. Furthermore, multilateral institutions and development banks support measures to overcome the challenges of materiality, comparability, and interpretation, which are important for the design of relevant social KPIs. These entities have been advocates of social initiatives, not only as suppliers of financing, but also in providing training assistance with governance, developing programs for technical knowledge, and creating quantitative models.

Based on our analysis of publicly available documentation for SLBs issued in Latin America, approximately 45% had at least one social KPI, nearly 80% of which related to gender. Chile, for example, became the first sovereign to add a social target to a sustainability-linked issuance. The transaction stipulates that, by 2031, at least 40% of the board of reporting companies (subject to the supervision of the Financial Market Commission) should be female. The trend of including social KPIs is not limited to sovereigns.

Chart 8

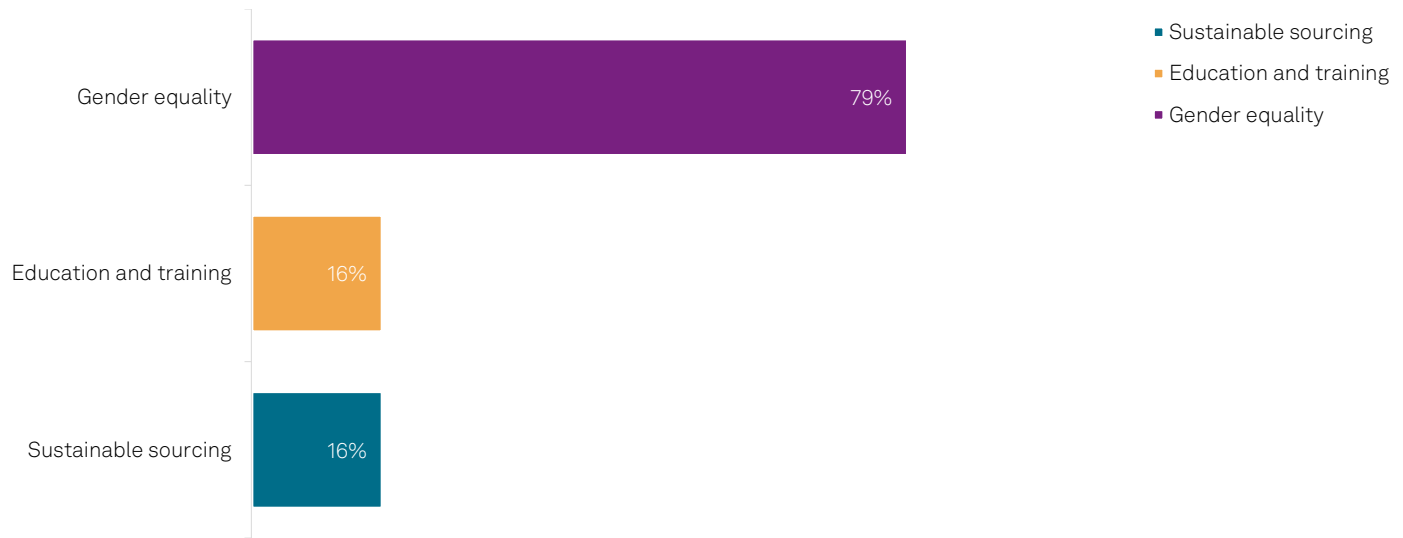
More than 40% of Latin American SLBs have at least one social KPI



SLB--Sustainability-linked bond. Sources: Environmental Finance Bond Database. S&P Global Ratings. Copyright © 2024 by Standard and Poor's Financial Services LLC. All rights reserved.

Chart 9

Gender is the most frequent social topic covered in the region's SLBs*



*Figures do not sum to 100% because some SLBs have multiple social KPIs. Sources: Environmental Finance Bond Database. S&P Global Ratings. Copyright © 2024 by Standard and Poor's Financial Services LLC. All rights reserved.

Looking Ahead

Ultimately, we expect advances in taxonomies to bring standardization, transparency, and benchmarks that set the stage for new Latin American issuers to enter the region's sustainable bond market. Latin America has historically been a fertile ground for GSSSB innovation, and we expect this to continue in 2024.

Related Research

- [Sustainable Bond Issuance To Approach \\$1 Trillion in 2024](#), Feb. 13, 2024
- [Carbon Pricing, In Various Forms, Is Likely To Spread In The Move To Net Zero](#), Aug. 9, 2022

External Research

- [Guidelines for Blue Finance](#), IFC (World Bank Group), Jan. 2022
- [Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean](#), United Nations Environmental Programme, Jul. 2023
- [Comparison Between the Colombian and EU Taxonomies](#), Climate Bonds Initiative, Sep. 2023
- [Taxonomía Sostenible de México](#), Gobierno de México, Mar. 2023
- [Taxonomía Verde de Colombia](#), Superintendencia Financiera de Colombia, Mar. 2022
- [Plano de Ação da Taxonomia Sustentável Brasileira](#), Governo do Brasil, Sep. 2023
- [Noticia](#), Superintendencia del Mercado de Valores de la Republica Dominicana, Oct. 2023
- [Noticia](#), Ministerio de Ambiente de Panamá, Jan. 2024
- [Noticia](#), Ministerio de Hacienda de Chile, Aug. 2023
- [Noticia](#), Ministerio del Ambiente de Peru, Jun. 2023
- [Informe](#), Mesa Técnica de Finanzas Sostenibles de Argentina del Ministerio de Economía de Argentina, 2023.
- [Database](#), Environmental Finance Bond Data

Appendix

Table 3

Regional taxonomies under development in Latin America

Country/economy	Scope	Status	Innovation	Recent developments
Argentina	Sustainable	Under development	The taxonomy will be one of the components of a five-pillar Sustainable Finance National Strategy, which also addresses transparency, incentives, regulation, and financial instruments.	The strategy was officially approved in 2023 and execution is yet to be monitored.
Dominican Republic	Green	Under development	Increased focus on the blue component, by making "water and water resources" the only objective addressed with criteria of substantial contribution, besides climate mitigation and adaptation.	By the end of 2023, the green taxonomy was under public consultation.
Chile	Green	Under development	Not identified due to early stages of development.	In 2023, the Chilean government released a roadmap called "Structure of a Taxonomy for Environmentally Sustainable Activities in Chile," a first step on the taxonomy's development.
Peru	Green	Under development	Not identified due to early stages of development.	In 2023, the Environmental Ministry approved the Green Finance Roadmap, which sets the basis for a taxonomy that is under construction by technical and sectoral committees.
Panama	Green	Under development	Not identified due to early stages of development.	Incorporating inputs from public consultation into the first draft.

Sources: Local governments' publications. S&P Global Ratings.
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