

# Latin America Green, Social, Sustainability, And Sustainability-Linked Bonds 2022

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One out of three issuances will likely be labeled sustainable. GSSSB issuance in Latin America will remain above 30% of total bond issuance in the region.

*This report does not constitute a rating action*



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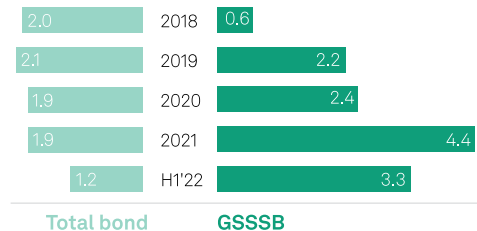
On the heels of S&P Global Ratings' revisions to its forecast for global issuance, "[Global Sustainable Bond Issuance Likely To Fall In 2022](#)," published Sept. 20, 2022, this research explores some of the characteristics that make the Latin American green, social, sustainability, and sustainability-linked bond (GSSSB) market unique and aims to shed light on regional issuance trends. This research draws on data from the Economic Commission for Latin America and the Caribbean (ECLAC), Climate Bonds Initiative, Environmental Finance Bond Database, and S&P Global Ratings' forecasts for GSSSB issuance in 2022.

## Key Takeaways

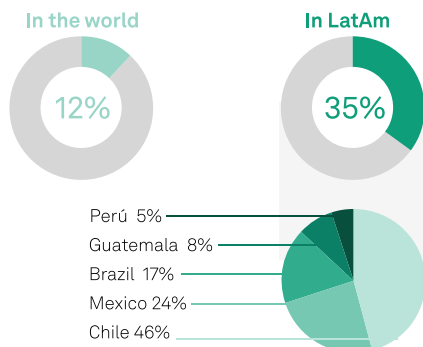
- Due to challenging market conditions worldwide, we forecast a 40% decline in GSSSB issuance in Latin America in 2022 compared with 2021.
- GSSSB in Latin America, which declined 25% year over year in H1 2022, is showing strong resilience in the face of a 60% drop in non-GSSSB issuance in the region.
- Sustainability-linked bonds make up a higher proportion of GSSSB in Latin America than in any other region globally, and sovereign issuances in the region continue to attract attention from international investors.
- We believe financial institutions will continue promoting the development of the GSSSB market, supported by multilateral development banks.
- Progress in regulations and the establishment of green and sustainability taxonomies may help support the growth of GSSSB in the region.

## LatAm GSSSB Market At A Glance

### LatAm share in the global bond market (%)



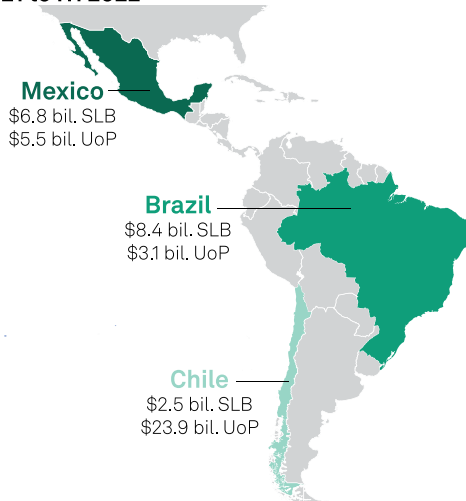
### GSSSB share of total bond issuance (as of H1 2022)



### Annual GSSSB issuance in LatAm has risen from 2018 to H1 2022



### GSSSB issuance type by country, 2021 to H1 2022



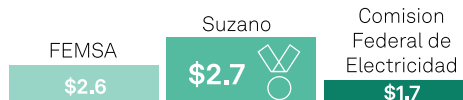
### Ranking by GSSSB issuer type

% of LatAm GSSSB issuances (2018 – H1 2022)



### Largest corporate issuers of GSSSB

(\$ bil. amount issued 2018 – H1 2022)



SLB--Sustainability linked bonds. UoP--Use of proceeds. Source: S&P Global Ratings.

## GSSSB Issuance Will Decline In 2022 In Latin America, But At A Slower Pace Than Total Regional Bond Issuance

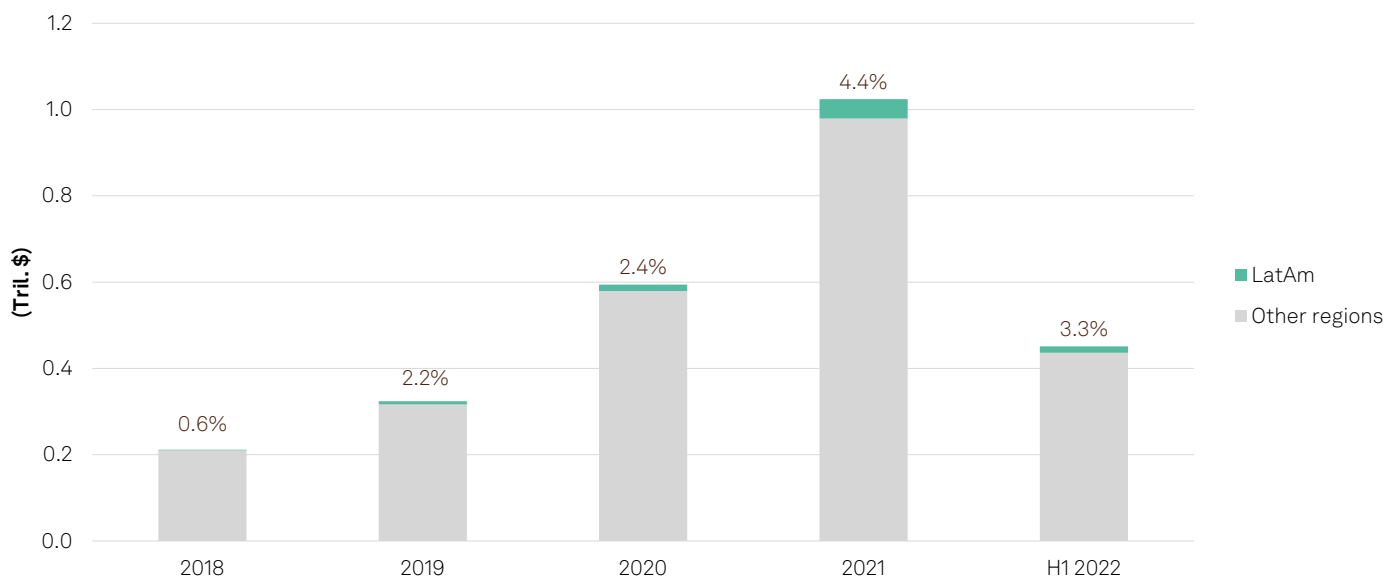
We forecast GSSSB issuance in Latin America will decline by nearly 40% in 2022 compared with 2021, to reach less than \$30 billion. This is largely because of challenging economic conditions that are driving down bond issuance volumes globally. However, the GSSSB asset class has demonstrated some resilience in Latin America, with a 25% decline in the first half of 2022 compared with a much sharper 60% contraction for the region's total bond issuance.

We anticipate global GSSSB will contribute a stable share (at about 12%) of global bond issuance this year despite rising inflation, the increasing likelihood of recession, and the Russia-Ukraine conflict weighing heavily on financing conditions. GSSSB has proven to be a prominent contributor to total bond issuance in Latin America, accounting for 35% of total issuance in the region in the first half of 2022. We began monitoring this trend when in 2021 the share of GSSSB in total Latin American bond issuance reached 30%, far surpassing the global GSSSB share. We expect GSSSB will maintain a high share of issuance in the short and medium terms given the heightened interest in GSSSB across industries to match investor demand and pressure to address sustainability issues in the region.

In our view, the increasing number of GSSSB frameworks being introduced by Latin America-based companies will support future issuances. Moreover, we believe banks will play an important role in the transition to a low carbon economy as many regional players are adhering to the UN Net-Zero Banking Alliance (NZBA), and sovereigns are likely to continue attracting attention of the investing community given the recent sustainability-linked issuances to support National Determined Contributions (NDCs) set in the Paris Agreement.

Chart 1

### Latin American Share Of Global GSSSBs Has Increased Since 2018 But Declined In H1 2022



Note: Data excludes structured finance issuance.

Sources: S&P Global Ratings, Economic Commission for Latin America and the Caribbean (ECLAC), Environmental Finance Bond Database.

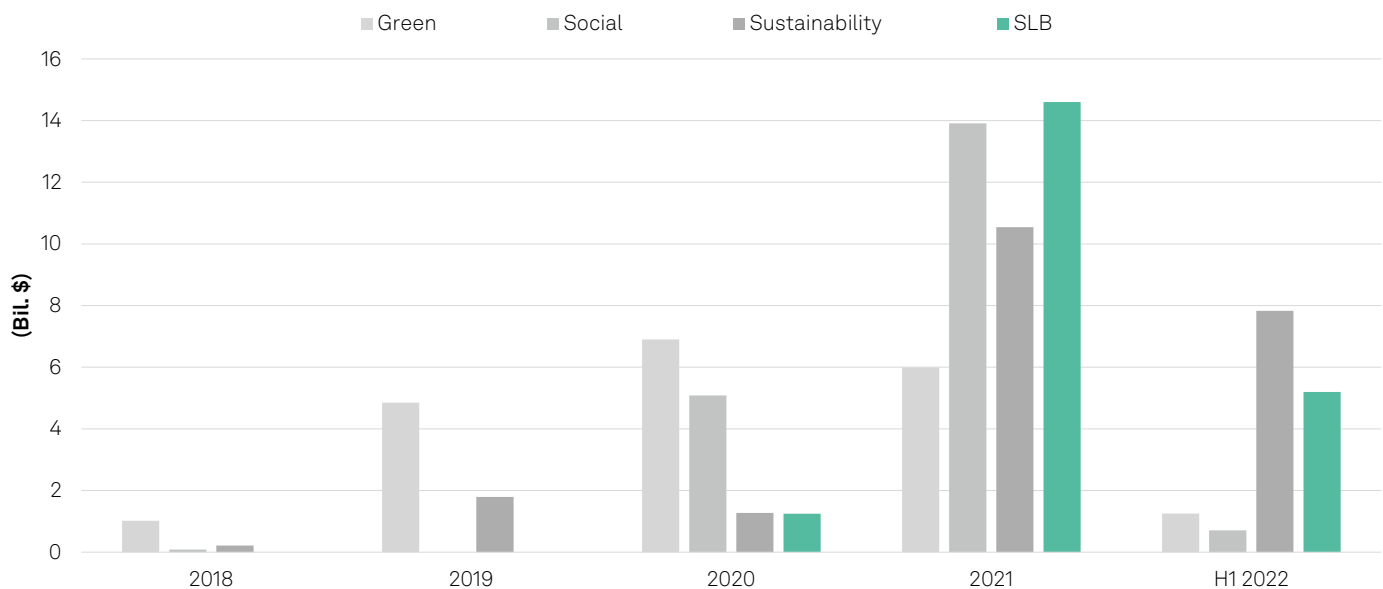
## Sustainability-Linked Bonds Promote The Region's Sustainability Efforts

Sustainability-linked bonds (SLBs) accounted for more than 30% of Latin American GSSSB issuance in the first half of 2022, making them the region's most popular GSSSB instrument in the past 18 months (see chart 2).

In March 2022, the government of Chile issued the world's first sovereign SLB. The \$2 billion bond, which carries a 4.346% coupon and saw demand of more than \$8 billion, or 4.1 times the original placed amount, will be used to fund Chile's long-term climate initiatives and accelerate its energy transition. This could pave the way for other SLB issuers in the region, as it acts as a reference point for both Chilean corporate issuers and other Latin American countries.

Chart 2

### SLBs Are Growing Faster In Latin American Than Other GSSSB Types



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

We believe the characteristics of SLBs make them an avenue for a wider swathe of issuers to access sustainable bonds. The flexibility that SLBs provide has led to some criticism from market participants, as some issuers choose sustainability performance targets (SPTs) that do not appear to be significantly different from business-as-usual scenarios or choose KPIs that may not be relevant to their operations. The selection of relevant KPIs as well as SPTs that represent a clear departure from business-as-usual operations are both key tenets for alignment with globally recognized principles such as ICMA's Sustainability-Linked Bond Principles.

However, SLBs in the region also brought some recent innovations to the GSSSB asset class. In September 2022, Uruguay launched an SLB framework, linking bonds' coupon payments to climate change mitigation and nature conservation goals. The issuances will be subject to a coupon step-up in case they fail to meet the commitments of GHG emissions intensity reduction and maintenance of native forest areas. In addition, the issuances will be subject to a one-time coupon step-down in the case Uruguay outperforms its NDCs. The framework's innovation arises from its combination of step-up and step-down mechanisms. We believe other potential sovereign, financial, and corporate issuers could follow Uruguay's example and implement similar pricing characteristics in the future.

## GSSSB Defined

Green, social, sustainability, and sustainability-linked bonds fall into two main categories:

**Sustainability-linked bonds (SLBs):** Any type of instrument for which the financial or structural characteristics can vary depending on whether the issuer achieves predefined sustainability objectives.

**Use-of-proceeds bonds:** Any type of instrument where the net proceeds (or an equivalent amount to the net proceeds) are exclusively used to finance or refinance, in part or in full, new and/or existing eligible green and/or social projects. The three main subcategories of use proceeds instruments are:

- **Green bonds:** instruments that raise funds for projects with environmental benefits including renewable energy, green buildings, and sustainable agriculture.
- **Social bonds:** Instruments that raise funds for projects that address or mitigate a specific social issue and/or seek to achieve positive social outcomes, such as improving food security and access to education, health care, and financing, especially but not exclusively for target populations.
- **Sustainability bonds:** Instruments that raise funds for projects with both environmental and social benefits.

Source: International Capital Markets Assn.

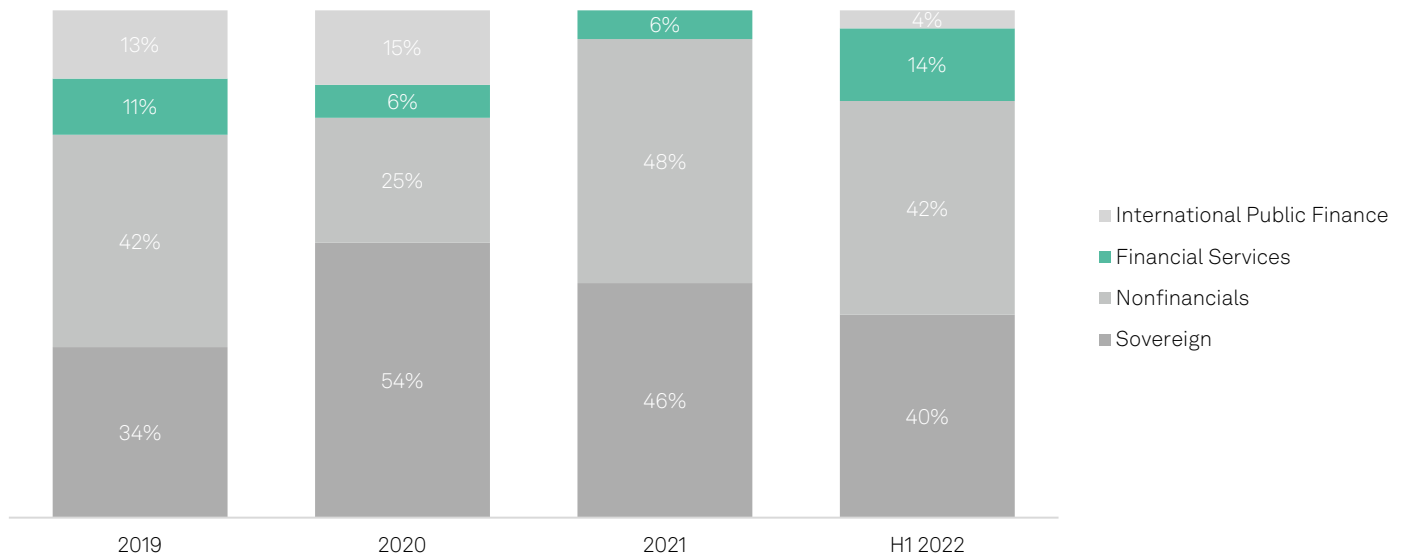
## We Believe Banks Will Continue To Support The Growth Of GSSSB Issuances

Financial institutions, and particularly banks, in Latin America represent a meaningful share of GSSSB issuance, and we believe this sector has the potential to grow steadily in the years ahead. In the first half of 2022, banks issued roughly 15% of GSSSB in Latin America. This was a nearly 300% increase over issuance in the first half of 2021 and it is the only sector that grew its GSSSB issuance yearover-year in 2022. This is largely because corporate financing in the region is largely sourced through bank lending and local capital markets rather than through accessing the international capital markets. As such, banks use their own GSSSB issuance to provide access for their corporate clients to take advantage of sustainable finance.

For example, in 2021, Brazil-based Itaú, the largest private bank in Latin America, committed to grant Brazilian real (R\$) 400 billion in loans for sustainable development by 2025 through business initiatives promoting a sustainable, increasingly green and inclusive economy. Banco do Brasil, the largest public Latin American bank, also announced several ESG commitments and targets last year. The bank aims to achieve R\$125 billion in loans granted to sustainable agriculture and R\$15 billion to renewable energy projects by 2025.

Chart 3

## Share Of Financial Services In Latin American GSSSB Issuer Types Grew In H1 2022



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

Moreover, international multilaterals and development banks have been supporting social and environmental initiatives in the region, not only as suppliers of financing but also in providing training, technical knowledge, and quantitative models, as well as assistance with governance, transparency, and reporting guidance to banks to help issue GSSSB. For example, the IFC and asset manager Amundi in 2018 launched the Planet Emerging Green One bond fund (\$2 billion) specifically to invest in green bonds issued by emerging market banks. In 2021, Latin American banks accounted for more than 25% of the fund's portfolio.

Additionally, in April 2022, IDB Invest, the private-sector arm of the Inter-American Development Bank Group, raised \$1 billion in funding through a three-year fixed rate sustainability bond. The proceeds will be used to finance eligible green and social projects as defined in the issuer's Sustainable Debt Framework. In September 2022, IDB also issued a three-year \$125 million social bond in Mexico, with funds going to projects that improve financing conditions for micro, small, and midsize enterprises in Latin America. IDB Invest, which sees the vast majority of its business related to sustainability, is in the process of increasing its focus on sustainable financing in Latin America and the Caribbean. Specifically, the lender helps companies structure bonds, provides guarantees to some issues in addition to investing in a portion of the debt offerings.

## Regulation And Sustainable Or Green Taxonomies May Support The Growth Of GSSSB In The Region

Brazil's central bank has been a leader in promoting sustainability in the financial sector. In 2014, it launched guidelines for the establishment of a social and environmental responsibility policy for financial institutions. Last year, the country's regulator set rules for banks to prepare social, environmental, and climate responsibility policies and strengthen their risk management structures. The regulator also established requirements for the disclosure around the governance and management of social, environmental, and climate risks, and announced plans to require all banks operating in the country to conduct climate-related stress tests.

In 2021, the Chilean securities and insurance regulator, Financial Market Commission (CMF) issued a requirement for several types of entities to standardize the sustainability and corporate governance information in their annual reports. According to the CMF, the objective is for financial institutions to report the policies, practices, and goals related to ESG so that investors and the general public can evaluate and select investment alternatives that would best protect their interests and distinguish those companies that are more prepared to identify, quantify, and manage such risks.

In addition, some countries – such as Colombia, Chile, Peru, the Dominican Republic, and Mexico – are advancing in establishing sustainable or green financing taxonomies in Latin America. Colombia's green taxonomy, for example, based on the EU's framework, was completed in April 2022.

## Looking Ahead

We expect that despite a dip in regional issuance in the remainder of 2022, demand for GSSSB will continue growing in the short to medium term. Demand from investors is high, as issuances have been consistently oversubscribed in the region. Additionally, pension funds in Latin America have been gradually embracing ESG considerations in their investment practices, which will also contribute to demand. We also note regional players are focusing more on promoting sustainable initiatives rather than excluding or restricting financing to extractive sectors, which often leads to sustainable bonds and loans opportunities. Longer term, we think Latin American growth in GSSSB issuance will follow and benefit from similar trends to the non-GSSSB markets in the region. Namely, these trends will include continued high investor demand, prudential regulatory developments to help discipline the market, and issuers' desire to diversify their investor base and obtain favorable terms.

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## Related Research

- [Sustainable Finance Newsletter](#), Sept. 29, 2022
- [Global Sustainable Bond Issuance Likely to Fall in 2022](#), Sept. 20, 2022
- [Global Financing Conditions: Bond Issuance Set to Contract 16% After Weak First-Half 2022, with Tough Path Ahead](#), July 28, 2022

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