Guidelines for the issuance of thematic labelled financial instruments

A Latinex document

Prepared by the Climate Bonds Initiative

Supported by the IDB Invest

Content

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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 to 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. Certification against the Climate Bonds Standard (CBS) represents about 20% of global green bond market volumes. This scheme is underpinned by rigorous scientific sector-specific 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 (IDBG) 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.

List of acronyms

EDI Equality, diversity, and inclusion
DFC US International Development Finance Corporation
DNSH Do no significant harm
ENGED National Distributed Generation Strategy
ESG Environmental, social, and governance
ETF Exchange-traded fund
EU European Union
FMO Netherlands Enterprise Development Bank
GBP Green Bond Principles
GCF Green Climate Fund
GFANZ Glasgow Financial Institutional Alliance to NetZero
GSG Global Steering Group for Impact Investment
GSS+ Green, social, sustainable, sustainability-linked
GTFS Panamanian Sustainable Finance Working Group
ICT Information and communication technologies
IDB Inter-American Development Bank
IFRS International Financial Reporting Standards
ISSB International Sustainability Standards Board
KPI Key performance indicators
LAC Latin America and the Caribbean
NDC Nationally determined contributions
NGFS Network for Greening the Financial System
Norfund Norwegian Investment Fund for Developing Countries
NZBA NetZero Banking Alliance
OECD Organisation for Economic Co-operation and Development
PCS Pacific Corporate Sustainability
PiiC Central American Impact Investment Platform
PRI Principles for Responsible Investment
SBG Sustainability Bond Guidelines
SBP Social Bond Principles
SBTi Science Based Targets initiative
SDGs Sustainable Development Goals
SFWG Sustainable Finance Working Group of Panama
SLB Sustainability-linked bonds
SLBP Sustainability-Linked Bond Principles
SLD Sustainability-linked debt
SMEs Small and Medium Enterprises
SMV Superintendencia del Mercado de Valores de Panamá
SPO Second-party opinion
SSE Sustainable Stock Exchanges Initiative
STP Sustainable Performance Targets
TCFD Task Force on Climate-related Financial Disclosures
TNC The Nature Conservancy
TNFD Taskforce on Nature-related Financial Disclosures
UNGC United Nations Global Compact Network

Introduction

Based in Panama, the Latin American Stock Exchange (Latinex) is a leading trading centre for issuers and investors with the objective of promoting the capital markets for the financing of companies in a transparent and efficient manner. Founded as the Panama Stock Exchange in 1989, it currently has more than 260 listed companies, with 8% being international, spanning a diversity of sectors and industries.

One of Latinex's main initiatives is to promote the development of financial instruments that generate positive social, environmental and/or governance impact (ESG), while simultaneously generating more attractive instruments for investors to facilitate the financing of companies and projects, which contribute to the sustainable development of the economy.

To this end, in 2019, Latinex developed the first version of its *Guidelines for the issuance of social, green and sustainable securities* (Guidelines), which were based on international best practices and developed in consultation with industry stakeholders in the region. This was followed in March 2024 by Panama's Sustainable Finance Taxonomy, which aligned to best practice in thematic financing and investment, and sustainability communication standards.

In recent years, the sustainable market has made significant progress, and the thematic bond market in particular has deepened and specialised. This growing market requires Latinex to continuously update and align with best practices in the issuance and trading of thematic financial instruments. More recent innovations and trends in sustainable finance coupled with a regionalised approach taken by Latinex to expand its capacities and leverage its position as an international platform for the securities market, require the *Guidelines for the issuance of thematic labelled financial instruments* to be updated.

Version 2.0 of the Guidelines incorporates the most relevant market updates and recommendations for assessing eligible assets, such as Panama's Sustainable Finance Taxonomy. Additionally, it also offers guidance on best practice and parameters for the issuance not only of green, social, and sustainable financial instruments, but also other financial instruments and labels, such as sustainability-linked, blue, and gender financial instruments. The term GSS+ (green, social, sustainable, sustainability-linked, among others) will be used to encompass the broad range of financial instruments covered.

This new version was also supported by IDB Invest, a member of the Inter-American Development Bank Group (IDBG), with the Climate Bonds Initiative (Climate Bonds), which also supported the development of the first version of the Guidelines, by providing knowledge on best practice in international and regional sustainable markets.

Latinex's role and mission in developing a sustainable finance market

Stock exchanges play a crucial role in the development of the environmental, social and governance (ESG) approach to sustainable finance market in emerging countries by providing a regulated and transparent environment for financial instruments. By promoting the inclusion of ESG criteria in their practices and listing requirements, exchanges encourage the adoption of higher sustainability standards by listed companies, which in turn attracts responsible investment and promotes more equitable and sustainable economic development.

In Panama, Latinex acts as the facilitator of information disclosure on sustainable business practices by encouraging sustainability reporting by listed companies. Stock exchanges promote transparency and accountability, which helps investors assess corporate sustainability performance and make informed and responsible investment decisions in the context of each country.

Since 2018, Latinex has made sustainable finance as an important pillar in its strategic plan to promote the United Nations Sustainable Development Goals (SDGs) and establish itself as the regional capital markets hub. In September 2018, Latinex joined the Sustainable Stock Exchanges Initiative (SSE) by signing a letter of commitment to promote sustainable and transparent capital markets. In May 2019, it became the first Latin American stock exchange to join the Climate Bonds Initiative Partners Programme, further strengthening its commitment to promote sustainable finance among local and regional stakeholders. Latinex has not limited its work to developing a sustainable finance market in Panama but has also supported the LAC region with issuances from other countries.

Scope, objectives, and implementation of the Guidelines

These Guidelines aim to provide comprehensive criteria that financial instruments must satisfy to earn the green, social, sustainable, sustainability-linked or other market thematic labels. It also provides internationally recognised best practices and benchmarks for sustainable finance that will channel international funding.

These Guidelines are aimed at issuers, which can be companies, entities or financing vehicles that offer securities. Organisations wishing to issue GSS+ labelled financial instruments in Latinex must consider the parameters established in these Guidelines, with the objective of providing certainty and transparency about the financial instrument's credentials. This document aims to promote the development of labelled financial instruments in the Panamanian capital market.

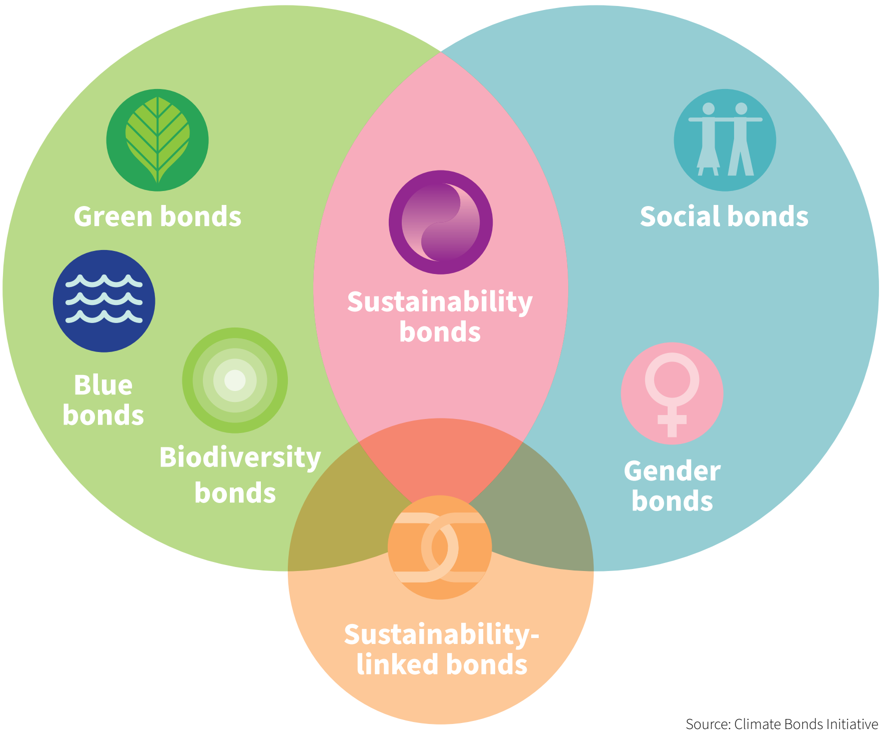
Specific objectives of the Guidelines

- **Guidance for the market:** Outlining standards that promote sustainable finance will create the environment for the efficient development of the market in Panama and provide a tool for all issuances under Latinex, regardless of the characteristics of the issuer.
- **Sustainable investment:** Promoting the issuance of financial instruments for financing projects and assets with strong environmental and/or social credentials that can contribute to meeting Panama's climate objectives of climate change mitigation and adaptation, biodiversity and ecosystem protection and restauration, land use, sustainable use and protection of the water resources and marine ecosystems, transition to a circular economy, and pollution prevention and control.
- **Market integrity:** Providing clarity for investors seeking the thematic segment and wanting to avoid greenwashing.[1] These Guidelines help build transparency, consistency, uniformity, accountability, and trust in the market.
- **Targeted policies:** Clarify the material alignment of thematic issuances with targeted policies as part of the process to obtain thematic labels.

1. GSS+ labels

Labelled financial instruments are intended to financially support projects and assets that promote both climate change adaptation and mitigation, or actions that contribute to achieving their sustainable performance targets (SPTs), along with other environmental objectives. A key aspect is that expenditure should be allocated exclusively to finance those projects and assets aligned to globally recognised principles and their corresponding country-specific guidelines. By adhering to rigorous standards and promoting accountability, labelled financial instruments play a crucial role in advancing the transition to a sustainable and climate-resilient economy, aligning with broader global objectives.

These Guidelines explore four categories of the GSS+ label: green, social, sustainability and sustainability-linked bonds (SLBs) and other sub-categories such as blue and gender labels which fall under these. The characteristics and some of their criteria are explained below. Latinex recommends utilising one of the definitions below for labelling thematic financial instruments.



Source: Climate Bonds Initiative

Green	Social	Sustainability	SLBs
Dedicated environmental benefits	**Dedicated social benefits**	**Green and social benefits combined into one financial instrument**	**Coupon step-up/ step-downs linked to entity level SPTs**
Blue	Affordable housing	ESG	Sustainability-linked
Climate	Education	Green innovation	ESG-linked
Green	Afro-descendant	Positive impact	SDG-linked
Green (carbon neutrality)	Health/Healthcare	Sustainability	Social impact-linked
Renewable Energy	SDG housing	Sustainability awareness	Social & sustainability-linked
Solar	Town revitalisation	SDG sustainability	KPI-linked
Environmental	Youth	Socially responsible investment	
Biodiversity	Employment	LGBTQ+	
PACE (Property Assessed Clean Energy)	Silver	Impact	
Sustainability	Diversity	Gender equality sustainability	
SDG green	Migrants		
Climate resilience	Indigenous Peoples		
Impact			
Transition			

1.1 Green labelled financial instruments

The use of proceeds determines the main rationale for green labelled financial instruments, which finance green projects that meet established criteria that must be duly specified. All eligible green projects must offer clear environmental benefits, which will be assessed by the issuer and, where feasible, quantified. Some eligible categories of green projects according to the International Capital Markets Association (ICMA) Green Bond Principles (GBP) are:[2]

- **Renewable energy** (including production, transmission, application, and products).
- **Energy efficiency** (e.g., in new and refurbished buildings, energy storage, district heating, smart grids, appliances, and products).
- **Pollution prevention and control** (including reduction of atmospheric emissions, greenhouse gas (GHG) control, soil remediation, waste prevention, reduction, and recycling, energy and emission efficient waste to energy conversion).
- **Environmentally sustainable management of living natural resources and land use** (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate-smart agricultural inputs, biological crop protection or drip irrigation; environmentally sustainable fisheries and aquaculture; environmentally sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes).

- **Conservation of terrestrial and aquatic biodiversity** (including protection of coastal, marine, and watershed environments).
- **Clean transport** (such as electric, hybrid, public, rail, non-motorised, multi-modal transport, infrastructure for clean energy vehicles and reduction of harmful emissions).
- **Sustainable water and wastewater management** (includes sustainable clean and/or drinking water infrastructure, wastewater treatment, sustainable urban drainage systems and river formation and other forms of flood mitigation).
- **Adaptation to climate change** (including efforts to make infrastructure more resilient to the effects of climate change, as well as information support systems such as climate observation and early warning systems).
- **Products, technologies, and production processes adapted to the circular economy** (such as the design and introduction of reusable, recyclable and renewable materials, components, and products; circular tools and services); and/or certified eco-efficient products.
- **Green buildings** that meet regionally, nationally, or internationally recognised environmental performance standards or certifications.

Additionally, ICMA has published guidance to support Green Enabling Projects, which refers to a project that may not be explicitly green in itself but enables the development or implementation of other green projects. This document includes guidance around induced or avoided emissions as well as management of environmental and social risks. These projects must meet certain criteria and comply with transparent requirements to demonstrate the project's environmental benefits.

Other classification systems for green projects suitable for the Panama context

Panama's Sustainable Finance Taxonomy, in addition to other international taxonomies, provides issuers, investors, governments, and municipalities with a tool that allows them to identify whether assets and projects are climate-aligned and eligible for green or climate finance.[3,4] It covers seven environmental objectives across 11 economic sectors and 65 activities, ensuring substantial contributions to at least one objective while avoiding harm to others. This tool aims to guide Panama's financial sector towards sustainable investments, fostering domestic sustainable financial markets and attracting international investors. For more detailed information please see **Annex A**.

Climate Bonds Taxonomy is a tool for issuers, investors, governments and municipalities to help them understand the key investments required to deliver a low-carbon economy. Grounded in the latest climate science, it has been developed through an extensive multi-stakeholder approach, leveraging the work of technical and industry working groups. Additionally, it provides an important resource for common green definitions across global markets, in a way that supports the growth of the GSS+ labelled financial instrument market. To this end, a traffic light system has been adopted to identify whether assets and projects are automatically compatible with a 1.5°C decarbonisation trajectory (green), or they need to comply with specific criteria to be considered.

The sectors considered are under the Climate Bonds Taxonomy are: energy, transport, water, construction, land use and marine resources, industry, waste, and information and communication technologies (ICT). However, it is important to note that the Climate Bonds Taxonomy and its Sector Criteria are constantly updated. For the latest version please refer to the website: https://www.climatebonds.net/standard/taxonomy.

The development of Panama's Sustainable Finance Taxonomy

Launched in March 2024, this taxonomy makes Panama the first in Central America and third in LAC to launch a national taxonomy. It involved over 350 representatives from 90 entities and aligns with international frameworks, enhancing Panama's appeal to global investors. It was led by the G20 Sustainable Finance Working Group and various financial ministries, with support from the United Nations Environment Programme Finance Initiative (UNEP-FI), the Green Climate Fund, and the European Union's (EU) EUROCLIMA programme. However, as of the launch date of these Guidelines, the sectorial guidelines for the taxonomy are yet to be established, and work is ongoing.

Sublabels considered green

Transition labelled financial instruments

A transition labelled financial instrument is intended for activities that are not low or zero emission, but play a role, either in the short- or long-term pathway, by decarbonising an activity or supporting an issuer in its process of alignment with the Paris Agreement. The transition label allows for the inclusion of a broader range of sectors and activities and incorporates labels such as blue and green transition. Currently, transition labelled financial instruments come mainly from highly polluting and hard-to-abate industries, such as mining, production of materials such as steel, cement, basic chemicals, and hydrogen, as well as industrial sectors such as aviation and shipping.[5] Climate Bonds evaluates financial instruments labelled as transition for potential inclusion in its green or sustainability databases based on eligible project categories.[6]

Promoting investments and financing for climate transition involves actions to decarbonise productive sectors and strengthen resilience to climate change, all with a focus on equality and inclusion of vulnerable communities. In this process, it is crucial to consider tools such as ICMA's Climate Transition Financing Handbook, and Climate Bonds's framework to identify credible transitions. These resources provide important guidelines to ensure that the transition to a more sustainable economy is fair, effective, and ambitious for all sectors of society.

Blue labelled financial instruments

Blue labelled financial instruments are identified within the classification of green financial instruments. These, like their green counterparts, follow a use of proceeds format that directs resources towards financing activities that promote the development of a sustainable marine economy, the protection of the environment, and the conservation of marine resources.

ICMA has developed an indicative list of blue project categories and sub-categories to facilitate issuers in identifying the appropriate use of proceeds. The following provides guidance on the types of blue labelled financial instruments projects that comply with the identified best practices:[7]

- Coastal climate adaptation and resilience
- Management, conservation, and restoration of marine ecosystems
- Sustainable coastal and marine tourism
- Sustainable marine value chains
- Renewable marine energy
- Marine pollution
- Sustainable ports
- Sustainable maritime transport

Support for blue finance and best practices

The report by IDB Invest and the United Nations Global Compact (UNGC) on the issuance of blue labelled financial instruments in Latin America and the Caribbean (LAC) highlights that they have emerged as an innovative financial instrument that drives the mobilisation of capital to address social and environmental challenges related to oceans and water.

Recent studies have shown a rise in sustainable ocean investments, with 72% of investors viewing this sector as a valuable opportunity.[8] For example:

- Every USD invested in increasing global offshore wind energy production generates an estimated benefit of 2-17 USD. The value of the return-on-investment increases as the costs of offshore wind power generation decrease.
- Every USD invested in decarbonising international shipping and reducing emissions to zero, will generate a return of 2-3 USD.
- Every USD invested in increasing the production of sustainably sourced marine proteins will yield 10 USD in benefits.[9]

Issuance opportunities

IDB Invest considers two essential categories of blue labelled financial instruments issuance:

- Projects with operations in or near oceans, seas and water bodies including activities such as ports, tourism, fisheries, shipping, agriculture, marine energy, and water management.
- Projects that directly affect oceans, seas and water bodies include sectors such as the production of consumer-packaged goods, agriculture, textiles, water supply and sanitation, and infrastructure.

Furthermore, funding opportunities in the blue economy include projects aimed at mitigating the adverse effects of climate change, at climate resilience, the conservation and sustainable management of hydric resources, the conservation of marine coast, marine biodiversity and wetlands, all of which promote sustainable development.

The active support of the IDBG has been fundamental to the development and growth of the market for blue labelled financial instruments, particularly in the LAC region **(see Annex C).**

1.2 Social labelled financial instruments

Social labelled financial instruments are fixed income instruments in which proceeds are specifically earmarked to finance or refinance projects that have a social focus defined as use of proceeds. According to ICMA, the following are some examples of eligible projects:[10]

- **Affordable basic infrastructure** (clean drinking water, sewers, sanitation, transport, energy).
- **Access to essential services** (health, education and vocational training, healthcare, finance, and financial services).
- **Affordable housing.**
- **Employment generation** (designed to prevent or alleviate unemployment).
- **Food security and sustainable food systems** (physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements; resilient agricultural practices; reduction of food loss and waste; and improved productivity of small-scale producers).
- **Socio-economic advancement and empowerment** (equitable access to and control over goods, services, resources, and opportunities; equitable participation and integration in the market and society, including reduction of income inequality).
- **Projects or businesses led by one of the targeted populations shared below**: Vulnerable and marginalised groups at the centre of the positive social indicators.

ICMA's eligible projects and targeted populations provide a good basis for approaching projects associated with the social financial instruments label. However, a more in-depth review of positive impacts is provided by different methodologies and perspectives as shown below.

Affordable housing as a social impact indicator

Improving accessible housing is indeed a crucial aspect of social development and is often considered within the social labelled financial instruments and social indicators. The following outline how accessibility and availability can be understood from a differential approach for vulnerable populations in project structuring:

Availability. Ensuring there is an adequate supply of accessible housing is essential. This involves government initiatives to incentivise the construction of accessible housing units or retrofitting existing ones to meet accessibility standards. For indigenous and vulnerable populations in Central America (including Panama), this could involve targeted housing programs that consider the specific cultural and geographical needs of these communities.

Accessibility. This goes beyond just physical accessibility for people with disabilities and includes factors such as affordability, proximity to essential services, and cultural appropriateness. Initiatives to improve accessibility may involve providing subsidies or financial assistance to make housing more affordable for low-income families, ensuring that housing is located near healthcare facilities and schools, and designing housing solutions that are culturally appropriate for indigenous communities.

Residential Housing Improvements. Retrofitting existing housing stock to improve accessibility is crucial, especially for vulnerable populations who may be living in inadequate or unsafe housing conditions. This can include installing ramps, widening doorways, and making other modifications to accommodate people with disabilities. Retrofitting efforts should also be considered gender-specific needs, such as ensuring that housing is safe and secure for women and children.

Gender Lens. Viewing housing through a gender lens involves considering the specific ways in which housing affects men and women differently. For example, women who are in charge of maintaining a household may have different mobility needs or may be disproportionately affected by inadequate housing conditions. Incorporating a gender lens to housing can incorporate positive social indicators such as wellbeing for women and children, protection, financial and property inclusion.[11]

Vulnerable and marginalised populations at the centre of positive social indicators

In addition, ICMA identifies the specific populations that could be targeted by these projects for which positive socio-economic outcomes are expected, including those living below the poverty line:

- Excluded and/or marginalised people or communities.
- People with disabilities.
- Migrants and/or displaced persons.
- People with low levels of education.
- People lacking access to quality basic goods and services.
- Unemployed persons and/or persons affected by the climate transition.
- Women or sex and gender minorities.
- Elderly and young people in vulnerable situations.
- Other vulnerable groups affected by natural disasters, climate change or transition.

Gender labelled financial instruments

Women in LAC face significant challenges in social and economic terms, with violence against them being a significant problem. In addition, women receive insufficient wages in all labour sectors and are more susceptible to informal employment conditions. In the business context, women also face obstacles in obtaining finance, which limits their ability to make investments that could contribute to productivity and economic growth.

Furthermore, the lack of adequate representation of women in managerial roles persists, hindering their ability to advocate for equal and effective participation, and equal opportunities. These disparities could be addressed by allocating funding towards three gender-related focus areas: 1) support for women-led or women-backed enterprises, 2) implementation of gender-inclusive policies and legislation, and 3) development of initiatives that promote women's empowerment. It is crucial to integrate a gender perspective into various forms of investment, such as index funds, exchange-traded funds, and venture capital.[12]

The gender category can be applied to operations that address gender inequality to mobilise private capital for the advancement and empowerment of women.[13] According to the Climate Bonds, LAC stands out as the leading region issuing gender-responsive financial instruments, accounting for more than 50% of all issued globally in this category. The IDBG is leading the way in promoting financial innovation to foster gender equality and equity, diversity, and inclusion (EDI) through targeted financial instruments in these areas.[14]

Orange labelled financial instruments principles

Orange labelled financial instruments were launched in 2022 as an asset class label specifically designed to tackle gender inequality through investments. Unlike traditional social financial instruments, orange financial instruments focus on projects and enterprises that demonstrably promote gender equality.[15] This can involve financing businesses with a high proportion of women in leadership positions or those offering products and services that directly benefit women. Orange labelled financial instruments can also be used to fund initiatives that champion equal opportunities and treatment for women in the workplace and wider society.

These instruments go beyond simply raising capital for gender equality but also emphasise diversity and inclusion within the investment process itself. The Orange Bond **Principle 1** states that issuers should have a team with at least 30% representation from women and gender minorities, ensuring a more balanced perspective when making investment decisions. Additionally, transparency is a cornerstone of **Principle 2**. Orange Bond **Principle 3** requires reporting on how the proceeds are used and the impact they have on women and girls.[16] This includes outlining the intended impact at the outset, the selection process for projects or initiatives, and how the use of proceeds is monitored throughout the financial instruments' lifespan. Orange labelled financial instruments hold promise for the Panamanian market for social impact investing, whereby adhering to the Principles, Panamanian issuers can ensure these financial instruments are not only impactful but also transparent and inclusive.

Orange labelled financial instruments can be viewed as a more specific and formalised investment vehicle within the broader landscape of gender-lens investing (GLI) championed by the 2X Challenge standard. The 2X Criteria offer a flexible framework for a wide range of investors to assess their alignment with gender-empowering practices with an ambitious target to raise investments in projects that promote gender equality.[17]

The 2X Challenge standard initiative was launched in 2018, is backed by the U.S. International Development Finance Corporation (DFC), and has become a global standard for gender finance, embraced by hundreds of companies and investors worldwide.[18]

Sustainable taxonomies as reference for the gender label

Sustainable taxonomies can also be utilised as a social framework for the review of social components. An example of this is the Mexican Sustainable Taxonomy as it addresses the social dimension through the gender equality lens. In order to promote gender equality in the social sphere, Mexico has implemented a non-binary index. This index is based on a questionnaire composed of 43 questions and uses a numerical scale to measure the impact of an organisation in three key areas: decent work, well-being, and social inclusion. Its application is not limited to companies in the 20 economic sectors but covers those that are not included in the established Taxonomy.

1.3 Sustainability labelled financial instruments

Sustainability labelled financial instruments are instruments in which the proceeds are used to finance or refinance a combination of both green and social projects.

According to ICMA, social projects may have additional environmental benefits, while some green projects may have positive social impacts. The designation of a financial instrument as green, social, or sustainable should be decided by the issuer considering the primary objectives of the associated projects.[19]

ICMA's Sustainability Bond Guidelines (SBG) adopt the categories of eligible projects from the GBP and the SBP for eligible sustainability projects which should comply with both, or could be linked to the SDGs.

Sustainability has been the most widely used label in LAC, with 54% of labelled emissions in 2023, which is the only region worldwide that has consistently increased the volume of this label in the last four years. The sustainability label supports a wider variety of use of proceeds that it can finance. Its use demonstrates the region's commitment and need to finance sustainable projects with just transition, thus addressing the region's unique socio-environmental challenges.[20]

1.4 Sustainability-linked financial instruments

Sustainability-linked financial instruments are fixed income instruments which have financial and/or structural characteristics that can be adapted depending on whether the issuer achieves certain predefined corporate sustainability or ESG targets. In this context, issuers explicitly commit themselves (including in the financial instruments' documentation) to improve sustainability performance within a set timeframe. Sustainability-linked financial instruments represent a forward-looking, performance-based approach.

Sustainability-linked financial instruments are used to raise general purpose funds and may involve coupon adjustments, either increases or decreases, depending on the achievement of pre-defined and time-bound sustainability performance targets (SPTs). Climate Bonds has created a screening framework for sustainability-linked debt (SLD) structures, based on the five hallmarks of credible transitioning companies, which assesses the ambition of SPTs through their alignment and credibility with a sector-specific trajectory towards the 1.5°C limit. In addition, ICMA's Sustainability-Linked Bond Principles (SLBP) promote compliance with key performance indicators (KPIs) and SPTs.[21]

Sustainability-linked loan (SLLs) constitute any type of loan instrument and contingent facilities, such as bonding lines, guarantee lines, or letters of credit, where economic terms can vary based on whether the borrower achieves ambitious, significant, and measurable sustainability goals. The categorisation of an SLL is not determined by its use of proceeds, and typically SLLs are utilised for general corporate purposes. SLLs aim to assist borrowers in enhancing their sustainability performance. The borrower's sustainability performance is assessed by applying predefined SPT(s) to each KPI. ICMA and the Loan Market Association (LMA) have issued guidelines for these, known as the Sustainability-Linked Loan Principles.

2. GSS+ labelled financial instrument components

The issuance process has general components for thematic financial instruments, however, there are some key distinctions in the process for use of proceed financial instruments compared to general purpose sustainability-linked financial instruments as outlined below.

Use of proceeds financial instruments

1. Use of proceeds/ destination of funds

GSS+ labelled financial instruments can be issued by a variety of entities, such as governments, municipalities, financial institutions, and companies, and the label can be applied to various types of financial instruments. However, in the case of use of proceeds financial instruments, the proceeds of the issuance shall be used to finance or refinance projects or activities with green, social or sustainable purposes (and their related expenses, such as research and development). All eligible projects and assets must provide clear environmental and/or social benefits and be appropriately detailed in the framework and the report generated by the independent external reviewer, both of which must clearly define the use of proceeds.

The issuer shall provide information on:

- The categories of eligible green, social and sustainable projects to which funds will be allocated.
- The refinancing of specific projects to which resources have been allocated.

  When determining eligible projects or assets for green labelled financial instruments, categories identified in the Green Bond Principles, the Climate Bonds Taxonomy, Panama's Sustainable Finance Taxonomy or any other relevant taxonomy are recommended. Should a local, regional, national, or international taxonomy exist that determines the environmental and/or social character of an asset, it may be considered as long as it is endorsed by an external reviewer.

  When determining eligible projects or assets for social labelled financial instruments, categories identified under the Social Bond Principles (SBP) or the social components of a relevant sustainable taxonomy are recommended. Consequently, for sustainability labelled financial instruments, eligible projects are included in the above categories, as they combine environmental and social purposes.

2. Evaluation and selection of eligible projects

The issuer of use of proceeds financial instruments shall define the project(s) to be financed, describing in the framework the estimated impacts based on their measurability, as set out in the issuer's associated thematic financial instrument framework. Issuers must establish, document, and maintain a decision-making process for determining project eligibility including:

- A statement on the environmental and/or social objectives of the chosen financial instrument.
- Processes for determining project eligibility.
- Eligibility criteria, exclusion criteria, or any other process used to identify and manage environmental and/or social risks associated with projects.

3. Management of proceeds

To ensure that the proceeds are used in accordance with the principles agreed at the time of issuance, these assets should be allocated to specific accounts, or utilise other reliable mechanisms to ensure traceability and transparency in the financial instrument's use of proceeds.

For this, the issuer must have a formal process to monitor the funds raised until they are fully allocated, distinguishing between invested and unallocated resources. Resources that have not yet been allocated to a project may be temporarily invested in other financial instruments and such information must be communicated to investors. The net proceeds must, at all times, be identified by the issuer in an appropriate and documented manner.

Some recommendations for use of proceeds monitoring, and management mechanisms include:

- Net proceeds may be credited to a sub-account or tracked in another appropriate way. By way of example, funds raised may be credited to a project-specific bank account of the social, green and/or sustainable financial instrument chosen to channel them.
- The funds must be allocated within 24 months after issuance, otherwise, the issuer itself may submit a schedule or estimated timeline for the final allocation.
- A specific allocation process may be used to administer and account for the funding of eligible projects.
- Management of unallocated funds allows for the income not earmarked for a specific project to be temporarily invested or used to reduce debt, but not in projects that contradict the sustainability objectives, the low-carbon economy or climate-resilient policies.

Exclusions: issuers looking to issue thematic financial instruments must adhere to stringent guidelines and regulations to ensure their integrity and credibility. In this regard, a GSS+ labelled financial instrument may not receive or may lose its label if:

- it does not comply with eligibility criteria from established frameworks utilised,
- it does not adhere to reporting obligations to maintain transparency and accountability, and
- it does not align with market regulations specifically tailored for thematic financial instruments .

These measures serve to safeguard against the inclusion of projects or activities that contradict the overarching goals of environmental conservation, social progress, and ethical governance; fostering confidence among investors and reinforcing responsible investment commitments.

General purpose sustainability-linked financial instruments

1. Selection of key performance indicators (KPIs)

The basis for sustainability-linked financial instruments is the selection of credible KPIs from which the issuer's sustainability performance is measured. These should be material to the issuer's core sustainability and business strategy relevant to addressing the environmental, social and/or governance challenges.

The KPIs should be:

- relevant, core and material to the issuer and of high strategic significance,
- consistent with the sustainability strategy and policies,
- measurable and quantifiable on a consistent methodology,
- externally verifiable, and
- able to be benchmarked using external references or definitions.

Issuers should communicate clearly the rational and process of KPI(s) selection, the definition and applicable scope as well as the calculation methodology, baseline, and science-based industry standards. ICMA's KPI Registry can be used for KPI(s) selection guidance.

2. Calibration of sustainability performance targets (SPTs)

After defining the KPIs, the process of calibrating the SPTs (one or more per each KPI) will be the expression of the issuer's level of ambition.

The SPTs, which must be set in good faith and disclose strategic information should be ambitious, and:

- represent a material improvement in the respective KPIs and depict beyond a 'business as usual' trajectory,
- be compared to a benchmark or external reference, when possible,
- be consistent with the issuer's sustainability and business strategy, and
- be determined on a predefined timeline (before or at issue of the financial instrument).

When setting the SPTs, the issuer should provide as much historical evidence of the KPI values as possible, using at least the previous three years. The issuer should compare the SPTs against the performance of peers (best-in-class or average) and refer to science-based scenarios, absolute levels, official targets or recognise best technologies to set relevant targets across environmental and social themes.

Disclosure on target setting should include the following:

- Timelines for target achievement, stating target observation date(s)/period(s), trigger event(s), and frequency of SPTs.
- Verified baseline/reference points for KPI improvement with rationale and detailed situations for recalculations.
- Plan to achieve the SPTs considering competition and confidentiality with the ESG strategy, key actions and quantitative details if possible.
- Highlight of key factors beyond the issuers control that may impact the achievement of SPTs.

3. Sustainability-linked financial instrument characteristics

Pivotal to sustainability-linked financial instruments is their financial and/or structural characteristics can vary depending on whether the selected KPI(s) reach the predefined SPT(s) or not. This variation in characteristics should be meaningful relative to the financial instrument's original financial characteristics.

The KPI(s), the SPT(s), their calculation methodology, and the potential variation of the sustainability-linked financial instrument's financial and/or structural characteristics are required elements of the financial instrument's documentation. The most common financial structures are the step-up and step-down mechanisms, which can be combined in the same financial instrument.

- **Step-ups** reward investors with a higher coupon if the issuer does not meet its targets (higher return on investment). Sustainability-linked financial instruments with step-ups are expected to earn a premium at issuance (i.e., a lower yield).
- **Step-downs** are referred to when there is a drop in the coupon (lower return on investment). This would occur when the KPIs exceed the SPTs designated by the issuer.

Issuers should explain any fall-back mechanism if the SPTs cannot be calculated or observed, address any exceptional events affecting the KPIs and SPTs, and handle sensitive information relating to sustainability-linked financial instruments appropriately.

Framework

Issuers of labelled financial instruments, (either use of proceeds or general-purpose sustainability-linked) should establish a reference framework to clarify how their financial instrument or financial instrument programme aligns with key components of thematic issuance. This framework or legal documentation should be easily accessible to investors. It is advisable for issuers to summarise pertinent details within this framework in the context of their overarching sustainability strategy, which enhances transparency, commitments, and high-level environmental and social objectives. Additionally, it encourages disclosure on the alignment of projects with relevant taxonomies or international standards used, as well as certifications referenced in project selection, where applicable.

External reviews

Globally, different tools have emerged to provide assurance to investors on the environmental and/or social credentials or the KPI/SPT selection of the financial instrument used, among which external reviews stand out. External reviews are recommended to issuers in order to reinforce the credibility of the security label used as a vehicle to finance green and/or social projects, in accordance with their label.22 For sustainability-linked financial instruments, the external reviews should assess the relevance, robustness, and reliability of the selected KPIs; the rationale and level of ambition of the proposed SPTs; and the relevance and reliability of selected benchmarks and baselines with the credibility of the strategy and policies outlined to achieve them.

These consist of verification of such characteristics that is carried out by a reviewer that is independent of the issuer, its directors, senior management, and advisors, which is considered global best practice for providing transparency and certainty to investors.

The most common forms of external reviews are:

- **Second party opinion (SPO).** This is issued by an institution with expertise in environmental and/or social matters, independent of the issuer, and must be independent of the structuring processes of the financial instrument. The review normally consists of an assessment of the financial instrument's framework alignment with ICMA Principles or other criteria such as Panama's Sustainable Finance Taxonomy or another relevant taxonomy. In particular, it may include an assessment of the issuer's overall objectives, strategy, policy, and/or processes related to environmental and/or social sustainability, and an assessment of the environmental characteristics of the type of projects under the use of proceeds.
- **Verification/certification:** An issuer obtains an independent verification through comparison against a set of an externally and internationally recognised GSS+ standard and technical criteria, more specifically, the Climate Bonds Standard and Certification Scheme. The approved verifier checks and accredits the green credentials to be consistent with the technical criteria and subsequently engages with Climate Bonds (the certifier) for a final assessment.

  The verification/certification includes the assessment of internal operative activities e.g., the use and management of proceeds, impact reporting, and alignment with green, sustainable, and sustainability-linked credentials. This type of external review does not engage in the assessment of social criteria.
- **Rating/scoring:** Consists of an assessment of the GSS+ financial instrument and internal processes and controls using a third-party rating methodology. These third parties may be specialised analysis providers or rating agencies, as set out in a rating/scoring methodology. Such ratings shall be distinct from the credit rating.

The independent and external review provider can be one of those approved by the Climate Bonds Initiative, but may also be a local or international reviewer.[23] The independent reviewer should have experience in the analysis of technical characteristics and performance of projects with green and/or social benefits and their credentials. The scope of the review performed should be available to the investing public on the issuer's website and should be disclosed at the time of requesting authorisation for the issuance process.

Pre-issuance external review:

Issuers should appoint an external review provider(s) to confirm the alignment of the financial instrument with its components and information. The external review should disclose the scope of the review, general information, and reporting commitments at the basis of the information. Additionally, it should include a review of the core components for each type of financial instrument.

Use of proceeds	General-purpose sustainability-linked
• Use of proceeds, • Evaluation and selection process, • Management of proceeds.	• Selection of KPIs, • Calibration of SPTs, • Sustainability-linked financial instrument characteristics.
Both types require some type of external review (verification) and reporting component.	

Post-issuance external review:

Reporting should be done at least annually and for any relevant assessment period. Post issuance external reviews should verify the internal tracking and the allocation of funds from the defined thematic proceeds to eligible projects.

For sustainability-linked financial instruments, the external review should include the verification of the performance of each KPI against each SPT, once a year and at any date relevant for assessing the SPT performance leading to a potential adjustment of the SLB financial and/or structural characteristics, until after the last SPT trigger event of the financial instrument has been reached. The verification of the performance against the SPTs should be made publicly available. If annual quantitative data isn't available, issuers should explain the main factors influencing each KPI. The external review provider should also assess any material change to the perimeter or KPI methodology or SPT(s) calibration.

For sustainability-linked financial instruments, the pre-issuance external review is recommended, **however the post issuance external review (verification) is a necessary element.**

Reporting

Post issuance reporting

The issuer of GSS+ labelled financial instruments must annually present a report. It is recommended that the reports be validated by the independent external reviewer. The report should be published on the issuer's website, market page and other Latinex communication channels.

For use of proceeds financial instruments, the annual report should be on the use of the obtained resources, listing the projects and assets to which resources are being allocated as well as a brief description of the projects and the amounts disbursed. Therefore, the issuer must maintain the funds raised in projects and assets aligned to its framework. This must be done for the duration of the financial instrument and until all the proceeds have been allocated. The issuer must allocate resources to the selected projects and assets within 24 months after the issuance of a financial instrument. In the event that within this timeframe, the total resources have not been allocated within this period, the issuer must inform in the subsequent report the estimated timeframe to make such final allocation.

For sustainability-linked financial instruments, the reporting should also be published regularly, at least annually, and for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the SLB's financial and/or structural characteristics. Issuers should do the following:

- Keep up-to-date and accessible information on KPI performance, including baselines to publish the performance information.
- Publish verification assurance reports on performance against SPTs, detailing impacts on the financial instrument's financial/structural characteristics and their timing.
- Enable investors to assess and monitor the ambition of SPT(s) including updates on sustainability strategy or development plans.

Impact reporting

Transparency is of particular value in communicating the expected and/or achieved impact of the thematic financial instrument's projects. The ICMA Principles and the Climate Bonds Standard call for issuers to include qualitative performance indicators and where possible, quantitative indicators of the expected impact of the financed projects. To create a harmonised framework for the publication of impact reports on green projects, ICMA Green Bond Principles Impact Reporting Working Group developed voluntary guidelines that include recommendations for impact reporting, in particular for projects related to energy efficiency, renewable energy, water and wastewater, and waste management. Its main recommendations include the following:

- Define and disclose the period and process for including projects in the report.
- Indicate the total issued and the amount of proceeds allocated to green projects.
- Issuers should provide a list of projects to which proceeds have been allocated.
- The impact report should illustrate the expected environmental impact as a result of the projects to which the proceeds were allocated.
- Issuers should report the estimated lifetime results and/or the economic life of the project (in years) to understand the impact of the project over its lifetime.
- The working group proposes four core indicators to report results on projects related to energy efficiency and renewable energy, GHG emissions reduced or avoided, annual renewable energy produced, and capacity of renewable energy plants built or rehabilitated.[24]

In the same vein, ICMA's Social Bond Impact Reporting Working Group developed its voluntary guidance with the aim of harmonising reporting practices for social labelled financial instruments.[25] It also created an impact reporting template that includes quantitative and qualitative measures that issuers can adapt to the particular circumstances of the project. Its main recommendations include the following:

- Issuers should identify the population(s) for which positive socio-economic outcomes are expected and are encouraged to provide additional information on why that specific population has been targeted. For example, explain why the selected population is considered underserved or vulnerable.
- Issuers must disclose the expected social impact that will result from the projects to which the proceeds raised from the social labelled financial instruments have been allocated.
- Impact indicators, including both quantitative and qualitative metrics are suggested.

For sustainability labelled financial instruments, both the Harmonised Framework for Impact Reporting and the Harmonised Framework for Impact Reporting for Social Bonds can be employed, as impact must be shown in both categories.

For general recommendations or required elements to be disclosed in sustainability-linked financial instruments and samples of KPIs, the SLB Disclosure Data Checklist (Appendix II SLBP) can be consulted.

GSS+ issuance process summary

1. **Issuer:** engage with stakeholders from the issuing institution.

2. **Projects and assets:** identify eligible assets/projects (portfolio review).

3. **Thematic framework:** the issuer should develop a thematic issuance framework where it communicates the information shown below.

Use of proceeds	General-purpose sustainability-linked
• The issuance's goals and objectives, • Type of external review and provider, • Identify the post-issuance reporting component, timing, and information to be provided.	
• Use of proceeds, • Evaluation and selection process, • Management of proceeds.	• Selection of KPIs, • Calibration of SPTs, • Sustainability-linked financial instrument characteristics.

4. **External review:** to verify compliance with the Principles or Standards relevant for the GSS + issuance, the issuance must have an external review, of which there are several types

5. **Structurer**: coordinates the terms and conditions of the structuring with the financial advisor (type, amount, term, etc.). For sustainability-linked financial instruments, the security's financial and structural characteristics must be determined to be relevant to the KPI and SPT methodology.

6. **Latinex and SMV:** complete Latinex registration requirements and obtain the relevant authorisation from the Superintendencia del Mercado de Valores de Panamá (SMV) if applicable and required.

7. **Public offering:** disclose the prospectus and terms and conditions of the offer.

8. **Placement**: issue the GSS+ labelled financial instrument via Latinex.

9. **Resources**: must be allocated to the projects and assets consistent with the thematic issuance as described in the framework.

10. **Post-issuance external review:** for sustainability-linked financial instruments this should be done to verify the performance of each KPI against each SPT and for use of proceeds financial instruments to verify the internal tracking and the allocation of funds.

11. **Monitoring, reporting, and transparency:** to comply with disclosure and transparency reporting requirements such as annual reviews.

Data collection and transparency support

The IDB has created the **Green Bond Transparency Platform (GBTP)** to simplify and standardise post-issuance reporting practices, addressing challenges in commitment clarity. This free tool collects data directly from green financial instrument issuers and reviewers, ensuring credible and comparable information for decision-making. It standardises financial instrument reporting, including detailed data on use of proceeds and environmental impact, methodologies for impact calculation, and relevant documentation. The GBTP encourages data integrity by urging issuers to adhere to international standards and collaborates with various entities to promote transparency. Recognised as the Initiative of the Year Green Bond award in 2022, it has become the primary platform for post-issuance reporting in the region. Since its launch in April 2021, it has included around 80% of the LAC region's issuance volume, with over 200 deals reported by 100 issuers.

GSS+ issuance process summary

1. Engage stakeholders from the issuing institution
→ **2. Identify eligible projects and assets**
→ **3. Develop a thematic framework**
→ **4. Organise an independent external review**
→ **5. Coordinate the terms** with the financial advisor. For SLBs, determine financial and structural characteristics.
→ **6. Complete Latinex requirements.** Obtain authorisation from the SMV.
→ **7. Disclose the offer's terms and conditions** in a public offering.
→ **8. Issue the GSS+ labelled financial instrument via Latinex.**
→ **9. Allocate resources to projects** consistent with the framework.
→ **10. Post-issuance external review, verifying KPIs** to each SPT or proceeds allocation.
→ **11. Continue monitoring, reporting, and transparency requirements.**

*Steps in blue represent those specific to the issue of the thematic financial instrument. Steps in green are general steps involved in any issuance.

Source: Climate Bonds Initiative and Latinex (developed for this report).

Possible structures for GSS+ labelled financial instruments

Under Panamanian law, the possible structures for GSS+ labelled financial instruments are outlined below.

- **Bonds:** Financial instruments issued by a public or private company, where the company or the state receives funds from the general public to finance their projects and in return the bonds owe interest to the holder.
- **Investment fund:** An investment vehicle whereby an investor or unit-holder contributes or subscribes an amount of money which entitles them to ownership of a percentage of the fund's portfolio (participation). The portfolio consists of a variety of assets and is managed by a management company.
- **Treasury bills:** Fixed-income securities issued by the government, with maturities of up to and including one year.
- **Treasury notes:** Fixed rate securities issued by the government, with maturities ranging from one to ten years.
- **Treasury bonds:** Fixed-income financial instruments issued by the government with maturities ranging from ten years and above.
- **Securities:** Any bond, marketable commercial or other financial instrument, exchange-traded right, recognised in a custodial account, participation share, participation certificate, securitisation certificate, trust certificate, certificate of deposit, mortgage bond, option, and any other security, instrument or right commonly recognised as a security or determined by the *Superintendencia del Mercado de Valores de Panamá (SMV)* to constitute a security. Common shares are not eligible for consideration as labelled.
- **Marketable securities (Valores Comerciables Negociables, or VCNs in Spanish):** these are known in the international financial market as commercial paper. They are short-term fixed income securities with a term of less than 365 days. They are issued to finance working capital requirements.

As GSS+ labelled financial instruments do not differ in structure from other traditional financial instruments, the issuance requirements are set out for the issuance of the aforementioned securities (bonds, investment funds, treasury bills, treasury notes, treasury bonds, securities, VCNs) in Decree Law 1 of 8 July 1999, amended by Law 67 of 1 September 2019.

Benefits of issuing GSS+ labelled financial instruments

The GSS+ labelled financial instruments provide a multitude of advantages for both issuers and investors:

For investors:[26]

- Attainment of financial returns comparable to conventional financial instruments, while also providing environmental and/or social benefits.
- Contribution to national climate adaptation, food security, public health, energy supply, fostering positive social indicators.
- Fulfilment of ESG requirements mandated by sustainable investment guidelines.
- Direct investment in driving the transition towards net-zero emissions in high-carbon sectors, while scaling up social impact initiatives.[27]
- Enhanced transparency and accountability regarding revenue management and utilisation.
- Investors can achieve oversubscription, particularly noticeable in large, liquid deals in hard currencies involving sovereigns or large corporates.

For issuers:

- Increased investor diversification and cultivation of a loyal investor base, seizing new business opportunities amid the growing demand for sustainable development whilst attracting long-term capital.
- An additional source of sustainable funding.
- More effective alignment of the financial instrument's durability with project lifecycles.
- Enhanced reputation by showcasing the issuer's commitment to sustainability and responsible investment practices, bolstering investor confidence, and stakeholder trust in the brand.
- Robust investor demand and oversubscription, often resulting in favourable yield outcomes driven by high demand and limited supply.
- Improved pricing metrics and the potential to generate a 'greenium', as evidenced in 32% of global green issuances according to the Climate Bonds Pricing Report in 2022.[28]
- Variation in issuance fees, particularly with no taxation for issues traded on Latinex.

Annex A: International standards and taxonomies

Standards, such as the Green Bond Principles, the Social Bond Principles, the Sustainable Bond Guidance, and the Climate Bonds Standard (CBS), are sets of guidelines and procedures that regulate the issuance of financial instruments with specific objectives, such as mitigating climate change or promoting social and environmental sustainability. These standards establish criteria for transparency, project selection, fund management and reporting, in order to ensure integrity and trust in the market.

In contrast, taxonomies, are categorisation systems that identify and characterise activities, assets, or investment projects according to their positive impact on the environment and society, based on pre-defined criteria and targets. Taxonomies provide clarity in defining activities that are considered sustainable, and those which facilitate the identification and monitoring of investments that contribute to sustainability objectives. Unlike standards, which focus on issuance processes, taxonomies are classification systems of activities that support the issuance of sustainable financial instruments. These have been developed by a variety of countries to respond to the peculiarities of local markets. In the LAC region, taxonomies have been developed in Panama, Colombia, Mexico, Costa Rica, and the Dominican Republic.

Taxonomies can boost investment and improve the tracking of financing flows towards sustainability. By promoting globally uniform sustainable definitions, they can play a crucial role in building a unified market for thematic financial instruments that supports the development of a low-carbon economy.

Developing clear definitions for sustainable investments is essential to avoid market fragmentation. The focus on preventing *greenwashing* is driving the issuance of climate-aligned financial instruments for which transparent practices and clear processes are required. Given that most of this market is voluntary, it tends to reward those who properly label their financial instruments and establish sound transition agendas.

Panama's Sustainable Finance Taxonomy

Panama initiated the process of developing a National Taxonomy in 2023, funded by the United Nations Environment Programme (UNEP). The creation and implementation of a Taxonomy of Sustainable Finance seeks to categorise investments and economic activities that support the country's climate change objectives. This Taxonomy serves as a tool to direct private capital flows towards investments crucial for the transition to a low-carbon, climate-resilient economy and it will also help Panama meet its goal of maintaining its carbon negative path.[29]

In March 2024, Panama took a significant step with the launch of its Sustainable Finance Taxonomy, becoming the third country in LAC, and the first in Central America. With over 350 representatives from 90 entities involved in its development process, including public, productive, and financial sectors, academia, civil society, and international organisations, Panama's Taxonomy is set to attract private capital towards environmentally sustainable projects, aligning with the country's environmental objectives, such as those outlined in the Paris Agreement.

The Taxonomy development was led by the Sustainable Finance Working Group of Panama (SFWG or GTFS in Spanish), the Banking Superintendency of Panama, the *Superintendencia del Mercado de Valores de Panamá (SMV)* and the Insurance and Reinsurance Superintendency of Panama, in close cooperation with the Ministry of Environment and the Ministry of Economy and Finance. It received technical support from the Financial Initiative of the UNEP-FI and financial backing from the Green Climate Fund (GCF) and the European Union, through its EUROCLIMA programme.

The Panama Sustainable Finance Taxonomy focuses on seven environmental objectives: climate change mitigation and adaptation, biodiversity and ecosystem protection and restauration, land use, sustainable use and protection of the water resources and marine ecosystems, transition to a circular economy, and pollution prevention and control.

There are 11 economic sectors included in the Taxonomy, which are the AFOLU sector (Agriculture, livestock and forestry), water supply and treatment, manufacturing, waste management and emission capture, electricity, gas, steam and air conditioning supply, construction, transportation, information and communications technology, and financial and insurance activities.

Under these sectors, there are 65 economic activities which must contribute substantially at least one of the seven environmental objectives in order to be incorporated while causing no significant harm (DNSH) to any of the other environmental objectives, and complying with the technical criteria and minimum social safeguards. Additionally, the objective of climate change adaptation has been covered in greater detail compared to other taxonomies in the region due its importance to the country. Furthermore, the seven objectives are addressed transversally for the AFOLU sector.

This tool provides Panama's financial sector with sound guidance to steer private investments towards a low-carbon and climate-resilient economy, while helping to prevent the laundering of green assets, supporting the growth of sustainable financial markets domestically, and increasing the country's attractiveness to international investors.[30]

Interoperability with other taxonomies

Panama's Sustainable Finance Taxonomy has been created to be interoperable with the existing taxonomies of other countries and regions. This positions the country as an attractive international destination for investors in sustainable projects with greater confidence derived from comparability on definitions and sustainability criteria, thus reducing the risk of greenwashing.

Taxonomies considered as references include the EU Sustainable Finance Taxonomy, the Common Framework for Sustainable Finance Taxonomies in Latin America and the Caribbean (LAC Common Taxonomy Framework), the draft of the Regional Taxonomy of Green Finance Central America (forthcoming) developed by the Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions (CCSBSO), Colombia's Green Taxonomy (2022), and Mexico's Sustainable Taxonomy (2023).

The **EU Taxonomy** launched by the European Commission in 2020, is an essential classification system that establishes criteria to identify economic activities with the goal of achieving net-zero emissions by 2050, by promoting transparency in the financial markets. It has achieved global recognition and in order for activities to be included, they most comply with four general principles which are incorporated in the Panama Taxonomy.[31]

1. Contribute substantially to at least one environmental objective;
2. DNSH to any of the other five environmental objectives;
3. Comply with minimum social safeguards;
4. Comply with the technical selection criteria set out in the delegated acts of the Taxonomy.

With regard to defining the metrics, the Panama Sustainable Finance Taxonomy considered the options indicated in the **Common Framework for Sustainable Finance Taxonomies** in Latin America and the Caribbean (LAC Common Taxonomy Framework) developed by UNEP-FI in 2023.[32] This voluntary framework was designed to provide sound and comprehensive reference guidance for those stakeholders (including governments, policy makers, and development agencies) in the process of creating, developing and implementing taxonomies considering interoperability in LAC and globally. Its main objective is to promote interoperability by setting uniform guiding principles, common objectives, and comparable sector and activity classification systems and methodologies for defining eligibility. The principles also seek to ensure that taxonomies are underpinned by science and evidence-based definitions; enable a credible transition with a clearly defined end-target; are dynamic and subject to periodic review; and ensure good governance, transparency, and practical applicability.[33] Currently, the framework has only been developed for the mitigation and adaptation components under the environmental objective and is work is ongoing to develop the biodiversity objective.

In 2022, the Colombian Government presented the first country-wide taxonomy. The **Colombian Green Taxonomy** complies with international environmental sustainability standards to promote transparency in environment-related investment. It is aligned to EU environmental objectives but with the addition of the land management objective as well as the AFOLU sector to the other seven economic sectors.

In 2023, the Ministry of Finance and Public Credit presented **Mexico's Sustainable Taxonomy** with three key goals: addressing climate change though mitigation and adaptation components, promoting gender equality, and improving access to basic services in the context of sustainable cities.[34] It became a global innovation as it addresses the social dimension through the gender equality lens.

The **CCSBSO** seeks to encourage the promotion of sustainable financing in a wide range of financial institutions, covering both the banking and non-bank sectors, including capital markets, institutional investment, and the insurance sector. In 2021 an international cooperation agreement with the International Finance Corporation (IFC), the Netherlands Enterprise Development Bank (FMO) and the Norwegian Investment Fund for Developing Countries (Norfund) was signed to facilitate the adoption of international standards and best practices related to social and environmental performance in the region. The agreement aims to develop a Green Finance Taxonomy; establish social, environmental and governance criteria and address climate risk; and establish a technical assistance mechanism to facilitate the adoption of international standards and best practices related to social and environmental performance in the financial sector of the CCSBSO countries through the participating ministries.[35]

This development of eligibility criteria (metrics and thresholds) was carried out referencing taxonomies and frameworks (e.g., Common Framework of Sustainable Finance Taxonomies in LAC, EU, Central America, Colombia, Mexico, and Climate Bonds Initiative), decarbonisation trajectories, and international standards.

The **Dominican Republic** Green Taxonomy presented by the Securities Superintendency was also published in 2024 and was part of the CCSBSO.

In particular, Panama's Sustainable Finance Taxonomy includes environmental objectives aligned with most of the benchmark taxonomies, including substantial contribution to climate change mitigation and adaptation. Additionally, the substantial contribution to all environmental objectives was addressed in a cross-cutting manner from the three economic land-use sectors: agriculture, livestock and forestry. The latter is aligned with the taxonomies of the region, such as Mexico and Colombia, as it responds mainly to a characteristic of the regional context of LAC.

Standards

Internationally there are widely recognised standards for the issuance of financial instruments with green, social, or sustainable purposes that are important to consider when labelling these types of assets. It is important to note that not all these standards need to be considered, but that some of them may be relevant depending on the context and the specific objectives of the issuer. For example, the Climate Bonds Standard integrates the ICMA Principles, which provide a solid basis for issuing labelled bonds. It's crucial to emphasise that the standards operate on a voluntary basis for issuers.

The **ICMA Principles** are a set of principles underlying the issuance and dissemination processes of thematic financial instruments. They are an industry-led initiative, driven by ICMA, which promotes the idea that thematic financial instruments are characterised by the use of proceeds in green and/or social projects, rather than by the characteristics of the issuer. ICMA also developed the Sustainability Bond Guidelines which adopts the same pillars around transparency as the GBP/SBP and adds new categories eligible for funding, referring to assets eligible under the GBP and SBP principles. Additionally, ICMA has developed the Sustainability-linked Bond Principles with five core components for general purpose financial instruments. Their main objective is to encourage transparency and disclosure of information, promoting integrity in the development of the thematic financial instruments market.

The Principles are based on the following pillars that highlight information duties and guide issuers for an appropriate management process. Each of these components are explained in detail in the section above (GSS+ issuance process).

The **Climate Bonds Standard (CBS)**, administered by the Climate Bonds Initiative, refers to criteria and standards created to be used as tools for governments, investors, and companies aiming to mitigate the adverse effects of climate change in an ambitious, transparent, secure, and science-based manner. These standards establish pre- and post-issuance requirements and additionally have a list of project categories (Climate Bonds Taxonomy). The CBS is aligned with the GBP and therefore promotes trust and transparency among investors.[36] Importantly, both ICMA Principles and the CBS are reviewed and updated periodically as necessary to reflect changes according to market and scientific developments and to maintain the integrity and efficiency of the financial markets.

Latinex recommends and adopts the international practices referred to in order to achieve greater harmonisation with the markets globally.

The **International Sustainability Standards Board (ISSB)** is a recently created but crucial body in the field of finance and sustainability. Its main objective is to set and promote global standards for sustainability reporting, ensuring transparency and consistency in how organisations communicate their impact and contribution to sustainability. Created by the International Financial Reporting Standards (IFRS) Foundation in 2022, the ISSB has evolved steadily and published its first disclosure standards, IFRS S1 and IFRS S2 (see **Annex B** for more information), in June 2023. These standards are expected to become the global basis for sustainability-related disclosures applicable to corporate entities preparing general purpose financial statements. With a focus on 'dual materiality', the ISSB has become a respected and trusted entity in assessing the sustainability performance of companies.

Use of proceeds	General-purpose sustainability-linked
1. Use of proceeds 2. Project selection and evaluation process 3. Management of proceeds 4. Reporting	1. Selection of Key Performance Indicators (KPIs) 2. Calibration of Sustainability Performance Targets (SPTs) 3. Bond (or financial instrument) characteristics 4. Reporting 5. Verification
Recommends: • Framework • External Review	

Annex B: Capital markets and sustainability

The ESG agenda

The ESG (environmental, social and governance) agenda has gained prominence in the financial world in recent decades. It refers to a set of criteria used by investors and companies to assess an organisation's performance and impact in areas related to the environment, social responsibility, and corporate governance. The latter, by taking a holistic and systematic view, examines how business impacts on a wide range of societal expectations and on all participants in economic systems.

Across LAC, this approach has grown in significance due to increased of awareness of the role sustainability plays in the region's economic and social development. Similarly, Panama has witnessed a rise in the importance of the sustainable finance agenda within its financial sector, mirroring the wider region's trend. The Panamanian Banking Association (ABP) published the ground-breaking Sustainable Finance Protocol in 2018. This first voluntary framework champions the integration of environmental and social responsibility into Panamanian banking practices. Pioneering sustainable finance within the country, the guidance was launched by the ABP to encourage banks to balance environmental and social well-being alongside economic growth. The framework's objectives are to embed sustainability throughout bank operations, manage environmental and social risks associated with projects, promote financial products that support eco-friendly initiatives, prioritise resource efficiency within the banks themselves, and foster transparency through public disclosure of these efforts.[37]

The **Panamanian Sustainable Finance Working Group (GTFS)** was established in September 2018, with the participation of representatives from all segments of the financial sector in collaboration with the Government of Panama.[38] The GTFS is the first sustainable finance group in the region with such an inclusive composition committed to developing a National Sustainable Finance Roadmap that addresses ESG issues in the context of risk management, resource intermediation, and investment activities of the Panamanian financial system. The initiative is supported by partners such as UNEP-FI, the Central American Bank for Economic Integration (CABEI), the IDB, and the Development Bank of Latin America (CAF).

In line with the Roadmap, Latinex also pioneered the first version of its *Guidelines for the issuance of Social, Green and Sustainable Securities* in 2019. Panama faces specific environmental challenges such as deforestation and water management, alongside social issues like inequality and poverty. Addressing these concerns in a specific and comprehensive way within investment frameworks is essential to ensure that capital is addressing the pressing challenges of the country's sustainable and economic development.

Panamanian companies are demonstrating a growing commitment to sustainability, with nearly 80% of respondents in a recent survey indicating that sustainability is either part of their company's strategy or a top priority.[39] Sustainability is no longer viewed as a passing trend, but rather a core element for long-term business success. Companies are recognising the potential of sustainability to not only protect their reputations but also drive innovation, employee engagement, and ultimately, profitability.

This is evident in that Panama boasts the highest volume of green and sustainability-linked transactions in Central America and the Caribbean. The first labelled financial instrument under the social label in the region was issued in Panama in 2019 in a private offering by Banistmo, Grupo Bancolombia's subsidiary, highlighting the country's pioneering role.[40] While challenges such as limited data disclosure and a smaller pool of ESG expertise exist, Panama's strong foundation positions it for significant growth in sustainable finance, particularly in areas like fixed income and real estate. With continued efforts to address these challenges, Panama can solidify its position as a leader in ESG and sustainable finance practices within the region.

Responsible investment

Responsible investment is transforming the way companies are evaluated and investments are attracted, as financial performance is no longer the only relevant criterion. Increasingly, investors and analysts are paying attention to how companies address ESG issues, integrating these criteria into their investment analysis, portfolio management, and decision-making. This approach, also known as ESG mainstreaming, received a major boost in 2006 with the creation of the Principles for Responsible Investment (PRI), which seek to put sustainability at the heart of the financial sector. The growing offer of products and services that consider socio-environmental and corporate governance aspects also drives this trend. This includes sustainability indices on stock exchanges, investment funds linked to these indices (ETFs), labelled use of proceeds financial instruments, sustainability-linked financial instruments, as well as special listing segments on stock exchanges.

Responsible investment involves considering ESG factors in investment decisions and in the exercise of active ownership, as defined by the PRI. This trend has been particularly strong in Latin America since 2017, with countries like Colombia, Mexico, Chile, and Peru seeing a rise in interest. A key driver of this growth has been the result of major pension funds joining the PRI. Panama is one example of this regional trend, having *Fondo de Ahorro de Panamá* becoming the first PRI signatory in September 2020, being now the only one in the country.

Responsible investment in Latin America has seen a remarkable rise in recent years, fuelled by the COVID-19 pandemic. While the initial focus was on navigating the immediate crisis, the pandemic exposed vulnerabilities in societies and highlighted the importance of environmental and social factors alongside financial returns. Although Latin America is at a pivotal moment for responsible investment, there is growing recognition of the impact of ESG factors on investment returns, together with the region's commitment to sustainable development.

Sustainable investment market

Qualified investors can be an important source of capital to finance sustainable infrastructure development in Panama. Over the last five years there has been an increase in global demand for investment opportunities for climate change adaptation and mitigation, positive social impact generation, and sustainable development, mainly from institutional investors from member countries of the Organisation for Economic Co-operation and Development (OECD). The growing interest in sustainable investments has been mirrored by a significant increase in private capital commitments to the sector, a notable example of which is the establishment of the Central American Impact Investment Platform (PiiC). PiiC is a consortium of diverse private, public, and non-profit organisations that aims to consolidate impact investing as a dynamic and growing sector in Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama. PiiC is also part of the global movement that promotes impact investing through a large network of organisations or groups; all local chapters of the Global Steering Group for Impact Investment (GSG).

The green labelled financial instruments market, for example, has experienced exponential growth internationally, reaching issuances equivalent to USD79.4bn in 2022 and USD110.6bn in 2023, with an increased diversity with respect to issuer base, geographies, and projects[41] The emergence of green labelled financial instruments has been recognised by the United Nations as 'one of the most important developments in financing low-carbon and climate-resilient investment opportunities'.[42] In the same vein, the G20 (Group of 20 industrialised and emerging countries) leaders' communication in September 2016 recognised that to support environmentally sustainable growth around the world 'green finance needs to be scaled up', encouraging cross-border investments to foster the development of local sustainable labelled financial instruments markets.[43]

As demand for sustainable assets continues to rise, the LAC region stands ready for further innovation and expansion in its sustainable finance ecosystem. Efforts to overcome financial barriers, such as currency risk and lack of liquidity, remain critical with a focus on leveraging innovative instruments and fostering issuer disclosure.[44] Multilateral institutions such as the IDB Group, in line with proactive governmental interventions, play a crucial role in amplifying the reach and impact of local GSS+ markets. By leading with transparency, market innovation, and strategic issuances, these stakeholders are instrumental in driving capital flows towards projects that not only deliver financial returns but also generate positive environmental and social outcomes, thereby paving the way for a more sustainable future in Latin America.

Countries in the LAC region have been contributing significantly to the region's evolving market dynamics. Chile leads the way with a significant USD56.1bn issued in GSS+, followed by Mexico (USD39.9bn) and Brazil (USD33.1bn).

Peru and Colombia have also made notable strides, with investments of USD10.7bn and USD5.9bn, respectively, across multiple issuances.

Panama, as a significant player in the region, has seen a total investment of USD531m across 20 deals by six issuers, demonstrating its commitment to sustainability initiatives. Belize, albeit in a single deal, has made a substantial investment of USD364m, aligning with the region's goals of responsible finance.[45]

In line with the global push for transparency around climate change, several Latin American countries are implementing climate-related disclosure requirements within their capital markets. Leading the way are Chile, Brazil, and Colombia, where regulators have already established mandatory reporting frameworks for issuers. The Superintendency of Banks of Panama (SBP) has also announced promoting the use of standards for the disclosure of climate-related risks and opportunities for banks. The SBP has endorsed the use of the ISSB's IFRS S1 and IFRS S2 standards, which will provide a framework for banks to disclose their climate-related risks and opportunities in a consistent and comparable manner. This will help to improve transparency and accountability and make it easier for investors and other stakeholders to make informed decisions.[46]

While the Taskforce on Climate-related Financial Disclosures (TCFD) played a significant role in promoting climate-related disclosures, its work has transitioned to the ISSB. The ISSB, established under the IFRS Foundation, issued its first standards in July 2023: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. These mandatory standards, effective for annual reporting periods beginning on or after January 1, 2024, provide a comprehensive global baseline for sustainability reporting, incorporating the TCFD recommendations. Companies applying these standards will automatically meet the TCFD requirements. Similarly to the TCFD for climate, the TNFD developed a framework to encourage and guide companies on reporting and managing nature-related risks and opportunities. The TNFD release its final recommendations in mid-2024, aiming to become the leading global standard for nature-related disclosures.[47] Companies looking to comprehensively address sustainability should monitor the TNFD's progress and consider incorporating its recommendations into their reporting practices alongside the ISSB standards.

IFRS and ISSB (S1 and S2)

In the context of disclosure and transparency by funded companies, the importance of annual, integrated or impact reports through which companies present their economic-financial and ESG results in a unified way is growing. Standards for such reporting have been created and unified over time and have attracted increasing attention from investors, as they enable the use of business reporting as a management tool, which helps to monitor financial and ESG performance, as well as the dissemination of indicators, in the articulation of sustainability strategy, governance and management.

Latinex, an official supporter of the IFRS Foundation and the International Sustainability Standards Board (ISSB), recognises the significance of these frameworks in promoting consistent and comparable sustainability reporting. The IFRS Foundation, which is responsible for the main international accounting standards, created a new council in 2022 to develop a global basis for sustainability disclosure standards to meet the reporting needs of investors. This consolidation points to rapid progress in defining US-sourced global standards for ESG reporting.

The ISSB aims to develop standards that enable companies to provide high quality and globally comparable information on sustainability-related risks and opportunities, considering their material issues, climate impacts, biodiversity, human rights, etc.

The ISSB has set four key objectives to achieve this goal:

1. Developing standards for a global basis for sustainability disclosures;
2. Meeting investors' information needs;
3. Enabling companies to provide comprehensive sustainability information for global capital markets; and
4. Facilitating interoperability with disclosures that are jurisdiction-specific and/or targeted at broader stakeholder groups.

In June 2023, the ISSB published its first two standards that allow investors to assess companies on the sustainability aspects of their business, the effects of climate impacts on their operations and assets, and the connection to financial statements: IFRS 1 General Standard on Requirements for Financial Disclosures Related to Sustainability (IFRS S1), and IFRS 2 Standard for Climate-related Disclosures (IFRS S2).

	IFRS S1: General Sustainability Disclosures	IFRS S2: Climate-related disclosures
Objectives	**Information on important risks and opportunities related to sustainability.** The disclosures must be useful for the main users of financial information with a general purpose to make decisions related to the provision of resources to the entity.	**Information on climate-related risks and opportunities.** Disclosures should help users understand resource use and evaluate strategies, business models, and operational adaptation capabilities.
Disclosure topics	• **Governance:** Processes, controls, and procedures to monitor and manage risks and opportunities related to sustainability. • **Strategy:** Approach to addressing sustainability-related risks and opportunities that could affect the business model and strategy in the short, medium, and long term. • **Risk management:** Processes to identify, evaluate and manage risks related to sustainability. • **Metrics and objectives:** Information used to evaluate, manage, and monitor the performance of sustainability-related risks and opportunities.	• **Governance:** Processes, controls, and procedures to monitor and manage climate-related risks and opportunities. • **Strategy:** Approach to addressing climate-related risks and opportunities that could affect the business model and strategy in the short, medium, and long term. • **Risk management:** Processes to identify, evaluate and manage climate-related risks. • **Metrics and objectives:** Cross-sector metrics, industry-based metrics, and other metrics used to measure progress toward objectives.

Source: Deloitte, DeloitteESGNow - Global ESG Disclosure Standards Converge: ISSB Finalises IFRS S1 and IFRS S2. June 2023

Investment initiatives towards net-zero economies

The Glasgow Financial Institutional Alliance to NetZero (GFANZ) was launched during COP-26, representing 160 institutions responsible for managing USD70tn in assets. GFANZ aims to lead initiatives in the financial resources market that accelerate the transition to carbon neutrality by 2050, acting as the umbrella organisation for sector coalitions. This initiative marks an important trend towards investing in NetZero economies, aligning the financial sector with global climate goals. In 2023 a GFANZ regional network has been launched to support institutions in LAC.

The Science Based Targets initiative (SBTi) standards were launched in 2015 as a collaboration between the Carbon Disclosure Project (CDP), the UN Global Compact, the World Resources Institute, and WWF. The relevant principles set out in the SBTi standards provide a solid framework to guide investment initiatives towards NetZero economies. By setting science-based targets for reducing carbon emissions, SBTi encourages investment in projects and companies that contribute significantly to climate change mitigation. The Panama Channel is seeking to incorporate the SBTi directives into their operations in 2024/2025. This comes as a trend in the region as many companies are committing to the reduction of their GHG emissions.[48]

The NetZero Banking Alliance (NZBA) is led by the United Nations and proposes that banks take a stronger stance to align their portfolios and achieve greenhouse gas neutrality. By joining the NZBA, more than 40 banks have committed to having a carbon-neutral credit portfolio by 2050. Grupo Promerica, a Latin American finance group present in Costa Rica, El Salvador, Dominican Republic, Ecuador, Honduras, Panama, Guatemala, and Cayman Islands committed to sustainability, partnered with EcoAct to measure carbon footprint, and set emissions reduction targets for its banks, aligning with the Net-Zero Banking Alliance's 1.5°C goal.[49]

The NetZero Financial Service Providers Alliance (NZFSPA) is an alliance of service providers in the finance sector committed to climate action. It consists of four interconnected groups: auditors, exchanges, index providers, and research and data providers. Latinex, as one of the stock exchanges committed to this initiative, plays a crucial role in the exchanges group. Each group translates the alliance's eight-point commitment into a voluntary framework for net-zero targets, tailored to their specific technical elements. Members use these frameworks to set and publish science-based net-zero targets within 12 months, with progress reports expected within a further 12 months. This ensures accountability through public disclosure and reporting, driving the finance sector's role in addressing climate change.[50]

The Network for Greening the Financial System (NGFS) is a central bank and supervisor coalition dedicated to exchanging best practices and fostering the development of environmental and climate risk management within the financial sector. The primary goal is to mobilise mainstream finance in support of a transition towards a sustainable economy.[51] On December 2022, the new Climate Financial Risk Center (CFRCenter) was launched in Latin America and the Caribbean to address climate-related financial risks. This centre will adapt global best practices from the NGFS to the region's specific needs, promoting knowledge sharing and capacity building for local financial institutions.[52]

Sustainable Finance Roundtable in LAC countries

Regional sustainable finance roundtables in the region bring together representatives from the finance industry, policymakers, and other stakeholders to discuss and advance sustainable finance practices. These roundtables focus on issues like climate change, biodiversity loss, and promoting a sustainable future for the region. UNEP-FI hosts its annual Regional Roundtable on Sustainable Finance for Latin America and the Caribbean, which brings together over 400 UNEP-FI member banks and insurers, investors, supporting institutions, policymakers, academia, and civil society to explore the next steps and actions needed to mainstream sustainable finance in the region.[53]

Paraguay has had a Sustainable Finance Roundtable (MFS) since 2012, made up of banks representing over 90% of the Paraguayan banking system. In 2019, the Chile Public-Private Green Finance Roundtable was created, which led to surveys of the banking, investment, and insurance sectors. Bolivia has had a Sustainable Finance Roundtable since 2020, made up of the United Nations Global Compact Network (UNGC), the United Nations Development Programme (UNDP), the Bolivian Association of Private Banks (ASOBAN), Capital+Safi, and BancoSol, supported by UNEP-FI since its inception in terms of guidance, orientation, awareness raising, and training.[54]

Annex C: The sustainable debt state of the market in Panama and LAC

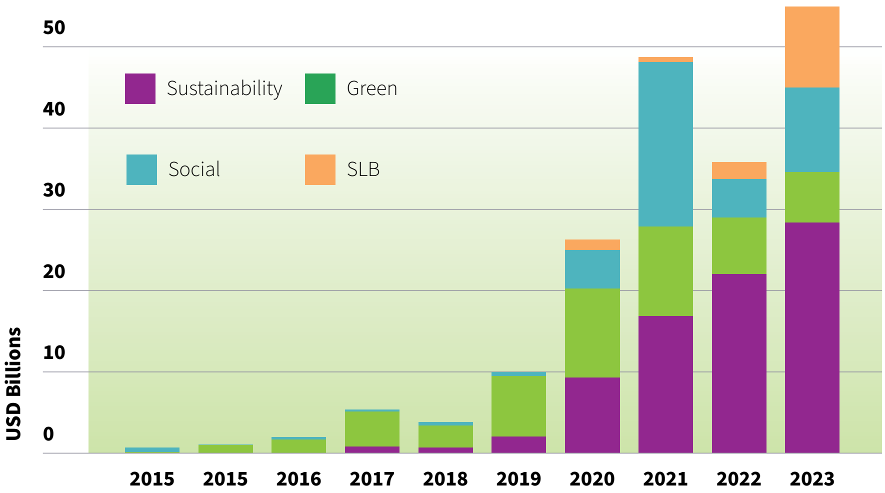
The GSS+ labelled financial instruments market in LAC has grown steadily since 2014, reaching USD185.7bn by December 2023, with LAC accounting for 21% of the region's debt. Despite a slight volume contraction in 2022, the region's vulnerability to climate and social-environmental interdependencies necessitates substantial investment in transition technologies, met by large issuers tapping into global ESG investments. Government leadership, policy developments, and sovereign issues are driving growth, despite persistent financial barriers. Innovative financial instruments and enhanced transparency, supported by multilateral institutions and LAC governments, aim to fuel future financing opportunities through labelled financial instruments.

The GSS+ market in Panama has experienced significant growth since 2019, culminating in an unprecedented peak in 2020, with total value soaring to **USD531m by December 2023**. Notably, from 2022 to 2023, the GSS+ labelled financial instruments market in Panama surged impressively, primarily fuelled by non-financial corporates. Green financial instruments have emerged as the predominant form of debt financing within the country, reflecting a clear shift towards sustainable investment practices.

Unlike neighbouring countries where sovereign issuance paved the way, Panama's GSS+ market is being primarily developed by the private sector. This lack of sovereign participation persists in the Panamanian market, highlighting the proactive role that private institutions are playing in driving sustainable finance within the country. The LAC region has seen significant growth in the issuance of sovereign green, social, sustainability and sustainability-linked financial instruments, reaching a cumulative total of USD49.9bn across 30 deals by the end of 2022. This represents a remarkable increase from just USD9.2bn in June 2020.[55] Sovereign issuance has played a key role in driving this market development, with countries like Chile pioneering and issuing bonds across all GSS and SLB categories, totalling USD34.5bn.

A 2020 survey by Climate Bonds Initiative found that many sovereign issuers viewed their GSS+ financial instrument offerings as a way to encourage private sector participation in sustainable finance.[56] Sovereign issuance in the region has been dominated by themes of sustainability and social. In a pioneering move, Chile became the first country worldwide to issue an SLB in March 2022. Uruguay followed in November with the world's first SLB featuring a step-down mechanism. In 2023 Brazil became the eighth sovereign issuer in the region by issuing the first dollar sustainable bond on the international market.[57]

YoY GSS+ labelled financial instruments issuance in LAC



Source: Climate Bonds Initiative

Examples of thematic bonds in Central America up to the end of 2023

Country	Issuer Type	Theme	USD Amount Issued
Belize	Sovereign	Sustainability	364m
Costa Rica	Financial Corporate	Sustainability	50m
	Non-Financial Corporate	Green	32m
	Government-Backed Entity	Social	75m
El Salvador	Financial Corporate	Sustainability	20m
Guatemala	Financial Corporate	Green	700m
	Sovereign	Social	500m
Panama	Financial Corporate	Green	78m
	Non-Financial Corporate	Green	403m

Source: Climate Bonds Initiative

Since the inaugural issuance in 2019, Panama has made a total of 20 issuances aligned to the Climate Bonds methodology, as mentioned below. During the period spanning 2019 to 2020, the allocation of proceeds from these bonds predominantly targeted initiatives centred on water management, sewage infrastructure, and wastewater treatment projects. However, a noticeable shift in focus has occurred in more recent times, particularly in 2023, with the use of proceeds from green financial instruments issuances pivoting towards fostering renewable energy development, with a specific emphasis on hydropower ventures, wind farms, and solar panels. The *Corporación Interamericana para el Financiamiento de Infraestructura* (CIFI) stands out as the primary issuer within the country, commanding a significant presence in the sustainable financial landscape of Panama and financing most of the sustainable infrastructure and renewable energy projects in the country.

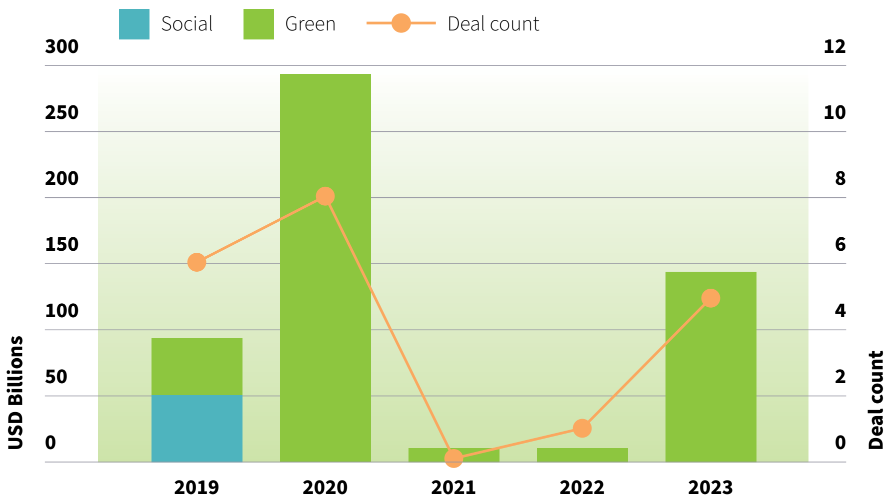
Green

To date, all green financial instruments originating in Panama have come from private corporates, with three non-financial corporates accounting for 84% of the cumulative volume (USD403m). As part of its commitment to supporting renewable energy, Panama announced at COP26 its adherence to the National Distributed Generation Strategy (ENGED) initiative, developed with support from the IDB.[58] This commitment means that the country will need to install nearly 2GW of renewable generation capacity by the end of this decade. To achieve these goals, it is anticipated that wind and solar energy installations will be prioritised, along with maintaining existing hydroelectric capacity.

Demonstrating the role of private capital in promoting renewable energy and achieving Panama's commitments, by the end of 2023, the two highest issuances in the country were made by non-financial corporates for the construction of wind farms: UEP Penonomé II SA (InterEnergy Holdings) with a USD263m deal in 2020, and Parque Eólico Toabré with a USD125m deal in the past year supported by other issuances such as Panasolar Group with a USD15m Certified deal in 2020. Additionally, another notable green bond issuance focused on clean transportation and other environmental activities, illustrating the diversity of sustainable projects supported by Panama's green financial instruments market.

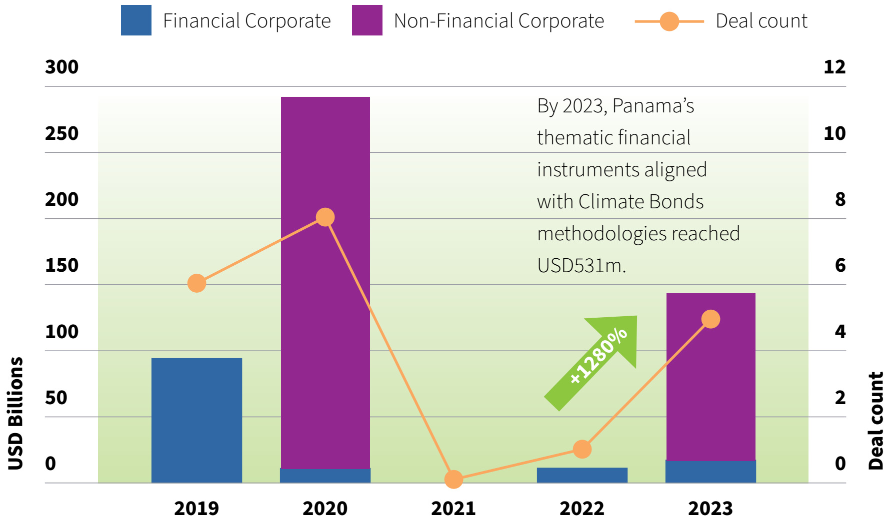
Not only is wind energy production increasing and receiving private financing in Panama, but also energy from other renewable sources, such as solar and hydropower. In 2023, Panama achieved a milestone by becoming one of 20 countries in the world with more than 70% of its energy production from renewable sources.[59]

Thematic financial instruments in Panama by type of label



Source: Climate Bonds Initiative

Thematic financial instruments in Panama by type of issuer (millions of USD)



Source: Climate Bonds Initiative

Panama wind power up – Toabré's renewable energy green bond

The Panamanian non-financial corporate **Parque Eólico Toabré** issued its first bond in 2023, which is the second-highest issuance in the country, worth USD125m, and accounts for more than 80% of the volume issued in Panama that year. All the proceeds of its issuance are allocated to the construction of the Toabré wind farm. The bond has one of the longest maturities in the country's thematic issuance history, at 12 years. The average maturity of green bonds issued in Panama is 4 to 5 years.

Financial corporates also play a pivotal role in Panama's green bond market. **CIFI, *Corporación Interamericana para el Financiamiento de Infraestructura***, has a history of 15 deals worth USD75m, including three deals in 2023. Its issuance framework allows for a diverse allocation of eligible projects, which may include energy co-generation, wind, solar, and hydropower, as well as waste management, sewage, wastewater treatment, and recycling.

Climate Bond Certified deals to inspire local finance corporates - UniLeasing

In 2023, UniLeasing, a subsidiary of Unibank S.A. which provides leasing services, priced a 5-year tenor green bond totalling USD3.2m. The issuance underwent a Climate Bonds Certification process conducted by Pacific Corporate Sustainability (PCS). The use of proceeds was earmarked to finance the installation of solar panels in Small and Medium Enterprises (SMEs) and residences, and to finance electric vehicles.

Blue

In 2021, IDB Invest issued the first ever blue bond in the LAC region, an AUD50m, 10-year fixed rate bond. This landmark issuance highlighted the IDB Group's commitment to creating innovative financial solutions to address climate change. The proceeds from this bond were directed towards projects that contribute to UN SDG 6, aiming to expand access to clean water and sanitation for people in the region.[60] **The Government of Barbados** also unveiled a significant blue bond facility totalling USD150m the following year. This unique structure featured a co-guarantee from The Nature Conservancy (TNC) for USD50m and the IDB for the remaining USD100m. The blended finance deal offered several innovative features, including an extended debt profile for marine conservation, capitalisation of an endowment for ongoing marine protection efforts, and clauses for debt deferment in the case of natural disasters or pandemics.[61] Building on both successes, IDB Invest continued its support for blue bonds. In July 2023, they partnered with ***Banco Bolivariano in Ecuador*** for the issuance of a world-first blue bond with incentives linked to achieving specific objectives. This innovative structure aims to further expand financing opportunities for sustainable ocean businesses, particularly those focused on water-related projects. The upcoming issuance from Banco Bolivariano is expected to promote responsible ocean management, create new sustainable business opportunities in the oceans, and address the challenges faced by the blue economy.[62] These cases are paving the way to fostering sustainable business ventures in oceanic realms, and promoting responsible ocean management practices. As the sustainable securities market continues to grow, financial instruments aligned with the blue economy are positioned to assume a pivotal role in driving sustainable development initiatives linked to water and oceanic resources.

Social

Banistmo - The first social bond issued in Panama

The financial corporate Banistmo issued the first thematic bond in the country in 2019, a private placement supported by IDB Invest. By the end of 2023, this remained the only social bond issued in Panama. The funds from the 5-year tenor bond are used to finance projects with a high positive social impact in the country, focusing on SMEs led by women. This impulse is being led though the IMPULSA platform form support to build capacities in entrepreneur women mostly in the commerce, service, and agroindustry sectors.

Sustainability

Bank Promerica Costa Rica issued two sustainability bonds for USD10m in 2021, supported by IDB Invest. These were placed in Latinex and registered in the SMV, in Costa Rica, and integrated markets. These issuances are labeled under the country of risk Costa Rica according to Climate Bonds methodology.[63]

Sustainability has been the most widely-used label in LAC, the only region worldwide that has consistently increased the volume of this label in the last four years, with 54% of labelled emissions in 2023.

Sustainability-linked

The first sustainability-linked bond issued by a private bank in LAC - Bancolombia

As the largest private bank in Colombia with a presence across Central America, Bancolombia is the first LAC financial institution to price a sustainability-linked bond. The structuring of the COP640bn deal was supported by IDB Invest and LAGreenFund. This sustainability-linked bond includes two KPIs, the first of which is the number of individuals given access to credit. Its SPT was 1,506,580 un-banked or underserved low-income individuals given access to credit, with an observation date of 31 December 2025. Its second KPI was the intensity reduction of financed CO_2 emissions with an SPT of a 0.0238-ton $CO2_2$/COP million reduction in financed CO_2 emissions and an observation date of 31 December 2025. Failure to achieve each SPT would incur a coupon step-up of 17.5bps for the residual life of the bond.[64] The private placement obtained a second-party opinion (SPO) from Sustainalytics confirming alignment with ICMA's SLB Principles. IDB received COP334bn, IDB Invest COP206bn, and the LAGreen Fund COP90bn.

Annex D: Other sustainable investment opportunities in the market

Vulnerable populations in the Panama context

Indigenous populations and other vulnerable communities often bear the brunt of social and economic disparities, and this is true not only in Panama but also in other countries across Central America. In response to these challenges, various social safety nets and labelled financial instruments have been established to address the specific needs of these populations.

In Panama and neighbouring countries, initiatives have been implemented to provide targeted support to indigenous communities and other vulnerable groups. This includes programmes aimed at improving access to education, healthcare, sanitation, housing, and economic opportunities. Additionally, efforts have been made to promote cultural preservation and empower indigenous peoples to participate more actively in decision-making processes that affect their lives.

However, despite these efforts, there are still significant challenges facing these populations, including poverty, discrimination, land rights issues, and environmental threats. Continued attention and investment are needed to ensure that the rights and well-being of indigenous populations and other vulnerable groups are protected and promoted effectively in Panama and throughout Central America. Currently, several projects are in development involving international cooperation across institutions, including the IDB, UN Migration, and the World Bank, to promote economic development mindful of the identity of indigenous people.[65,66,67]

In Panama there are seven indigenous communities, each with their own unique culture, language, and traditions. These include the Ngäbe-Buglé, los Buglé, Emberá, Wounaan, Guna, Bri Bri, and Naso Tjërdi.[68] Additionally, there are Afro-Panamanian communities, descendants of African slaves brought to Panama during the colonial period, who have contributed significantly to the country's cultural diversity. These communities often reside in specific regions of the country and play important roles in Panama's cultural tapestry.

Financing the circular economy

The circular economy plays an important role in the trajectory of businesses towards sustainable development, aligning with the SDGs and targets stipulated in the Paris Agreement. This economic system aims to eliminate waste and promote the continual use of resources through principles of recycling, reusing, and repairing materials and products, while considering the life cycle of products. This approach contrasts with the traditional linear economy, which follows a 'take, make, dispose' model.[69] Currently, both the public and private sectors in LAC are showing a growing recognition of the imperative need to move towards a circular economic model. This evolution is manifested through the progressive adaptation of national regulations, the incorporation of circular objectives in national development plans, and the elaboration of Nationally Determined Contributions (NDCs) that integrate circular economy principles.[70]

The UNEP report, *Unlocking financing for circular economy in Latin America and the Caribbean: the catalyst for positive change,* in collaboration with the IDB and IDB Invest regarding financing the circular economy, highlights that both financial institutions and governments have a crucial role to play in driving and consolidating the circular agenda. To achieve this, it is essential that these entities commit to designing financial instruments with incentives and policies that encourage the transition to the circular economy in financial environments.

Finally, it is important to highlight that the circular economy is a fundamental objective in most taxonomies, especially the EU Taxonomy and the Colombian Green Taxonomy; crucial for sustainable investments and the DNSH component. Although no financial instruments bearing the label circular economy have been issued to date, its importance is recognised in all green or sustainable projects, whether in the life cycle assessment of projects or their components in any sector. Although not stated as an explicit objective, even the Climate Bonds Taxonomy specifies the necessity of a plan that considers adaptation and resilience criteria, as well as the life cycle of many materials from different economic activities.

Growing demand in support of circular economy initiatives

Financing to drive circular economy is on the rise, as the financial sector allocates more capital towards the transition from a linear to a circular model, with the aim of promoting economic growth. According to UNEP, the number of public equity funds focused on circular economy has grown from two in 2018 to thirteen in 2021. These funds manage a total of USD8bn globally, representing a 26-fold increase since December 2019.[71]

According to UNEP's report, companies are beginning to recognise the significant economic benefits associated with adopting circular models. These benefits include increased efficiency in the use of proceeds, optimisation of assets, strengthened customer relationships, and increased revenues. In addition, there is a stabilisation of margins and an improvement in the quality of earnings, along with a superior return on invested capital. This paradigm shift not only promotes economic sustainability, but also boosts competitiveness and business resilience in an ever-changing global context.

In this sense, according to the FinanCe Working Group, the benefits highlighted above position the circular economy as a highly attractive investment for both public and private entities at all levels of financing, ranging from debt to equity. This recognition, backed by concrete findings, underlines the growing acceptance and promising outlook of this investment modality in the global financial sphere.[72]

Endnotes

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