

Corporate governance in Latin America and the Caribbean

Using ESG debt instruments to finance sustainable investment projects

Georgina Núñez
Helvia Velloso
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List of acronyms

BNDES	Brazilian National Bank for Economic and Social Development
CBI	Climate Bonds Initiative
CDP	Carbon Disclosure Project
COP26	26 th United Nations Climate Change Conference of the Parties
CSR	Corporate Social Responsibility
ECLAC	Economic Commission for Latin America and the Caribbean
ESG	Environmental, Social and Corporate Governance
GBPs	Green Bond Principles
GHG	Greenhouse Gas
GSSS	Green, Social, Sustainability and Sustainability-Linked Bonds
IFRS	International Financial Reporting Standards Foundation
IOSC	International Organization of Securities Commissions
IPCC	Intergovernmental Panel on Climate Change
LAC	Latin America and the Caribbean
KPIs	Key Performance Indicators
NDCs	Nationally Determined Contributions
SASB	Sustainability Accounting Standards Board
SBPs	Social Bond Principles
SBGs	Sustainability Bonds Guidelines
SBTi	Science Based Targets Initiative
SLBs	Sustainability-Linked Bonds
SLBPs	Sustainability-Linked Bond Principles
SDGs	Sustainable Development Goals
SPO	Second Party Opinion
SPTs	Sustainable Performance Targets
TCFD	Task Force on Climate-Related Financial Disclosures
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
UNGC	United Nations Global Compact
WEF	World Economic Forum

Abstract

The objective of this report is to study, from the governance perspective, the growing use of environmental, social and governance (ESG) bonds, with an emphasis on the use of sustainability-linked bonds (SLBs), by Latin American and Caribbean (LAC) corporate issuers in international markets. Focusing on the corporate sector sustainable performance, the report examines the potential of these instruments as a source of financing for investment projects, as well as their role in strengthening the governance structures of companies and contributing to a sustainable recovery in the region, taking into consideration the commitments to reduce climate risks (Paris agreement 2015 and COP 26), and fulfil the Sustainable Development Goals (SDGs) and the agenda 2030.

The issuance of cross-border ESG bonds by LAC issuers has grown since 2014 and accelerated sharply in 2020 and 2021, reaching a record high in the first nine months of 2021. In particular, the use of sustainability-linked bonds (SLB) by the region's corporate sector has grown exponentially after ICMA released its Sustainability-Linked Bond Principles (SLBP) in June 2020. As market participants increase their awareness of and interest in ESG strategies and projects, the use of these instruments should continue to grow.

From a corporate governance approach and with a focus on the role of ESG indicators in achieving sustainability, six Latin American companies that have issued SLBs in the international fixed-income market are analysed. Based on these case studies, it can be seen the absence of a clear agreed framework for reporting, measuring, and comparing the climate impact of corporate activity, as well as of benchmarks, which may be an impediment to scale-up ESG strategies in the region's business sector.

Introduction

The international consensus on the Sustainable Development Goals (SDGs) and the 2030 Agenda has underscored the need to find ways of supporting long-term solutions to current development challenges. The 2030 Agenda poses great challenges in terms of mobilizing resources, as the amounts necessary to meet the seventeen SDGs far exceed the scope of traditional financing for development. Moreover, the Twenty Sixth United Nations Climate Change Conference of the Parties (COP26), which brought parties together to accelerate action towards the goals of the Paris Agreement and the United Nations Framework Convention on Climate Change (UNFCCC), concluded with many governments pledging to a faster transition to lower carbon emissions. Most importantly, these pledges now require concrete policy implementation and the mobilizing of more private capital.

In the case of Latin America and the Caribbean (LAC), meeting the growing demand for quality public services and infrastructure that are sustainable and climate-friendly, in a context of rising economic, financial, and social challenges following the devastating impact of the COVID-19 pandemic, will require a considerable fiscal effort and catalysing other sources of financing. The promotion of a capital markets-based approach to sustainable finance can contribute to raising private sector financing for sustainable development in the region.

The role of the corporate sector in the development of LAC capital markets has become more important recently. In the last 15 years, the share of LAC corporate debt issuances in the total has sharply increased, from 47% in 2005 to 68% in the third quarter of 2021. From 2005 to September 2021, more than 800 issuers from twenty-three LAC countries accessed the international bond market, through 2,684 deals. Of those, 1,148 (43%) were corporate deals.

In recent years, capital markets in the region have experienced significant growth rates associated with greater depth and transparency in terms of the information provided by companies, including financial, environmental, and social. Moreover, the improvement in the companies' governance structures, due in part to changes in the legal frameworks that govern the operation of corporate governance, has contributed to making investment decisions more transparent, accountable, and to the growth of the fixed income market. To incentivize a larger participation of the private sector

in the mobilization of resources for a sustainable future in the region, the overall objective is to have financial assets with the purpose of financing environmental, social and governance (ESG) projects and strategies, such as green, social, sustainability and sustainability-linked (GSSS) bonds.

Indeed, ESG debt instruments are becoming an increasingly reliable strategy for sovereign and corporate issuers from the region. LAC GSSS bond issuances in international markets soared in 2020, and 2021 figures show that this trend has accelerated. In this sense, the shape and size of the LAC markets have been changing as governments, corporates, and supranational institutions join the international debt market through these novel instruments.

About 36 distinct LAC issuers have accessed the sustainable finance market in 2021, with LAC GSSS bond issuances in international markets reaching a record high of US\$ 39 billion in the first nine months of the year. Corporate issuers led the region's GSSS bond volumes with a 55% share of the region's total GSSS bond issuance. There was also a surge in the issuance of sustainability-linked bonds (SLBs), which accounted for 37% of Latin America's total GSSS volumes in the period, becoming the region's most frequently used ESG instruments (ECLAC, 2021b). While green, social and sustainability bonds are 'use of proceeds' bonds, associated to a specific project, the SLBs are more closely aligned to the issuer's overall sustainability strategy. They embed an ESG-related key performance indicator (KPI) that issuers commit to achieve, accruing additional payments to bondholders should they not meet the set target. Proceeds can go to general corporate purposes, in exchange for the issuer's commitment to achieve the target proposed for the chosen KPIs.

The current global context and the need to find ways of measuring climate and social risks have had an impact on the public's perception of the role companies can play and their commitment to sustainability and climate change. Increasingly important in the preparation of corporate sustainability reports is the disclosure of information on the financial climate impacts of their investment projects. In this regard, the World Economic Forum (WEF) Global Risk Report 2021, which has been actively involved in the design and promotion of financial disclosure initiatives, presents a reflection on global conditions and the response to the pandemic. The report defines and analyses four key areas: i) institutional authority, ii) risk financing, iii) information gathering and sharing, and iv) equipment and vaccines. In this assessment, the risks associated with climate action and the environment generated by human activity appear to be the second most important aspect after health.

In a scenario of high long-term sustainability and climate risks, which have significant impact on economic conditions, the emergence of instruments such as SLBs or sustainability bonds based on the SDGs appear as an alternative that can help countries face economic, social, and environmental challenges, which in some cases have been aggravated by companies' lack of action in mitigating the environmental and social impacts generated by their businesses. These challenges have also been exacerbated by the pandemic, and together with the increased frequency of extreme weather events, have made the response capacity and resilience of companies around the world, and particularly in Latin America and the Caribbean, more complex.

The objective of this report is to study, from the governance perspective, the growing use of ESG bonds, with an emphasis on the use of SLBs, by Latin American and Caribbean issuers in international markets. Focusing on the corporate sector, it examines the potential of these instruments as a source of financing for investment projects, as well as their role in strengthening the governance structures of companies and contributing to a sustainable recovery in the region.

In the first chapter, the structure of the GSSS bond market, the ongoing regulatory efforts, and the Latin American and Caribbean GSSS international bond issuances from 2014 to 2021 are described and analysed. In the second chapter, we focus on corporate governance and the role of ESG indicators in the sustainable performance of a sample of companies in the region's top three issuers (Brazil, Chile, and Mexico), including the analysis of indicators measuring both sustainable and financial materiality that are present in companies' disclosures. Finally, we conclude with a summary of the main findings and recommendations.

I. ESG international bond issuances from Latin America and the Caribbean (LAC)

The 2030 Agenda and the successful delivery of the objectives of the COP26 summit held in Glasgow on 31 October - 13 November 2021 pose great challenges in terms of mobilizing resources. In the case of Latin America and the Caribbean (LAC), public financing falls short of what is needed for this task and must be complemented with private flows, which in fact make up the bulk of the region's external financing (ECLAC, 2017). The challenge is to combine public and private resources and identify innovative financing sources that will provide the leverage needed to maximize the impact of financing for the achievement of the SDGs and the objectives of the COP26. Environmental, social and governance (ESG) debt instruments could play an important role in this scenario, helping support the region's public and corporate sectors in their path toward sustainability.

A. Definitions and types of instruments

Market participants have recognized the International Capital Markets Association (ICMA)'s principles as a standard for issuing ESG bonds in international capital markets. ICMA publishes these procedural guidelines on a yearly basis. They are a "collection of voluntary frameworks with the stated mission and vision of promoting the role that global debt capital markets can play in financing progress towards environmental and social sustainability."¹ These sets of recommendations target all participants in the market. Investors benefit from greater visibility and transparency as it allows them to make better informed decisions on their investments. More available information helps move the market closer to expected disclosures, which also helps facilitate transactions and reduce costs. The Green Bond Principles (GBP), the Social Bond Principles (SBP), the Sustainability Bond Guidelines (SBG) and the Sustainability-Linked Bond Principles (SLBP) have become increasingly important in

¹ ICMA, "Sustainable Finance" <https://www.icmagroup.org/sustainable-finance/> and Kelly et al (2021).

international markets, with several countries and corporates around the world taking them as a reference to develop their own frameworks for the issuance of sustainable bonds.

There are two types of structure in the sustainability debt market: use of proceeds and target-linked. The four core components for alignment with the green, social and sustainability bond principles, which belong to the first type of structure, are: 1) Use of Proceeds, 2) Process for Project Evaluation and Selection, 3) Management of Proceeds, and 4) Reporting. The two key recommendations for heightened transparency are: Sustainable Frameworks and External Reviews.

In the case of sustainability-linked bonds, proceeds are intended to be used for general purposes, hence the use of proceeds is not a determinant in its categorization. The five core components for alignment with the SLBPs are: 1) Selection of Key Performance Indicators (KPIs), 2) Calibration of Sustainability Performance Targets (SPTs), 3) Bond characteristics (which can vary depending on whether the selected KPIs reach (or not) the predefined SPTs, 4) Reporting and 5) Verification (box 1).

Box 1

Types of ESG debt instruments and ICMA principles

The ICMA Principles outline best practices for the issuance of bonds serving social and/or environmental purposes through global guidelines and recommendations that promote transparency and disclosure, thereby underpinning the integrity of the market.

Green Bonds: the International Capital Market Association's (ICMA) Green Bonds Principles (GBP), published in June 2021 by ICMA, states that Green Bonds are any type of fixed income instrument whose proceeds or an equivalent amount will be exclusively applied to finance or refinance, entirely or partially, projects with clear environmental benefits, and which are aligned with the Core Components of the GBP. Eligible green project categories include renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity conservation, clean transportation, sustainable water and wastewater management, climate change adaptation, circular economy adapted products, production technologies and process and/or certified eco-efficient products, and, finally, green buildings (ICMA, 2021a).

Social Bonds: the Social Bond Principles (SBP) by ICMA state that social bonds are instruments whose proceeds will be applied towards new and existing projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially but not exclusively for a target population(s), and are aligned with the Core Components of the SBP. Social project categories include providing and/or promoting affordable basic infrastructure, access to essential services, affordable housing, employment generation and programs designed to prevent and/or alleviate unemployment stemming from socio-economic crises, food security and sustainable food systems, and, finally, socioeconomic advancement and empowerment. All designated eligible Social Projects should provide clear social benefits, which will be assessed and, where feasible, quantified by the issuer (ICMA, 2021b).

Sustainability Bonds: according to the Sustainability Bond Guidelines (SBG) by ICMA, these are bonds whose proceeds will be allocated exclusively to the financing or refinancing of a combination of green and social projects. Due to that, SBGs are aligned with the four core components of both the GBP and SBP (ICMA, 2021c).

Sustainability-Linked Bonds: SLBs are target-linked instruments and can be a promising innovation to sharpen investors' focus on supporting the transition strategies of entire companies. They differ from classical green, social and sustainability bonds in that they allow financing outside of specific projects or use of proceeds categories. SLBs are more easily tracked through the assessment of key performance indicators (KPI). The issuer chooses select indicators and associated targets that it wants to achieve through the issuance of the bond. The SLB financial and/or structural characteristics can vary depending on whether the selected KPI(s) reach (or not) the predefined SPTs, i.e., additional payments to bondholders will accrue if the issuer does not meet the set targets. According to the Sustainability-Linked Bond Principles (SLBP) by ICMA, the aim of the SLB is to further develop the key role that debt markets can play in funding and encouraging companies that contribute to sustainability (ICMA, 2020).

Source: Prepared by the authors, based on ICMA, <https://www.icmagroup.org/sustainable-finance/the-principles/>.

B. LAC national frameworks²

In Latin America and the Caribbean (LAC), a number of countries have issued green bond guidelines and sustainable bond frameworks to regulate the issuance of green, social, sustainability and sustainability-linked bonds, taking the ICMA's Guidelines and Principles as a reference. Some have also taken as reference the Helsinki Principles, which are the shared principles of the Coalition of Finance Ministers for Climate Action. The Helsinki Principles are aspirational, and serve to give common purpose to member countries, which are committed to taking collective and domestic action on climate change and achieving the Paris Agreement's objectives.³

The first "Guidelines for Issuing Green Bonds" in the LAC region were published by the Brazilian Federation of Banks (FEBRABAN) and the Brazilian Business Council for Sustainable Development (CEBDS) in 2016 (FEBRABAN and CEBDS, 2016). This Guide has a recommendatory nature, and it is intended for agents of the Brazilian Green Bond market, including potential issuers such as companies and financial institutions. The guidelines' three main steps for the issuance of green bonds in Brazil are: 1) pre-issuance: the assessment of risks and opportunities; project eligibility criteria; and evaluation and selection of projects for the use of proceeds; 2) issuance: the structuring of the offer and issuance; and 3) post-issuance: the management of proceeds and the reporting.

In 2017, the Brazilian National Bank for Economic and Social Development (BNDES) launched the "Green Bond Framework." It enabled the BNDES to become the first Brazilian bank to issue a green bond in the international capital market in May 2017⁴ and the first financial institution to issue green financial bills in 2020 in the local market.

In 2018, Chile's Ministry of Finance published its "Green Bond Guidelines" and in 2019, they were replaced by the "Sovereign Green Bond Framework" published by the Ministry of Finance in collaboration with the Ministry of the Environment (Republic of Chile, 2019). The Chilean framework sets forth obligations that the government fulfils as a green bond issuer and follows the four main components of the ICMA's Principles. The categories of eligibility for Green Projects are for the most part the same as the ones mentioned by ICMA. In June 2019, under this framework, Chile became the first sovereign issuer in Latin America to sell green bonds in the international bond market, issuing both a 2051 US\$ 1.4 billion green bond and a 2031 EUR 861 million green bond.

In 2019, the Mexican government appointed investment banks Natixis, BNP Paribas, and Credit Agricole CIB to assist it with the design of a "SDG Sovereign Bond Framework." This Framework allows the government to pinpoint eligible projects, assets, and expenditures that support Mexico's fulfilment of the most pressing SDGs (Ministry of Finance and Public Credit of Mexico, 2020), focusing specifically on the lower range of territories and populations in Mexico, especially those in the south of the country.⁵ In July 2021, Mexico issued a sovereign Sustainable Development Goals (SDG)-compliant 15-year bond in euros, € 1.25 billion. This was Mexico's second debt deal under its sustainable bond framework (the first was a seven-year €750 million bond issued in September 2020). The Framework aligns with the Sustainable Bond Guidelines published by ICMA and with the spirit of the European Union's green bond

² Alessandra De Leo, intern with ECLAC Office in Washington D.C., contributed to this section.

³ The Coalition of Finance Ministers for Climate Action brings together fiscal and economic policymakers from over 60 countries –including 14 LAC countries (Argentina, Bahamas, Chile, Colombia, Costa Rica, Dominica Republic, Ecuador, Guatemala, Jamaica, Mexico, Panama, Paraguay, Peru, and Uruguay)– in leading the global climate response and in securing a just transition towards low-carbon resilient development.

⁴ It was a US\$ 1 billion bond maturing in 2024 and with a 4.75% coupon, to finance wind and solar projects in Brazil.

⁵ Geospatial eligibility is based on open data collected through the Population and Housing Census and analysed by the National Council for the Evaluation of Social Development Policy (CONEVAL).

standard. It specifies the four core components of the ICMA Principles. It also includes external review modalities, such as verification and second - party opinions (box 2).

Box 2

Mexico's sustainable framework promotes capital mobilization towards the Sustainable Development Goals

On September 14, 2020, Mexico issued the world's first sustainable sovereign bond aligned to the United Nations Sustainable Development Goals (SDGs), to raise private funding for SDG-oriented programs. This is a seven-year bond (maturing in 2027) for a total of 750 million euros (€ 750 million), equivalent to US\$ 889 million, with a coupon of 1.35%, the second lowest coupon in Mexico in the euro market.^a

Demand for the Mexican SDG bond totalled US\$ 5.7 billion, equivalent to 6.4 times the allotted amount. A total of 267 global investment firms participated in the auction. According to the investment bank Natixis (sole SDG sovereign structuring advisor in the transaction), a substantial portion of the issue (€ 549 million, or 73% of the total) was awarded to "sustainable investors" (those that incorporate environmental, social and governance (ESG) criteria in their investment decision process) (Natixis, 2020).

In early July 2021, a second Euro-denominated bond was issued for a 15-year term at a coupon rate of 2.25% (very low for an Euro bond at this maturity) for a total amount of € 1.25 billion, which helps consolidate Mexico's sustainable yield curve. This second bond was acquired by 60 sustainable investors. According to Gabriel Yorio, Mexico's Undersecretary of Finance, this type of instrument will be "crucial" for Mexico to meet its spending plans in the coming years (Ministry of Finance and Public Credit of Mexico, 2021)."

In 2020, prior to the issuance of the aforementioned bonds, Mexico's Secretaría de Hacienda y Crédito Público (SHCP) started to develop a multistakeholder governance structure aimed at addressing sustainability as an agenda. The initiative paves the road to achieving the SDGs and has been seen as a national policy. SHCP designed a framework — hereinafter referred to as Framework — aimed to develop a transparent and efficient mechanism to define Eligible Sustainable Expenditures (ESE).

The Framework is aligned with ICMA's GBP, SBP, and SBG from the 2021 edition. The alignment with ICMA's bond principles gave the Mexican government the ability to issue Social, Green, and/or Sustainable ESEs. The UNDP accredits the alignment of the Framework to the SDGs; according to the Mexican government, ESEs must be linked to the 11 (out of 17) SDGs included within the Framework^b. The Framework also received an SPO from Vigeo Eiris, which awarded its highest level of assurance, considering it to be aligned with the four core components of the GBP, SBP and SBG. In its Framework, Mexico committed to publishing, on an annual basis, the resource allocation for as long as the net budget lasts. Besides innovating in establishing geospatial selection criteria, the Mexican government created an innovative methodological tool for federal alignment with the SDGs and budgetary transparency, both at program level.

Mexico's Federal Government expects to spur the development of financial markets towards sustainability by:

1. Promoting capital mobilization towards the SDGs and a broader ESG investors base.
2. Improving the efficiency in price discovery processes for both public and private sectors.
3. Promoting transparency in public spending and high commitment to achieve the objectives established within the 2030 Agenda by a continued monitoring of the fulfilment of its SDG goals; and,
4. Aligning supply and demand dynamics, given the ever-increasing appetite for ESG investment which in turn represents a great financial opportunity to endure episodes of high volatility.

The impact report launched in November 2021, presents the 37 Eligible Expenditures' performance and the related SDG performances at macro-level. So far, the Mexican government has allocated US\$ 855 million, which impacted 3,842,100 people and 10,198 others direct beneficiaries in marginalized areas. The expenditures by SDG, according to Mexico's "SDG Bond allocation and Impact Report 2021" are:

- SDG 2 Zero Hunger: US\$ 139 million
- SDG 3 Good Health and Well-being: US\$ 291 million
- SDG 4 Quality Education: US\$ 271 million
- SDG 8 Decent Work & Economic Growth: US\$ 9 million
- SDG 9 Industry, Innovation, and Infrastructure: US\$ 105 million

Source: Secretaría de Hacienda y Crédito Público, México (2021), and ECLAC (2021a), p.58.

^a Targeted on five SDGs, including SDG 2: Zero Hunger, SDG 3: Health and Well-being, SDG 4: Quality education, SDG 8: Decent work and economic growth, and SDG 9: Industry, innovation, and infrastructure.

^b SDGs 2, 3, 4, 6, 7, 8, 9, 11, 13, 14 and 15.

In 2020, the Ministry of Finance of Chile published its inaugural “Sustainable Bond Framework.” This Framework enables to incorporate the possibility of issuing not only green bonds, but also social and sustainable bonds (Public Debt Office, Chile, 2020). In 2021, Chile issued over US\$ 15 billion in green, social, and sustainability sovereign bonds. The sovereign accounted for 94% (US\$ 13 billion) of the total amount of cross-border social bonds from the region from January to September 2021.

In April 2021, Brazil’s BNDES launched its “Sustainability Bond Framework (SBF),” produced through a partnership with the Inter-American Development Bank (IDB), to enable the issuance of green, social, and sustainable bonds in Brazil and abroad. With a favourable opinion (Second Party Opinion - SPO) from Sustainalytics, a verification company specialized in sustainable projects, the structure reinforces the importance attributed to the ESG topic. The initiative expands the fundraising possibilities provided for in the Green Bond Framework launched in 2017 (IDB News, 2020).

In July 2021, the Ministry of Finance and Public Credit of Colombia, after publishing in 2017 a “Road Map for Setting a Green Bond Market” and in 2018 a “Long-Term Green Growth Policy to achieve green growth while meeting SDG’s targets,” issued a “Sovereign Bond Framework for Sustainable Development Financing” (Ministry of Finance and Public Credit of Colombia, 2021). It issued its first sovereign green bond (COP 750 billion in 10-year notes with a 7% coupon) in the local market in late September, adding COP 650 billion to it in October. Also in July 2021, Peru adopted a sustainable framework and issued US\$ 1 billion in 50-year sovereign sustainability bonds at the end of October (*Ministerio de Economía y Finanzas de Perú*, 2021). Proceeds will be used to fund green projects and social programs, including renewable energy, healthcare, and education.

In August 2021, Uruguay announced plans to sell climate bonds before end-year. It will be a sovereign sustainability-linked bond (SLB), linked to the country’s compliance with indicators for the reduction of greenhouse gases (LatinFinance, 2021).

In October, ahead of the 2021 United Nations Climate Conference in November (COP26), Brazil announced it has started to prepare its first sovereign green bond as part of a US\$ 2.5 billion sustainable development program, the “green growth program” (Brazilian federal government, decree No. 10,846/21). Also in October 2021, the Brazilian Ministry of Agriculture announced the launch of a new class of green bonds, the *CPR Verde* (the green Rural Product Note), which can be sold to corporate buyers by rural agricultural producers in exchange for financial incentives to reserve land for preservation. The market for the new green notes is estimated to be worth BRL 30 billion in four years, according to the press release, and the initiative is part of an effort to protect forestland.⁶

The stock exchanges in the region have also had a growing role in the sustainable market. In 2018, Mexico’s Stock Exchange (Bolsa Mexicana de Valores, BMV) developed the “Green Bond Principles MX” along with the Climate Finance Advisory Group of Mexico (CCFC, 2018). The Bolsa de Valores of Lima (BVL), Peru, published “Green Bond Guidelines” in 2018. In 2019, the Comisión Nacional de Valores (CNV) of Argentina issued “Green, Social and Sustainable Bond Guidelines.” The Bolsa de Valores of Panamá (BVP) released “Green, Social and Sustainable Bond Guidelines” in the same year. In 2020, the Comisión Nacional de Valores (CNV) of Paraguay issued Resolution No. 9/20, which modifies the legislation seeking to establish an SDG Bond Framework to finance projects that have positive environmental and social impact. B3, operator of the stock exchange of São Paulo, Brazil, issued a ten-year US\$ 700 million sustainability-linked bond (SLB) in September 2021, tied to efforts to hire more women.

The more recent frameworks that have been published in the LAC region are Sustainable Bonds Frameworks due to the growing attention towards a sustainable perspective, which includes social and sustainability bonds, moving away from a purely environmental perspective. All take as reference the

⁶ Traditionally, the Rural Product Note (“CPR”) is a credit instrument by which the issuer undertakes the delivery of certain rural products, following the conditions established in this instrument. See Demarest (2021) and Ministry of Agriculture, Brazil (2021) for detailed information.

ICMA's Principles and Guidelines and comply with the four core components established by ICMA for alignment with its principles, described in part A. The categories of eligibility for both "Green" and "Social Projects" are mainly aligned with the ones mentioned by ICMA.

In addition, most of the frameworks issued in the LAC region make mandatory or highly recommend having external reviewers to reinforce the credibility of the green, social or sustainable label. The green bond market has evolved from self-labelling green bonds, in which the issuer simply provided details on the green eligibility criteria for the use of proceeds to the investors, without external validation, to an externally reviewed market (EU-LAC Foundation, 2021). External reviews can take various forms (ICMA, 2021d):

- (i) *Second Party Opinion (SOP)*: an institution with environmental/social/sustainability expertise that is independent from the issuer provides an opinion about the Framework.
- (ii) *Verification*: an issuer can obtain independent verification against a designated set of criteria.
- (iii) *Certification*: an issuer can have its green, social and sustainability Framework certified against a recognised external green/social/sustainability standard or label.
- (iv) *Green, Social, Sustainability Scoring/Rating*: an issuer can have its green, social, sustainability bond framework evaluated or assessed by third parties, such as specialised research providers of rating agencies, according to an established scoring/rating methodology.

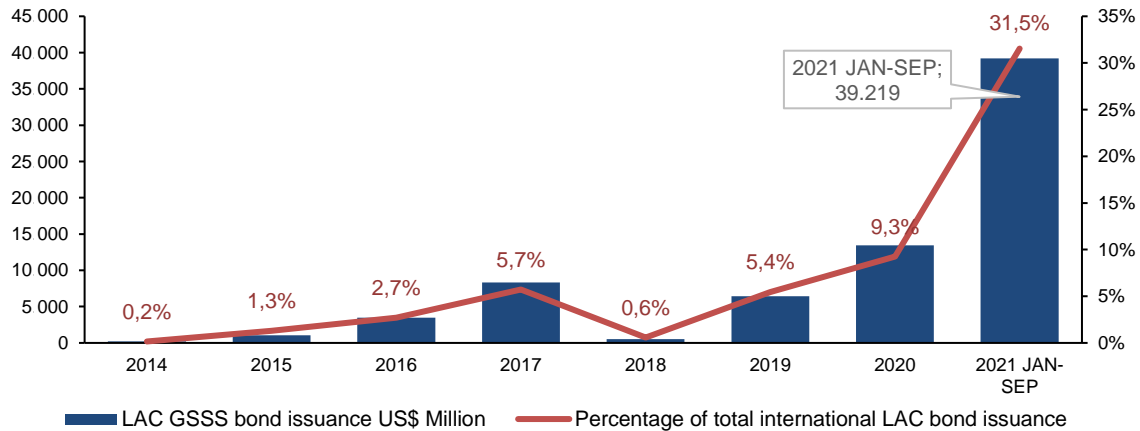
C. LAC ESG bond issuances in the international market: 2014-2021

Financial markets' focus has increasingly moved towards climate action and the achievement of the SDGs. Interest in financial instruments with the purpose of financing ESG projects and strategies has increased sharply. An overwhelming 96% of institutional investors participating in a survey by Natixis Investment Managers in May 2020 said they have a key role to play in addressing global challenges, such as climate change, the need for infrastructure development, and social and economic inequality. 60% of respondents in the survey said they would be willing to invest in projects that help address societal challenges as long as they meet their portfolios' long-term goals (The Dialogue, 2020).

In the first nine months of 2021, global issuance of green, social, sustainability and sustainability-linked (GSSS) bonds totalled US\$ 775 billion, nearly double the US\$ 402 billion issued in the first three quarters of 2020 (Moody's ESG Solutions, 2021). With heightened market focus on accelerating climate action and realizing sustainable development objectives likely to underpin sustained momentum into the fourth quarter, full-year issuance of GSSS bonds is set to top a collective US\$ 1 trillion in annual issuance for 2021, according to Moody's. Across the individual segments, Moody's anticipate issuance of US\$ 500 billion in green bonds, US\$ 200 billion each in social bonds and sustainability bonds and US\$ 100 billion in sustainability-linked bonds.

GSSS bond issuances from the LAC region in international capital markets also reached a record high in the first nine months of 2021 (ECLAC, 2021b). There were sixty-two international GSSS bond issuances from January to September 2021, totalling US\$ 39 billion and representing 31.5% of the total LAC international bond issuance in the period. This is the region's highest annual share of GSSS issuance on record since the region's first green bond was issued in December 2014 (figure 1).

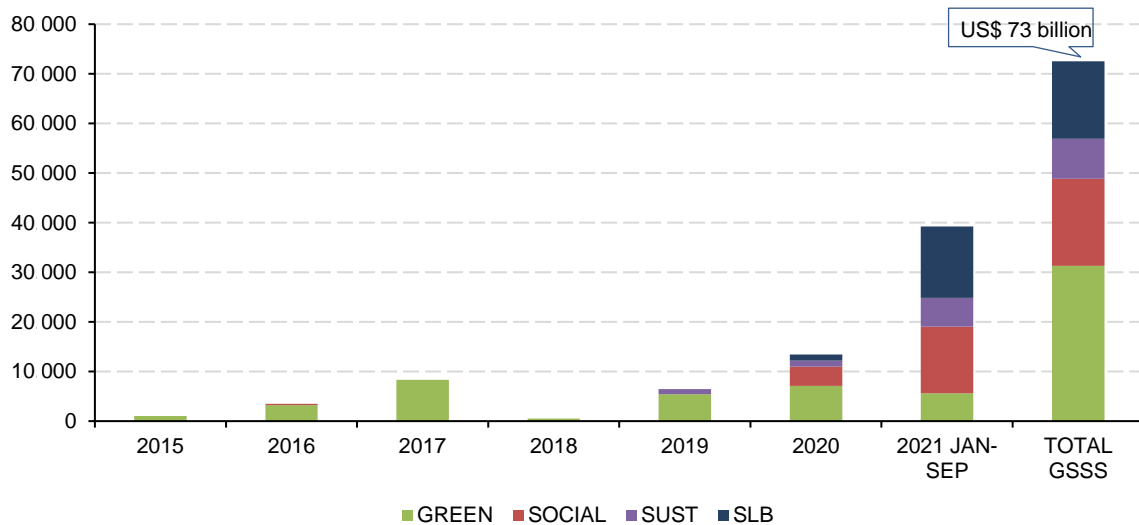
Figure 1
LAC GSSS bond issuance in international markets
 (Left axis, US\$ million; right axis, percentage)



Source: ECLAC (2021b, p.8).

The region’s first green bond – a US\$ 204 million 10-year international bond, with a 6% coupon – was issued by the Peruvian company *Energía Eólica* in December 2014. From then to September 2021, the region’s total GSSS bond issuance in international markets amounted to US\$ 73 billion, accounting for a 9% share of its total overall international bond issuance in the period (figure 2).

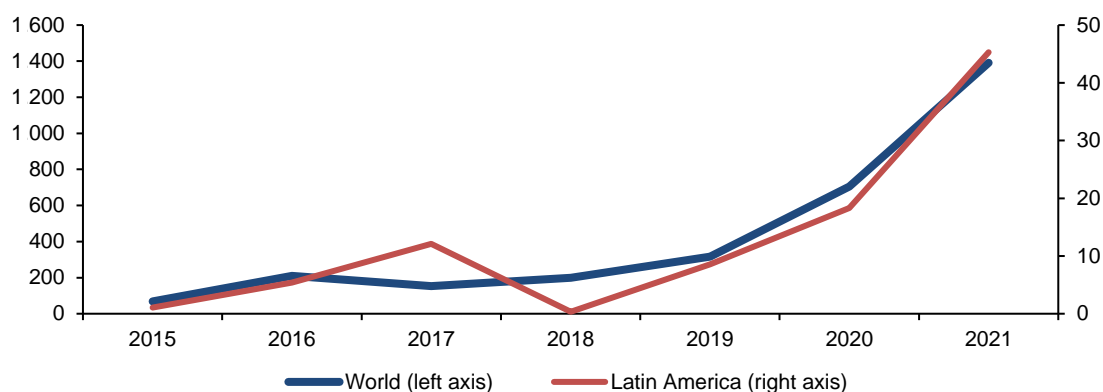
Figure 2
Total LAC GSSS bond issuance in international markets by type of instruments
 (US\$ million)



Source: authors’ elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

Latin America’s GSSS international bond issuance has followed closely the global trend since the region’s first green bond was issued in December 2014 (figure 3). Looking ahead, it has enormous growth potential, given that it still represents only a small fraction of the global market.

Figure 3
Total annual GSSS bond issuance in international markets: 2015-2021
(US\$ billion)

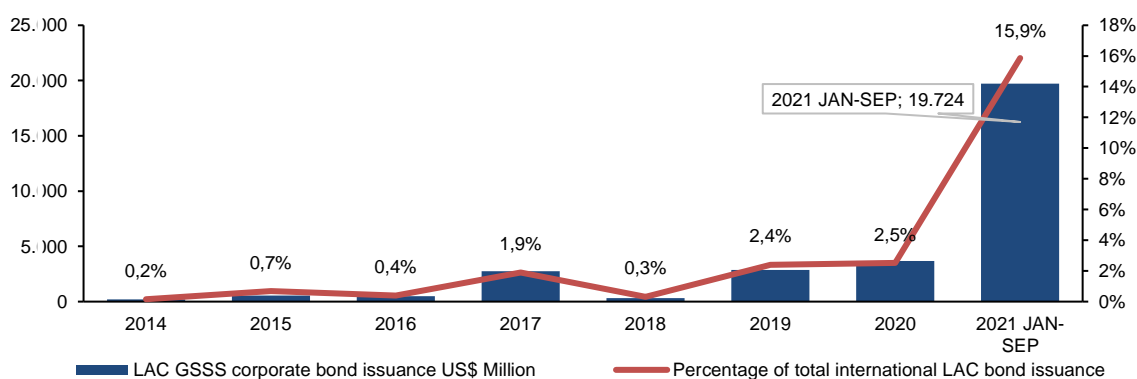


Source: authors' elaboration based on data from Dealogic.

1. Type of issuers

The distribution of the total LAC GSSS issuance from December 2014 to September 2021 underlines the importance of the corporate sector in the development of the region's capital markets, and the role it can play in the mobilization of resources for a sustainable future in the region. Corporate GSSS bond issuances accounted for 12% of LAC total corporate bond issuance in the period and for 4% of the total amount (including all types of issuers). More importantly, this share has been on an upward trend since 2019. In 2021, the participation of corporate GSSS bonds in the total amount issued increased sixfold (figure 4).

Figure 4
LAC GSSS corporate bond issuance in international markets
(Left axis, US\$ million; Right axis, percentage)

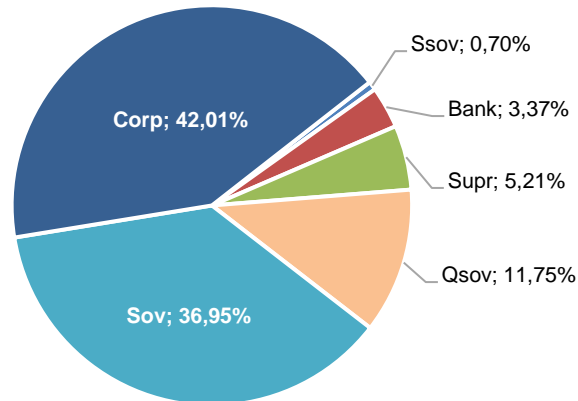


Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

Corporate issuers led the GSSS bond volumes in the period with a share of 42% of the total GSSS LAC issuance (figure 5). Sovereign, quasi-sovereign and supranational issuers represented 37%, 12% and 5% of the total GSSS bond issuance, respectively.⁷

⁷ Quasi-sovereign issuers are defined as companies with full or partial government ownership or control, and supranational issuers as entities formed by two or more central governments to promote economic development for the member countries.

Figure 5
LAC GSSS bond issuance in international markets Dec 2014-Sep 2021: type of issuers
(Percentage)

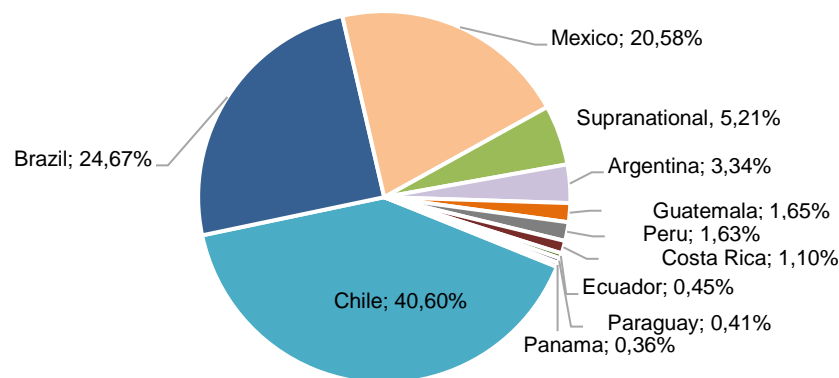


Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others. Notes: Sov = sovereign, Corp = corporate, Ssov = sub-sovereign (states, cities, and provinces); Supr = supranational, and Qsov = quasi-sovereign.

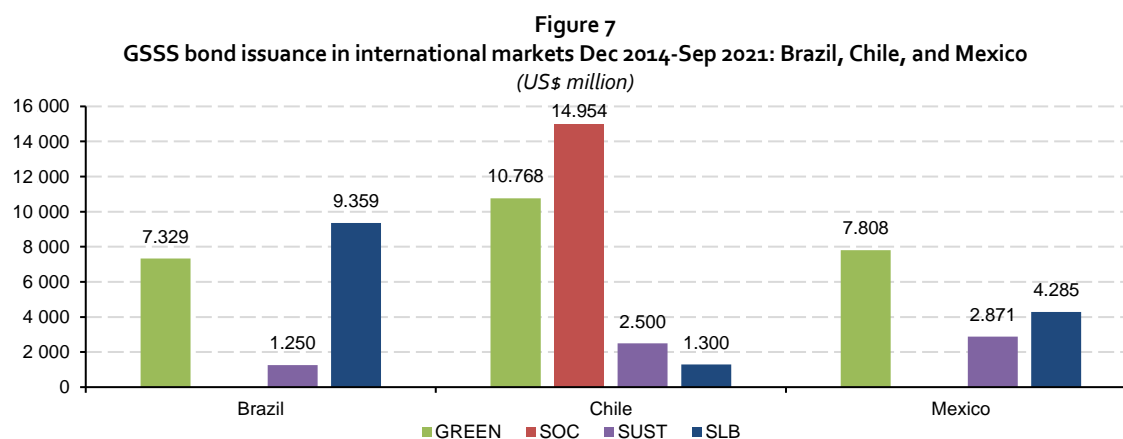
2. Country, sectoral and currency distribution

The region's GSSS issuances have come from ten countries and two supranational entities, CAF Development Bank of Latin America and the Central American Bank for Economic Integration (CABEI). The top three LAC GSSS issuers are Chile, with 41% of the total, Brazil, with 25% and Mexico, with 21%. Together, they accounted for US\$ 62.4 billion (86%) of the total LAC GSSS bond issuance in the December 2014 - September 2021 period (figures 6 and 7).

Figure 6
LAC GSSS bond issuance in international markets Dec 2014-Sep 2021: country distribution
(Percentage)



Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.



Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

While most of Chile's GSSS issuance comes from the sovereign sector, Brazilian and Mexican GSSS issuances are mostly from the corporate sector. Chile was the first sovereign issuer in Latin America to sell green bonds in the international bond market in 2019. In 2021, it issued over US\$ 15 billion in green, social and sustainability sovereign bonds, accounting for 94% of the total amount of cross-border social bonds from the region from January to September 2021. In July 2021, Mexico issued a sovereign SDG-compliant 15-year bond in euros, the second debt deal under its sustainable bond framework (the first was in September 2020). GSSS issuance remains a small part of total sovereign external bond debt, with a total of 22 governments issuing GSSS bonds globally, but sovereign GSSS issuances can play a key role in driving the corporate sustainability market (box 3).

Box 3

Sovereign issuers as role models for other types of issuers

Sustainable sovereign bond issuances have played an important role in driving the corporate sustainability bond market in recent years. According to a recent Climate Bonds Initiative (CBI) survey, as of November 2020, twenty-two governments had already issued green, social, and sustainability (GSS) sovereign bonds totalling US\$ 96 billion, which accounted for 97% of the total amount of GSS bonds issued. The survey was based on conversations with nineteen sovereign issuers: eight from advanced economies (AE) and eleven from emerging markets (EM), including two Latin American countries, Chile, and Mexico.

By mid-November 2020, these nineteen issuers had collectively printed 32 GSS bonds with an amount outstanding of just over US\$ 93 billion. According to the survey, "sovereign issuers can serve as role models for other types of issuers. They can provide investors with safe, liquid investment opportunities which frees up capital for other lower-rated and less liquid securities" (CBI, 2021a, p.3). In most cases, what drove the issuer was a broader strategic initiative aimed at meeting the goals of the UNFCCC's Nationally Determined Contributions (NDCs) and addressing the SDGs. These plans included policies designed to address emission reduction targets or even Net Zero emissions ambitions.

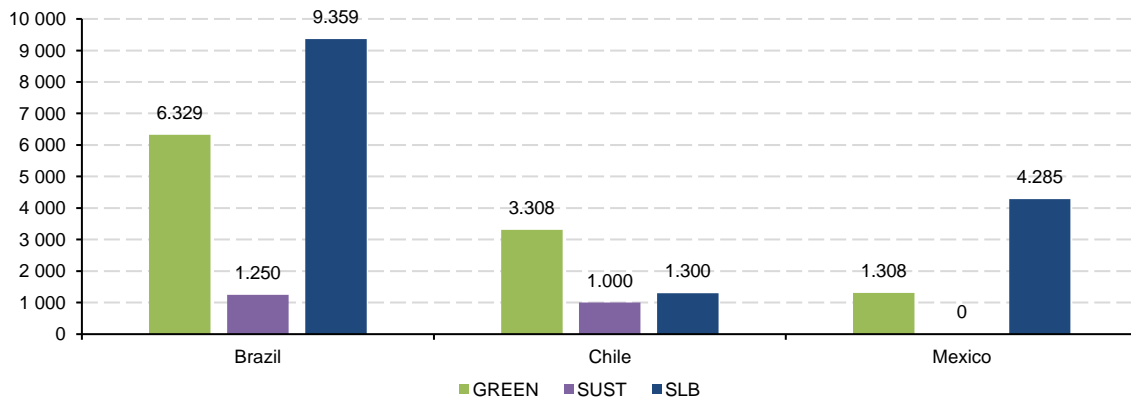
In most issuances, the GSS sovereign bond broadened and diversified the investor base. Likewise, GSS sovereign debt securities encourage investors to design and implement investment strategies aimed at issuing these types of bonds, which facilitates the valuation of the financial instrument more accurately. These initiatives have received varied support in the various stages of the issuance, (in the design of the specific framework, the preparation of subsequent reports, etc.) ranging from development banks, structuring consultants, providers of a second opinion, and non-governmental organizations (NGOs) such as the Climate Bonds initiative. Other actors who also participated were central banks, bond market associations, securities regulators, stock exchanges, and the United Nations Development Program (UNDP).

In a Seminar on sustainable sovereign issuances in LAC organized by the CBI on 10 November 2021, Maria del Carmen Bonilla, of the Ministry of Finance and Public Credit of Mexico, emphasized the importance of the sovereign sector in the sustainable bond markets, as governments have the capacity to generate sustainability indicators. The challenge for the sovereign sector is twofold: how to standardize them and how to generate a monitoring and tracking system (CBI, 2021b).

Source: Prepared by the authors, based on CBI (2021a) and CBI (2021b).

Looking at the LAC corporate sector alone (excluding sovereign, quasi-sovereign, and supranational issuers), Brazil is the largest GSSS bond-issuer country in LAC, representing 51% of the total GSSS corporate issuance (figure 8). Mexico and Chile account for 17% of the corporate total each. Together, the three countries accounted for US\$ 28 billion (85%) of the total LAC GSSS corporate bond issuance from December 2014 to September 2021.

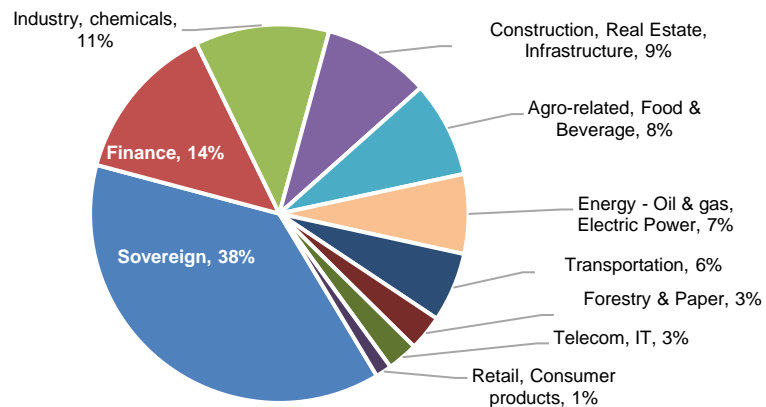
Figure 8
GSSS corporate bond issuance in international markets Dec 2014-Sep 2021: Brazil, Chile, and Mexico
(US\$ million)



Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

From a sectoral perspective, 38% of the LAC GSSS debt issuance came from the sovereign sector, mostly due to Chile's large sovereign GSSS issuances since 2019. Without the sovereign sector, the financial sector, which includes commercial banks as well as financial services companies and finance development banks/multilateral agencies, accounted for the highest share, 14% (figure 9).

Figure 9
LAC GSSS bond issuance in international markets Dec 2014-Sep 2021: sectoral distribution
(Percentage)

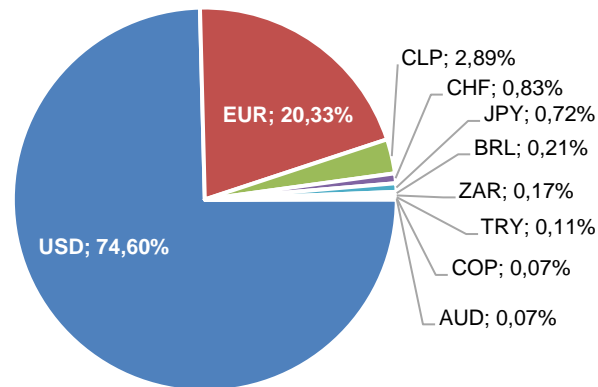


Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

Fitch Ratings (2021, p.6) observes that diversification across sectors in the LAC GSSS market increased since 2019. Its report points out that "Pulp & Paper, Food & Beverage and Energy were the only segments with a presence in the sustainable market until 2018. New sectors, such as Auto & Related, Technology, Chemicals, Telecom, Consumer, Real Estate, Transportation, and Sugar & Ethanol accessed the sustainable market after 2019".

Three-fourths of the international GSSS debt issuance in the region was denominated in U.S. dollars, and 20% in euros (figure 10). There was also issuance in local currencies, including Chilean pesos (3%), Brazilian reais (0.2%) and Colombian pesos (0.1%).

Figure 10
LAC GSSS bond issuance in international markets Dec 2014-Sep 2021: currency distribution
(Percentage)

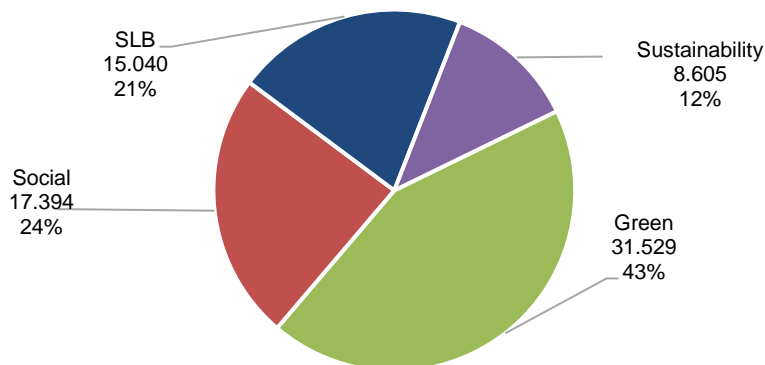


Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

3. Type of instruments

Green bonds accounted for the largest share (US\$ 31.5 billion, 43%) of the region's total GSSS bond issuance in the period (figure 11). Social bonds accounted for the second largest share (US\$ 17.4 billion, 24%), followed by SLBs (US\$ 15 billion, 21%) and sustainability bonds (US\$ 8.8 billion, 12%).

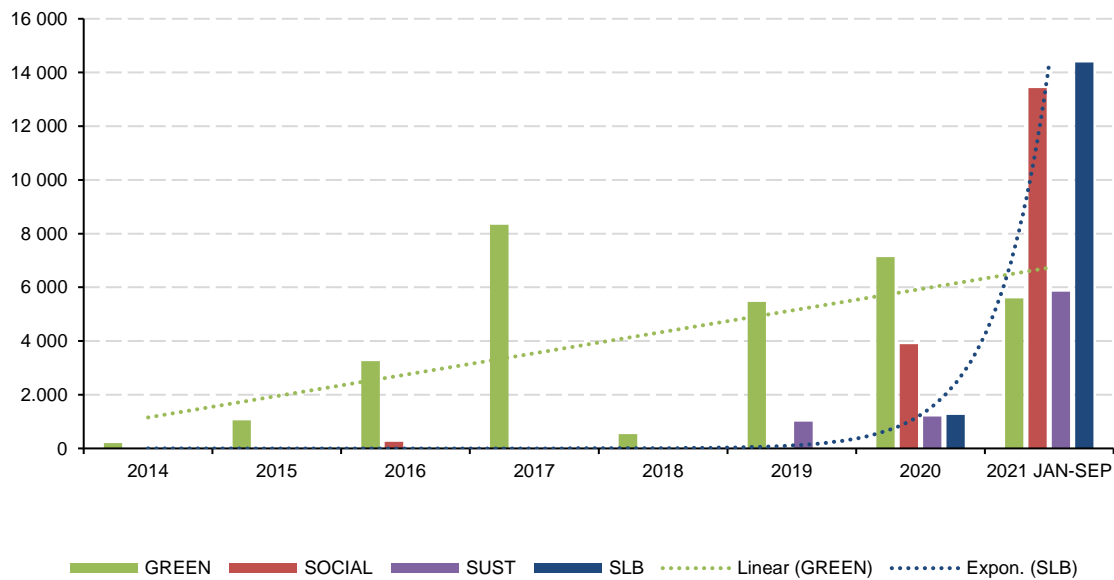
Figure 11
LAC GSSS bond issuance in international markets Dec 2014-Sep 2021: type of instruments
(Percentage)



Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

In the early period, green bonds were the most used instruments in the region, but as the market grew, and the attention moved from an environmental only focus to a broader perspective that included addressing social and sustainability concerns, the use of other instruments, such as social, sustainability and sustainability-linked bonds started to grow. In particular, the issuance of social bonds increased after the onset of the COVID-19 pandemic, and the use of SLBs by the corporate sector grew exponentially after ICMA released its Sustainability-Linked Bond Principles (SLBP) in June 2020 (figure 12).

Figure 12
LAC GSSS bond issuance in international markets by type of instruments
(US\$ million)



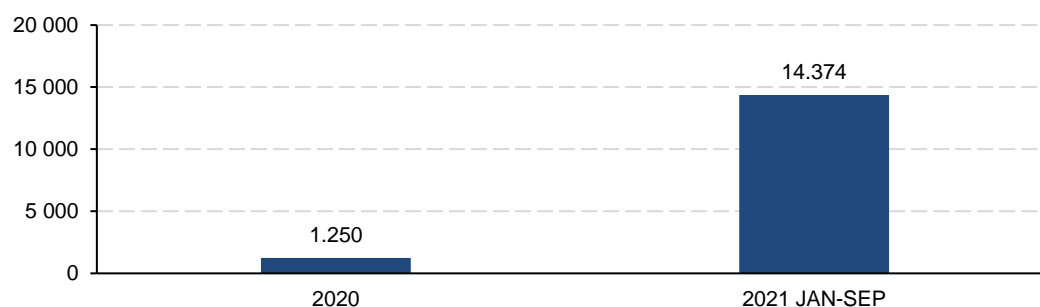
Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

D. The rise in LAC SLB issuances in the international market

SLBs are defined by the International Capital Markets Association (ICMA) as “any type of bond instruments for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability/ESG objectives” (ICMA, 2020, p.2). The first SLB in the region was issued by Suzano, a Brazilian company in the forestry and paper sector, on 10 September 2020. It was a US\$ 700 million 2031 bond with a 3.750% coupon tied to the SDG 13 on climate action, which the company reopened on 16 November 2020 to add US\$ 500 million.⁸ In the first nine months of 2021, SLB issuance in the region increased by a factor of 11.5, surging to US\$ 14.4 billion (figure 13). SLBs became the region's most frequently used ESG instrument in this period (figure 14).

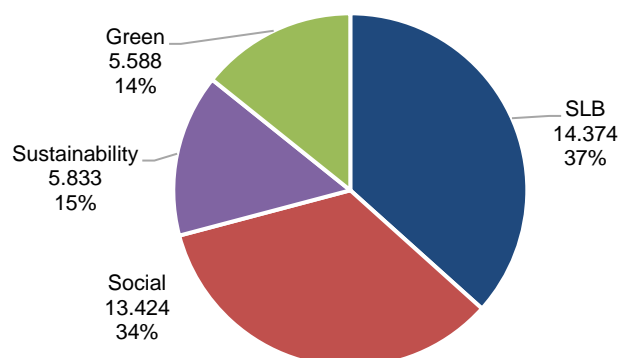
⁸ The company has committed to reduce its greenhouse gas emissions intensity by 15% by 2030. If by 2025 it is not on track to achieve this target, there will be a one-time coupon step-up of 25 basis points.

Figure 13
LAC SLB bond issuance in international markets
(US\$ million)



Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

Figure 14
LAC GSSS bond issuance in international markets Jan-Sep 2021: type of instruments
(Percentage)



Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

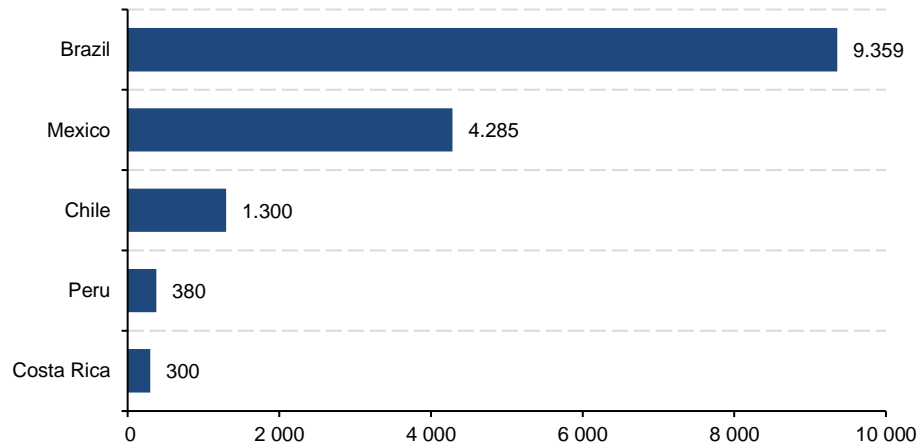
The SLBs, as it was described in section A, are more closely aligned to the issuer's overall sustainability strategy, and embed an ESG-related key performance indicator (KPI) that issuers commit to achieve, accruing additional payments to bondholders should they not meet the set target. The potential risks and structural considerations for SLB issuances include which indicators to select, at what level to set the target, and how to create a framework for a credible and market-accepted verification of their performance. Since no specific project is required, SLBs also have a cross-sector appeal.

1. Country, sectoral and currency distribution

The region's SLB issuances have come from the corporate sector, including one quasi-sovereign issuance from the Costa Rican Electricity Institute (ICE). The companies using the SLB instrument have come from five countries: Brazil, Mexico, Chile, Peru, and Costa Rica.

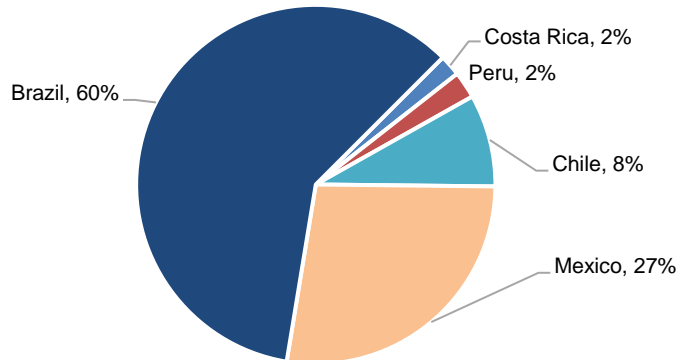
The top three LAC issuers of SLBs are Brazil, Mexico, and Chile. Together, they accounted for US\$ 14.9 billion (95%) of the total LAC SLB bond issuance as of September 2021. Brazilian companies issued US\$ 9.4 billion since September 2020, representing 60% of SLB issuances in the region. Mexican companies issued US\$ 4.3 billion, representing 27% of the total, and Chilean companies issued US\$ 1.3 billion, or 8% (figures 15 and 16).

Figure 15
LAC SLB issuance in international markets as of September 2021: country totals
(US\$ Million)



Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

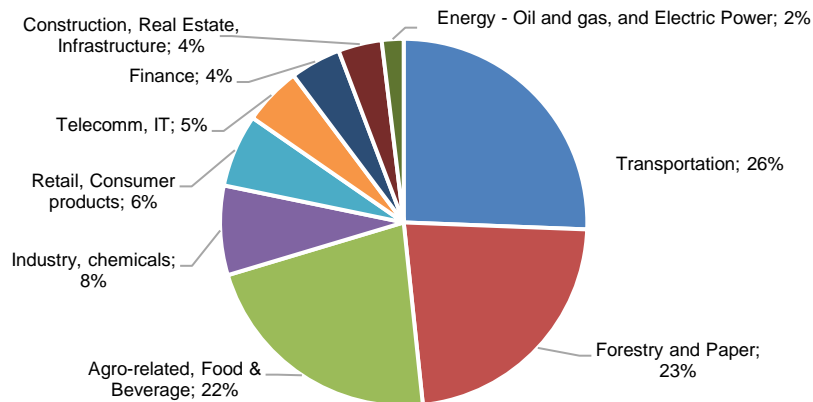
Figure 16
LAC SLB issuance in international markets as of September 2021: country distribution
(Percentage)



Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

SLBs have opened the door to a broader segment of sectors. From a sectoral perspective, 26% of the LAC SLB debt issuance from September 2020, when the region's first SLB was issued, to September 2021, came from the transportation sector (including auto/truck parts and equipment in this category). It was followed by the forestry and paper sector, with 23%, and the food and beverage sector, with 22%. Chemicals-plastic came in fourth (figure 17). In terms of currency distribution, 86% of the SLB issuances in the region were denominated in United States dollars, 13% in euros and there was one issuance in Brazilian reais (1%).

Figure 17
LAC SLB issuance in international markets as of September 2021: sectoral distribution
(Percentage)

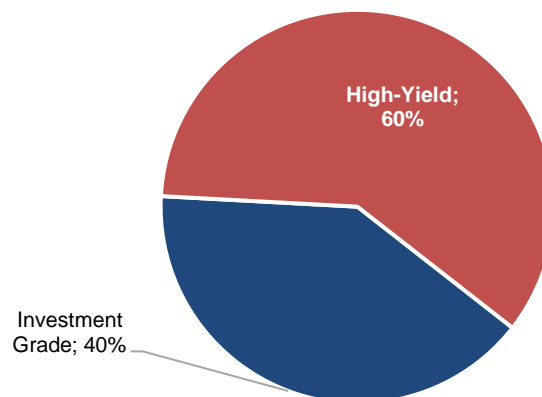


Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

2. Main characteristics: credit ratings, coupon, maturity and preferred KPIs

From an issuer's perspective, a bigger variety of sustainable debt instruments would allow them to reach a larger range of investors. The SLBs are attractive because of their inclusiveness. From September 2020, when the first SLB from the region was issued, to September 2021, 55% of the region's SLB issuances came from the high-yield sector, opening doors for companies that do not have an investment grade. In 2021, this share increased to 60% (figure 18).

Figure 18
LAC SLB issuance in international markets Jan-Sep 2021: breakdown by credit rating
(Percentage)



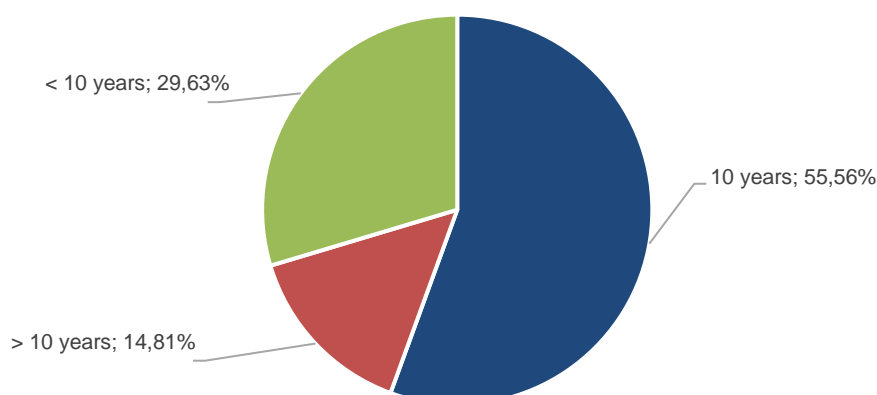
Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

On average, from September 2020 to September 2021, the coupon of the SLB issuances from the region was 3.852%. Coupons ranged from 0.5% to 10.75%. One of the characteristics of the SLBs is that if the issuer does not meet its targets (according to the selected KPIs), the coupon steps up. The LAC SLB issuances have offered a step-up of 25 basis points or less for the most part, but there was one SLB

issuance by the Brazilian cosmetics company Natura in April 2021 that offered a 4.125% coupon per annum until 3 November 2027 and thereafter a step-up by 65 basis points to 4.775% p/a unless Sustainability Performance Targets (SPT) are satisfied. How much to increase the bond's coupon when SPTs are not met may become clearer for issuers and investors as the market for these bonds evolves, and demand for greater transparency and accountability increases.

The majority of the region's SLBs issued from September 2020 to September 2021 had a 10-year maturity, 55.6% (figure 19). The highest maturity was 12 years. In total, 70% of the region's SLBs had a maturity of 10 to 12 years. Bonds with maturities of one to 10 years are considered sufficient for most long-term investors, as they yield more than shorter-term bonds and are less volatile than longer-term issues.

Figure 19
LAC SLB issuance in international markets as of September 2021: breakdown by maturity
(Percentage)



Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

KPIs are an essential element of the SLBs. So far, the most common ESG objective or target of the region's SLB issuances has been reducing greenhouse gas (GHG) emissions. About 70% of all LAC SLB issuances selected GHG reduction as a KPI. The second most used KPI was water management (water consumption target)/water usage reduction, which was present in 23% of the SLB issuances.

Although not as prevalent, there have been other ESG objectives as well. Increasing the number of women in leadership positions, waste reduction, and energy efficiency (increase renewable energy), were KPIs in 12% of the total number of SLB issuances. Other KPIs included biodiversity protection, increasing the use of post-consumer recycled plastic in packaging, and increasing the percentage of Gross Leasable Area (GLA) of properties that are certified sustainable.

3. Most active corporate issuers

The most active corporate issuer of SLBs has been the Brazilian pulp and paper company Suzano SA, with four deals amounting to a total of US\$ 2.75 billion. The next most active corporate issuer was Mexico's beverage and retail company FEMSA (*Fomento Económico Mexicano, S.A.B. de C.V.*), with two deals and a total issuance of US\$ 1.44 billion. Mexico's Orbia Advance Corp SAB de C.V, a chemical-plastic Mexican company previously known as Mexichem, came in third with one deal amounting to US\$ 1.1 billion. Mexico's Nemak SAB de CV, an auto parts company, came in fourth, with two deals amounting to US\$ 1. billion. Finally, tied in fifth, were JBS, a Brazilian food and beverage company and Natura, a Brazilian personal care cosmetic group, each issuing a US\$ 1 billion SLB (table 1).

Table 1
Top Five corporate issuers of SLBs in LAC
(US\$ million, number of deals)

Country	Corporate issuers	Amount issued (US\$ million)	Number of deals	Sector
Brazil	Suzano	2 750	4	Forestry & Paper-Pulp & Paper
Mexico	FEMSA	1 443	2	Food & Beverage
Mexico	Orbia Advance	1 100	1	Chemicals-Plastic
Mexico	Nemak	1 092	2	Auto/Truck-Parts & Equipment
Brazil	JBS	1 000	1	Food & Beverage-Meat Products
Brazil	Natura	1 000	1	Consumer Products-Cosmetics & Toiletries

Source: authors' elaboration based on data compiled by the ECLAC Washington Office. The data includes only bonds issued in the international market and is based on market sources, including Dealogic, LatinFinance and Bloomberg, among others.

Although SLBs are newer than their use-of-proceeds counterparts, issuance levels in LAC have been very strong during 2021, as these instruments allow issuers to access investors and banks with a sustainability focus, while maintaining the flexibility of allocating the proceeds to general corporate purposes. By complementing green, social, and sustainability bonds, SLBs have opened the doors to a more diverse group of issuers and sectors, enabling more issuers to access the sustainable financing market and scale up decarbonization, while serving a broader range of investors. Since these instruments focus more on the companies' strategy rather than on a specific project, they are also a tool that companies can use in their transition to a sustainable path.

Some of the SLBs issued by LAC companies have been tied to the UN Sustainable Development Goals (SDG). SDGs are real material indicators for investors and can be true drivers for ESG investment. SLBs can contribute to further developing the key role that debt markets can play in funding and encouraging companies that contribute to sustainability.

II. Corporate governance, and ESG indicators in LAC

The issuance of cross-border GSSS bonds by LAC issuers has grown since 2014 and accelerated sharply in 2020 and 2021. As market participants increase their awareness of and interest in ESG strategies and projects, the use of these instruments should continue to grow. The financial market can play an important role in redirecting capital toward sustainable activities, including the transition to a low-carbon economy and more equal society. Issuance of GSSS bonds can improve investor base diversification and the issuance of SLBs, in particular, has allowed for a more diverse group of issuers.

As a result, investors are placing greater scrutiny on ESG instruments, increasingly seeking better information on risk, return and impact, and demanding actions to mitigate ESG risk exposure. ESG considerations, including topics such as climate change, should gain importance in financial institutions' compliance and credit policies, which may create barriers for issuers with weak ESG practices. According to Fitch Ratings (2021, p.5), companies are also implementing remuneration linked to sustainability targets, demonstrating clear strategies toward new practices and policies.

A. Sustainability as part of company strategies and decisions

In recent years, Latin American corporate bond markets have experienced a significant boost associated with greater depth and transparency in terms of financial and non-financial information (environmental and social) provided by companies. In addition, the improvement in corporate governance structures has contributed to transparency regarding investment decisions, accountability, and ultimately to the growth of the fixed income market. This has been happening, in part, due to changes in the legal frameworks governing the functioning of corporate governance.

Institutional and legal changes in corporate governance frameworks over the last decade have impacted mainly medium and large companies, most of which are publicly traded or listed as debt issuers. The growing interest of companies, particularly non-financial ones, in showing better sustainable performance is probably linked to the increasing importance they assign to accessing

financial markets and holding financial assets, from which they obtain higher capital gains and therefore greater value for shareholders (Rabinovich and Perez, 2020).

The incorporation of sustainability indicators in reporting has contributed to the transparency of relevant information regarding programs, mid- and long-term social and environmental commitments, and risks. The growing use of these indicators by company management to build risk assessment scenarios has favoured the adoption and valuation of non-financial factors, such as ESG considerations, in capital markets.

The concept of governance, including in the acronym ESG, is more than the corporate governance of the company, however. *Corporate governance* of the company is represented by the board of directors and its responsibilities as the company's decision-making body, responding to a process generated within the shareholders' meeting, where its structure (independent directors, diversity criteria, and corporate committees) and the company's management are determined. *Governance*, however, refers to the internal process aligned to the company's strategy – including sustainability – and involving the company's different areas. It is the intermediary and conciliatory body between the demands from the company's shareholders and management (or executive area). It is responsible for implementing and monitoring the decisions emanating from the board, as well as for the accountability of the company's strategy compliance. It defines and approves the company's risk policy⁹, a key aspect of double financial materiality.

According to Liang and Renneboog (2020), the build-up of a good reputation, publicity, and competitive advantage have been some of the reasons for incorporating ESG's criteria into companies' risk assessment and management strategies. There is a growing consensus that incorporating these criteria improves companies' value and profitability. Much of this consensus comes from the market itself and from stakeholders' opinions on how companies are performing in areas such as environmental and consumer protection, labour conditions, and support for the community in which they operate. In other words, ESG performance reporting can be translated into better corporate performance in terms of the value of companies and stock price. Some international enterprises face the challenge of complying with distinct countries' strategies and jurisdictions, however.¹⁰

So far, because there is no single standard for ESG reporting, it is hard to use the information provided by companies' ESG reports to make direct comparisons between investments. Moreover, although in most cases data is quantified, the information is not comparable across periods. As a result, in recent years, voluntary standards associated with ESG have multiplied.

Far from fostering corporate disclosure on sustainability-related matters, however, this surge has become a problem that requires immediate action. This scenario calls for harmonization of standards that could facilitate reporting, guide investment decisions, and allow comparison between companies, sectors, and countries.

⁹ Corporate governance's responsibility for assessing and determining the company's risk levels and the identification of the different types of risks (corporate strategic risks, management-level risks, and operational risks) is discussed in Tricker (2015), p. 194- 211.

¹⁰ Differences caused by the distinct legal regimes across countries may be reflected in the ESG performance assessment of companies. Analyzing micro-level data and quasi-natural experiments, Liang and Renneboog (2020) show that country-level legal foundations explain much more of the variance in ESG performance than other institutional factors such as social preferences. The authors argue that ESG scores in common law countries (Anglo-Saxon and Commonwealth countries) differ from scores in civil law countries. Companies from common law countries tend to receive lower ESG score values than those from civil law countries. Concerning the latter, Scandinavian companies have the highest ESG scores.

B. Standards for ESG corporate reporting: the need for harmonization

Overall, the absence of a clear agreed framework for reporting, measuring, and comparing the climate impact of corporate activity, has been a major impediment to scale-up ESG strategies in the business sector.

Transparency and accountability of investment decisions are key to companies' financing strategies. The demand for greater guarantees to access the bond markets confirms this. The financing strategy thus requires close coordination between the board of directors and company directories, which represent the shareholders (principal) and the executives of the company (agents), respectively. This coordination is particularly important when it comes to companies' ESG or sustainability strategy. On the issue of risks, the role of the company's governance in defining the indicators or metrics is key, especially when it comes to financing.

For (non-financial) companies their access to financial markets is particularly important as a way of acquiring financial assets in search of profitability, more than a way of increasing production, consumption, and investment. Therefore, the bulk of its accounting and financial reports is limited to traditional reporting. However, in terms of sustainability, different jurisdictions have their own taxonomies and the effort of a common taxonomy led, for example, by different initiatives at the international level such as the International Platform on Sustainable Finance (IPSF) will aim to improve the transparency of what is recognized as green and increase the impact of green investments across borders.¹¹

Regarding metrics, according to some authors, there are universal financial tools to estimate the financial returns of a potential investment (such as the internal rate of return). However, this is not the case when evaluating the environmental and social returns of an investment (Singer, 2021). According to a recent report by Carbon Tracker, a financial think-tank, of the 107 companies assessed, about 70% are not fully accounting for climate-related risks in financial statements. Moreover, "another concern raised by the report is the lack of consistency across company reporting, 72% of companies showed no evidence of follow through from other discussions of climate risks or emissions targets to their treatment in the financial statements, or explained any differences" (Climate Tracker Initiative, 2021).

Investors often use environmental and social impact histories to evaluate future investment opportunities, albeit with little financial data that is truly useful for that purpose. Although sustainability (ESG) reports have become standard practice for a substantial number of companies (because of market requirements), they focus on showing commitments and processes, with few assessing the actual impact on customers or society.

In the search for relevant data for impact assessment, the proliferation of ESG indicators, far from being a solution, has become a major challenge for companies in terms of defining priorities within their own business strategy. Although there are an important number of national and international organizations working to improve evaluation methodologies – the MacArthur Foundation, the Skopos Impact Fund, the World Economic Forum, and the Rockefeller Foundation, among others, some of them generating interesting metrics, such as social return on investment (SROI) – in order to achieve comparable results that will help in the evaluation of corporate ESG investments, an effort to standardize these metrics is required (see box 4 for a description of the wide variety of ESG frameworks currently in use).

One issue that concerns governance is how to determine the corporate risk, particularly in bond issuances. The perception and measurement of risk in the valuation of financial assets has undergone

¹¹ The IPSF has 18 members, representing 55% of greenhouse gas emissions, 50% of the world population and 55% of global GDP. Its members are public authorities in charge of developing environmentally sustainable finance policies in Argentina, Canada, Chile, China, European Union, Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong SAR of PRC), India, Indonesia, Japan, Kenya, Malaysia, Morocco, New Zealand, Norway, Senegal, Singapore, Switzerland, and United Kingdom.

significant changes. These can range from the responsibility of companies for their ESG actions to risk management, where the role of corporate governance is key to analysis and decision making based on different scenarios. The risks identified correspond to financial impacts within the company, such as profitability or loss of asset value (diagram 1).

Diagram 1
ESG and climate risk determination and its financial impact



Source: Prepared by authors based on TCFD, 2021.

The Task Force on Climate-Related Financial Disclosure (TCFD)¹² is an effort to standardize climate-related financial disclosures that has been widely used as a reference by companies in their ESG disclosures. It classifies climate-related issues into two categories: 1. physical and 2. transition towards sustainability. The former is associated with climate events and their different impacts. The second is associated with four categories: i) policy and regulation (political and regulatory actions on climate); ii) disruptive technologies; iii) the market and its preferences for environmentally sustainable businesses; and iv) reputation, which includes the perception of stakeholders. The risks associated with climate and sustainability in their measurement have longer-term time horizons and impacts.¹³

The TCFD recommends covering four aspects in the disclosure of climate information: a) governance, related to the identification and monitoring of climate risks based on scenarios by boards of directors, information that is provided by corporate committees (audit, sustainability risk control, and scenarios); b) risk management (identification, evaluation, and management); c) strategy (impact of risks, climate opportunities, and the company's financial planning); and d) metrics and objectives (TCFD, 2021a).¹⁴ The 2021 Status Report gives an account of the progress of governments, regulators, international organizations, and groups of industries that support the recommendations of the TCFD (TCFD, 2021b).¹⁵

¹² The TCFD was created by the Financial Stability Board (FSB) in response to demand from G20 Finance Ministers and Central Bank Governors on how the financial sector can consider climate-related issues. Currently, more than 2,600 people from 89 countries and various sectors have signed up to the initiative. More than 120 regulators and government entities and 50 central banks are part of the initiative. This group of companies represents a market capitalization of US\$ 25 trillion.

¹³ One purpose of the TCFD methodology is to provide stakeholders with a better understanding of the concentrations of carbon-related assets, as well as the exposure of the financial system to climate-related risks.

¹⁴ It also has complementary guidance for specific financial (banks, insurers, asset managers and asset owners) and non-financial (energy, transportation, building materials and products) sectors and the financial climate impacts on those sectors.

¹⁵ Between 2019 and 2020, more than 50% of the companies reviewed included information on their climate-related risks and opportunities. Disclosure is still low at 13%. The world's region with the highest disclosure is Europe (TCFD, 2021b).

Box 4
ESG frameworks and ESG ratings

Rio ESG (2021) describes ESG frameworks as systems for standardizing the reporting and disclosure of ESG metrics. They are often voluntary but may be required by a certain investor or by regulations in some countries. These frameworks are put together by non-profit organizations, NGOs, business groups, and others. While they create useful standards, they differ widely when it comes to recommendations. Some of the most used frameworks are:

- Carbon Disclosure Project (CDP)
- Climate Disclosure Standards Board (CDSB)
- Global Reporting Initiative (GRI)
- Science Based Targets initiative (SBTi)
- Sustainability Accounting Standards Board (SASB)
- Task Force on Climate-related Financial Disclosures (TCFD)
- UN Principles for Responsible Investment (PRI)
- World Economic Forum (WEF) Stakeholder Capitalism Metrics

According to Morrow Sodali's sixth annual Institutional Investor Survey (IIS, 2021) based on responses from 42 global institutional investors managing approximately US\$ 29 trillion in Assets Under Management ("AUM"), TCFD was the most popular ESG reporting framework, followed by SASB and then in-house proprietary frameworks focused on material topics. Below are the shares of preferred ESG frameworks among the survey participants:

- TCFD: 75%
- SASB: 53%
- In-house proprietary framework focused on material topics: 39%
- CDP: 33%
- Integrated reporting: 17%
- GRI: 17%
- CDSB: 6%
- Do not have a preference: 6%

Despite bringing recommendations on what to report on and how to report it (metric, format, and reporting frequency), ESG frameworks do not usually set targets for such metrics; the latter is left to the discretion of the company ESG commitments and goals.

Another relevant role in the world of ESG, is ESG rating, which is aimed at measuring and assigning a score to a company's exposure to ESG risks. These third-party agencies are interested in how effectively companies are managing such risks and try to translate them into percentages, letter grades, and scores. Some of these agencies are, Morgan Stanley Capital International (MSCI), Sustainalytics, Refinitiv, S&P Global Ratings, FTSE Russell, Institutional Shareholder Services (ISS), among others.

ESG ratings and ESG reporting are interconnected but serve different purposes. ESG rating providers analyse the companies' reports based on their ESG framework to create an investor-oriented document that serves as a way of comparison between entities. Both ESG rating and reporting play a significant role in sustainable finance. On one hand, ESG reporting is aimed at providing transparency into organizations' sustainability performance, on the other, ESG ratings make that data more accessible to investors.

Source: Prepared by the authors, based on Rio ESG (2021a and b) and Morrow Sodali (2021).

The topics of metrics and disclosure were also present during the COP26 discussions. The International Financial Reporting Standards Foundation (IFRS) announced the "International Sustainability Standards Board (ISSB)" initiative, which was originally signed by 36 countries, three of them—Brazil, Mexico, and Uruguay—from Latin America. The objective of this initiative is to develop a global sustainability baseline to meet investors' needs for information on companies' ESG strategies which, incidentally, impact the value of their businesses. "Investors demand high quality, transparent and globally comparable sustainability information that is consistent with financial statements" (IFRS, 2021).

The ISSB will come into force in 2022 and will coexist with IFRS's International Accounting Standards Board, which will continue to oversee the standards governing financial statements. The IFRS has published prototypes covering climate-related disclosure and other sustainability issues that have been endorsed by the TCFD, World Economic Forum (WEF), and the International Organization of Securities Commissions (IOSC) (FT, 3 November 2021). The IOSC intends to have the proposed standards adopted by national regulators, which would facilitate their internationalization. Global adoption of these standards will expedite harmonization and would put an end to the multiple voluntary frameworks and standards that currently exist. In turn, the Climate Disclosure Standards Board and the Value Reporting Foundation are working to improve disclosure for investors supporting the ISSBs, committing to merging them with existing standards by June 2022.

The ISSB will coexist with the IFRS's International Accounting Standards Board, which will continue to oversee the standards governing financial statements. The IFRS has published prototypes covering climate-related disclosure and other sustainability issues that have been endorsed by the TCFD, WEF and the International Organization of Securities Commissions (FT, 3 November 2021).

C. Latin American companies and the use of ESG instruments: Six case studies

In this section, six Latin American companies that have issued sustainability-linked bonds in the international bond market have been selected as case studies. The objective is two-fold: 1. to examine their sustainability frameworks and the process they pursued regarding their SLB issuances, and 2. to look for ESG best practices (including disclosure and accountability) that could be followed by future corporate issuers from the region.

The selected companies are from the region's top three country issuers of SLBs – Brazil (60%), Mexico (28%) and Chile (8%) —and the top three sectors— Transportation, including auto/truck parts and equipment (26%), Forestry and paper (23%) and Food and beverage (22%) —as shown in figures 15 and 16 in Part I. The sample includes three companies from Brazil, two from Mexico and one from Chile, which are distributed among the three sectors as follows: (a) Forestry and paper: Suzano (Brazil), Klabin (Brazil) and CMPC (Chile). (b) Food and Beverage: FEMSA (Mexico) and JBS (Brazil), and (c) Auto parts and equipment: Nematik (Mexico).

1. Case studies

a) Forestry and paper: Suzano (Brazil), Klabin (Brazil) and CMPC (Chile)

Sustainable forest management and reducing water pollution in paper production were key factors for many of the companies that are rated by Standard and Poor's in the forestry and paper sector (S&P Global Ratings, 2019). The selected Latin American companies in this sector have published SLB frameworks and issued SLBs, which included targets such as reducing GHG emissions, water usage and waste.

Suzano, Brazil

Suzano SA ("Suzano") is a Brazilian forestry- based company specialized in pulp and paper production, currently considered the largest producer of the aforementioned products in the world. It operates in eight countries. Since 2020, the company has been intensifying the implementation of sustainability strategies in its business areas. Suzano has built its Sustainability Strategy in a collaborative manner, considering the numerous visions of its stakeholders regarding the company's long-term goals (box 5).

Box 5**Suzano's long-term goals (LTG) for sustainable development - Agenda 2030**

In February 2020, Suzano launched its long-term goals in alignment with the SDGs. They include:

1. Climate: net removal of 40 million tons of carbon from the atmosphere (SDGs 13 and 12).
2. Carbon emissions: 15% reduction in scope 1 and 2 emissions per ton of production (SDGs 13 and 12). Scope 1 covers direct emissions from owned or controlled sources and Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating, and cooling consumed by the reporting company (The Carbon Trust, 2021).
3. Renewable sources: offer 10 million tons of products from renewable sources (SDG 9).
4. Biodiversity conservation: connect half a million hectares of priority areas for biodiversity conservation in the Cerrado (Brazilian Savannah), Atlantic Forest, and Amazon (SDG 15).
5. Water: 1) Increase water availability in 100% of critical watersheds; 2) Reduce by 15% the volume of water in industrial operations (SDG 6).
6. Waste: reduce by 70% the industrial solid waste sent to our own or third-party landfills, transforming them into by-products (SDG 12).
7. Energy: increase renewable energy exports by 50% (SDG 7).
8. Social goals: lift 200,000 people out of poverty in Suzano's areas of operation (SDGs 1 and 2).
9. Education: increase the education index (IDEB) by 40% in all priority municipalities (SDG 4).
10. Diversity and inclusion: 1) Ensure 100% accessibility and achieve a 100% inclusive environment for people with disabilities (PWDs); 2) have 30% of women in leadership positions (functional managers and above); 3) have 30% of black employees in leadership positions (functional managers and above); 4) achieve 100% inclusive environment for LGBTI+ (SDG 5).

Source: Prepared by the authors, based on Suzano (2020a).

The company has been an active GSSS bond issuer, placing eight GSSS bonds in the international market since 2016 to help financing its sustainable efforts. In September 2020, Suzano became the first LAC company to issue an SLB bond in the international market, and the first company globally to attain a voluntary second-party opinion. The company's inaugural SLB issuance was a US\$ 750 million 2031 bond issued in September 2020, which the company reopened two months later to add a further US\$ 500 million. With the reopening, Suzano achieved the lowest yield ever, at 3.1%, for a 10-year bond issued by a Brazilian company.¹⁶ It has published a SLB framework in alignment with ICMA's SLBPs, following their core components. The first three components —selection of KPIs, 2. calibration of sustainability performance targets (SPTs), and bond characteristics (which can vary depending on whether the selected KPIs reach (or not) the predefined SPTs— were followed in Suzano's inaugural 2020 issuance (table 2). The last two components are reporting and verification. As of September 2021, Suzano had already four SLB issuances, including three new bonds and one reopening.

Table 2
Suzano's 2031 SLB: KPIs, SPTs calibration and bond characteristics
(SLBP's components 1, 2 and 3)

KPI	SPT ^a	Baseline	One-time coupon step-up	Deadline	Long-term goal (by 2030)
1 GHG Emissions Intensity Reduction (tCO ₂ e/ton of product produced)	Reduce 10.9% or reach 0.190 tCO ₂ e/ton by 2025	2015 0.213 tCO ₂ e/ton	25 basis points	31 Dec 2025	0.181 tCO ₂ e/ton or 15% reduction by 2030
Year of issuance: 2020	USD 750 + 500 million		Initial coupon: 3.75%		Maturity: 2031

Source: Suzano (2020b) and ISS ESG (2020). Note: tCO₂e stands for tonnes (t) of carbon dioxide (CO₂) equivalent (e). "Carbon dioxide equivalent" is a standard unit for counting greenhouse gas (GHG) emissions regardless of whether they're from carbon dioxide or another gas, such as methane.

^a Suzano benchmarked its SPT against the Transition Pathway Initiative (TPI) Pulp & Paper Sector Decarbonisation Pathway.

¹⁶ Environmental Finance's Bond Awards 2021, Sustainability-linked bond of the year: Suzano <https://www.environmental-finance.com/content/awards/winners/sustainability-linked-bond-of-the-year-suzano.html>.

The chosen SPT has 2015 as its baseline (discretionarily chosen to match the Paris 2015 agreement) and is calculated by taking the average of the tCO₂e/ton produced for 2024 and 2025. According to the second party opinion (SPO)—issued by ISS ESG - Institutional Shareholder Services, a leading provider of corporate governance and responsible investment solutions— besides being quantifiable, externally verifiable, and benchmarkable, the SPT is relevant and material to the issuer's overall business. The SPO considered Suzano a medium performer with reference to GHG emissions compared to its industry peers, ranked at the 16th position in a group of 40 paper and forestry companies in the ISS ESG database, but in terms of the GHG emissions reduction target, it was ranked in the top 20%. There is a one-time coupon step-up of 25 basis points (bps) if the company fails to achieve the SPT.

Suzano seemed to be close to achieving the SPT, considered ambitious by the SPO, as early as in 2018, when it reached 0.193 tCO₂e/ton. According to the company, however, the real challenge is to stabilize emissions. In 2019, the company's GHG emissions climbed up again to the level of 0.200 tCO₂e/t.¹⁷ Nonetheless, both the long-term goal and the SPT can be considered on the right track based on Suzano's past performance. Suzano's long-term goal is to reduce GHG emissions intensity (tCO₂e/ton produced) by 15% (scopes 1 and 2 emissions) by year-end 2030.

In 2021, Suzano issued two more SLBs—a US\$ 1 billion 2032 SLB issued in June, and a US\$ 500 million 2028 issued in September— linked to different KPIs than the one used in its inaugural SBL deal. In the 2032 SLB, the KPIs included reducing industrial water usage and increasing the share of women in leadership positions (table 3).

Table 3
Suzano's 2032 SLB: KPIs, SPTs calibration and bond characteristics
(SLBP's components 1, 2 and 3)

KPIs	SPTs	Baseline	One-time coupon step-up	Deadline	Long-term goal
2 Reduction of industrial water withdrawal intensity (WWI)	Target A ^a Target B ^b	2018: 29.8 m ³ /ton of product (paper and pulp)	12.5 bps	31 Dec 2026	14.8% or 25.4m ³ /ton
3 Women in leadership positions	30% or more of women in leadership roles by 2025	16% as of December 2019	12.5 bps	31 Dec 2025	No data ilable
Year of issuance: 2021	USD 1,000 million		Initial coupon: 3.125%		Maturity: 2032

Source: Suzano (2021) and ISS ESG (2021b). Note: bps=basis points. 100 basis points =1%.

^a 26.1 m³/ton of product (paper and pulp) as measured by the average for the years ended 2025 and 2026. This is equivalent to an estimated reduction of 12.4% from the 2018 baseline.

^b 25.4m³/ton produced as measured by the average of years ended 2029 and 2030 This is equivalent to an estimated reduction of 14.8% from the 2018 baseline.

¹⁷ An interesting information about Suzano's GHG emissions is that the closer the company operates to full capacity, the lower its GHG emission intensity is. Therefore, any external factor that could affect its production level could affect the target's achievement.

The 2032 SLB pays a step-up margin of 12.5 bps if Suzano does not have women in 30% of leadership positions by 2025 and an additional step-up of 12.5 bps if the company does not reduce industrial water usage by 15% by 2030. Thus, the coupon rate on the bonds will automatically step up to 3.25% per annum if one of the targets is not met or to 3.375% per annum in case both targets are not met. Both targets must be confirmed by an independent external verifier, under Suzano's new sustainability-linked securities framework adopted in June 2021. Suzano will use the funds for debt payment and redeem the outstanding 5.25% Senior Notes due May 2024.

Suzano measures KPI 2 on water withdrawal intensity as an average of two years, the years ended in 2025 and 2026 for Target A, and the years ended in 2029 and 2030 for Target B. According to past performances provided by the company, Suzano's performance is lacking regarding Target A. Annually, the company should have displayed a 2% reduction on water withdrawn intensity (WWI) to achieve the 2025 goal and 1% annually to achieve the 2030 goal, according to the SPO. It is on track to achieve the 2030 goal, but not the 2025 target. Compared to industry peers, as of the publication of the SPO, the company belonged to a superior tier regarding WWI targets and disclosure of water consumption and usage. According to the SPO, "Suzano is one of the only few listed companies within the Paper & Forest Products ISS ESG Universe that disclose data performance on water usage and water consumptions patterns. Indeed, based on data collected by ISS ESG, 44 of the 58 companies do not disclose total water usage or consumption patterns. Thus, Suzano is considered as one of the most transparent companies in its peer group on this key ESG issue" (ISS ESG, 2021, p.10).

For KPI 3, share of women in leadership positions, the scope is all leadership positions located in the Brazilian structure, which covers approximately 93% of Suzano's total leadership positions at the last measure. At the baseline year, 2019, the company registered 16% of women in leadership positions. The 30% mark was chosen following the reference from the United Nations Global Compact (UNGC) Brazil. According to the SPO, this KPI is quantifiable, externally verifiable and benchmarkable against any company using the UNGC methodology. The SPO considered Suzanos's target ambitious compared to industry peers. Nonetheless, the SPO considers that Suzano could further increase SPT to 50% by 2030.

Finally, for the US\$ 500 million 2028 SLB issued in September 2021, the original coupon of 2.5% will step up by 25 basis points from 16 Sep 2026 if the issuer doesn't satisfy its SPT of Women in Leadership Positions by the end of 2025, as confirmed by external verifier. Proceeds will be used to repay existing debt.

Klabin, Brazil

Klabin is a Brazilian company that has displayed a commitment to sustainability throughout its history. The company has even developed its own Sustainability Agenda called Klabin's Sustainable Development Goals (box 6). Due to such initiatives, Klabin has been the only Brazilian company selected to integrate the Dow Jones Sustainability Index (DJSI) so far and was the only Brazilian company invited to join the group of leaders at COP26. As of September 2021, Klabin had issued four GSSS bonds to help financing its sustainable efforts, one of them a US\$ 500 million 2031 SLB issued in January 2021.

Box 6**Klabin's objectives for sustainable development (KODS) - Agenda 2030**

KODS was developed in accordance with UN sustainable development goals. Below is a list of the SDGs and correspondent Klabin's initiatives.

SDG 6: 1) 100% of the locations where we operate with initiatives to increase territorial water safety. 2) 100% of forest operations under its management with hydro solidarity management. 3) Reduce the specific consumption of industrial water by 20%.

SDG 3: 1) Zero change to lives (employees and third parties). 2) Achieve a more advanced level (generative / sustainable) in the Hearts and Minds methodology or equivalent. 3) Lost workday accidents frequency (employees and contractors) below 1. 4) Accident severity rate (employees and contractors) below 50.

SDGs 5 and 10: 1) 30% of female leaders. 2) a positive review from 90% of employees belonging to diverse groups about respect and equality in the work environment.

SDG 7: 1) Reduce fossil fuel usage to have an energy matrix that is 92% renewable 2) 100% purchase of certified energy from a renewable source.

SDG 11: 1) Public management supported by Klabin in all of the priority municipalities for the company, through territorial development programs that enhance well-being and quality of life in sustainable communities.

SDG 12: 1) Zero industrial waste sent to landfills. 2) All of the key suppliers covered by the Sustainable Supply Chain Management Program. 3) 10 low impact circular economy benchmarking cases in partnership with customers.

SDG 13: 1) Meet the goals agreed with the Science-Based Targets Initiative. 2) Net capture of 45 million tons of CO₂eq from the atmosphere between 2020 and 2030.

SDG 15: 1) Biodiversity protection - have 100% of the fauna damage hotspots mapped, with initiatives to reduce damage. 2) Biodiversity protection - maintain and enhance the number of fauna species dependent on high environmental quality forests. 3) Partnerships and scientific research - at least six partnerships/research per year based on nature conservation and biodiversity studies. 4) Restoration and rewilding – reintroduce at least 2 species that are proven to be extinct locally and promote the population enhancement of 4 other threatened species. 5) Provide 1 million seedlings of native trees to recover degraded areas.

SDG 16: 1) All direct and indirect employees included in the digital language necessary to comply with cybersecurity, ensuring the protection of personal and company data.

Source: Agenda Klabin 2030 <https://kods.klabin.com.br>.

Klabin's SLB was issued based on three KPIs: (i) water consumption intensity (m³/ton); (ii) waste reuse (reuse and recycling); and (iii) reintroduction and/or reinforcement of wild species into the ecosystem. Klabin has adopted ICMA's SLBPs. The first selected KPI was water consumption intensity (table 4). The water consumption target was settled against the 2018 level, a reduction of 16.6%, which is equal to 3.68m³/ton of product.¹⁸ Klabin intends to increase waste reuse and recycling targets of hazardous and non-hazardous waste by 3.2%, meaning 97.5% of all waste against a 2017 baseline.¹⁹ Finally, Klabin also intends to reintroduce two extinct species and reinforce four other threatened species into the forests by 2030 (table 4).

¹⁸ In its 2020 annual report, Klabin disclosed a water withdrawal (WW) of 25.83 m³/ton of product and a wastewater discharge intensity (WD) of 21.41 m³/ton of product as its baselines, with 2018 being the baseline year. The company intends to reach the water consumption (WC) goal of 3.68m³/ton (WC=(WW-WD)/production). Klabin's specific water withdrawal intensity target of 25.1m³/t adheres to international best practices standards as those established by IFC/IPPC indicators (20 to 100 m³/t are considered adequate for pulp mills and 10 to 50 m³/t for paper mills). Although Klabin's SPT for water consumption intensity can be considered as ambitious, according to the SPO issued by Sustainalytics, their target is in line with ranges of best available technologies on the market.

¹⁹ For the second SPT, Klabin is committed to cut off its solid waste generation intensity from 33 kg/t to 25 kg/ton of product by 2025. According to second-party opinion by Sustainalytics, this SPT is close to the zero-waste benchmark used on the market and therefore should be considered ambitious.

Table 4
Klabin's 2031 SLB: KPIs, SPTs calibration and bond characteristics
(SLBP's components 1, 2 and 3)

KPIs	SPTs	Baseline	One-time coupon step-up	Deadline	Long-term goal
1 Water consumption intensity	Reduction of 16.7% to 3.68m ³ /ton	2018: 4.42m ³ /ton	12.5 bps	31 Dec 2025	3.5m ³ /ton
2 Waste reuse and recycling	97.5%	2017: 94.3%	6.25 bps	31 Dec 2025	100%
3 The reintroduction and/or reinforcement of wild species into the ecosystem	At least 2	Process has started	6.25 bps	2025	Reintroduce 2 and reinforce 4 others
Year of issuance: 2021	USD 500 million		Initial coupon: 3.2%		Maturity: 2031

Source: Klabin (2020) and Sustainalytics (2021). Note: bps=basis points. 100 basis points =1%.

Klabin says that it is committed to managing water in a responsible way throughout the supply chain. The company highlights that over 72% of its suppliers are engaged in water management initiatives. In addition, in 2019 Klabin began assessing its suppliers' risks by using the EcoVadis platform²⁰ to enhance the supply chain's commitment to sustainability.

Despite considering Klabin's definition and calculation methodology of KPIs to be credible, the SPO states that only KPI 1 and 2 can be benchmarked against best practices and reference documents available on the market. KPI 3 does not allow proper comparison between peers and with external benchmarks, as biodiversity as a KPI has not been used before.

When evaluating the methodology and materiality of KPIs 1 and 2, the SPO notices that: forestry operations are not included in KPI1, and these operations account for approximately 7% of total water consumption intensity from overall operations; regarding KPI2, the waste reuse 2017-19 baseline data is not audited by an external party, but Klabin commits to annually report and verify the waste reuse metric as of 2020 and to publish the results in their sustainability report.

CMPC, Chile

CMPC is the second largest tissue producer in Latin America and is the second largest pulp producer globally, after Suzano S.A. The 100-year-old company is specialized in the production of wood, pulp, packaging products, household and non-household sanitary protection products, and tissue paper. Following its industry peers Klabin and Suzano, CMPC in 2021 became the first Chilean company to issue a SLB in the international market. CMPC was also the first Chilean company to issue a green bond in the international market.

CMPC has been a leader in advancing sustainability in Chile. In 2019, the company announced its four sustainability goals —1) greenhouse gas emissions; 2) industrial water use; 3) industrial waste to landfill; and 4) area for protection, conservation, and restoration (CMPC, 2019)— and took an active role in drafting the Forest Sector SDG Roadmap from the World Business Council for Sustainable Development (WBCSD). The roadmap identifies risks and opportunities for the pulp and paper sector, and it establishes a plan to tackle negative impact and contribute to SDGs by 2030.

²⁰ EcoVadis is a cloud-based platform specialized in assigning sustainability ratings to companies and global value chains, the firm reports in its website it has rated over 75,000 trading partners worldwide. The EcoVadis Rating covers a wide variety of non-financial management systems including Environmental, Labor & Human Rights, Ethics and Sustainable Procurement impacts.

The issuance of its first SLB—a US\$ 500 million 2031 SLB issued in April 2021—strengthens the company's commitment to a business model that effectively considers climate change and environmental risks and is committed to the SDGs (box 7). The SLB includes a step-up margin of 12.5 basis points if CMPC does not meet the sustainability targets as laid out in the guidelines it published in March. DNV Business Assurance will oversee and determine if CMPC meets the targets. CMPC's SLB guidelines include targets and key performance indicators (KPIs) in two areas, greenhouse gas emissions and industrial water usage. CMPC used 2018 as its baseline year for both KPIs (table 5).²¹

Box 7	
CMPC sustainability and governance goals aligned with UN SDGs - Agenda 2030	
1.	Reduce absolute greenhouse gas emissions by 25% by 2030 (SDG 13).
2.	Reduce industrial use of water per metric ton of product by 25% by 2025 (SDG 6).
3.	Zero waste to the landfill by 2025 (SDG 12).
4.	Conserve/restore additional 100,000 hectares by 2030 (SDGs 13 and 15).
5.	Increase the share of women by 50% to 23.1% by 2025 (SDGs 5 and 10).
6.	Increase by 50% the share of women in management positions to 31.7% by 2025 (SDGs 5 and 10)
7.	Reach 2.5% persons with disability by 2025 (SDG 10).
8.	Innovations goals: 1) 30% of process improvements by 2025 should come from digital innovation and data use; 2) 20% of reaching the concrete environment goals should be achieved through innovative technology; 3) 10% of sales of all three business areas by 2025 should come from new and innovative products which we didn't offer as of 1 January 2020 (SDG 9).
Source: CMPC corporate goals https://ir.cmpc.com/English/sustainability-and-governance/Goals/default.aspx .	

Table 5
CMPC's 2031 SLB: KPIs, SPTs calibration and bond characteristics
(SLBP's components 1, 2 and 3)

KPIs	SPTs	Baseline	One-time coupon step-up	Deadline	2030 SDGs
1 GHG Emissions Intensity Reduction	Reduce 23.5% of CO2 emissions	2018: 2.396 MtCO2e	12.5 bps	31 Dec 2025	Reduce 50% of CO2 emissions
2 Water usage intensity	Reduce 25% of usage (to 23.13 m ³ /t)	2018: 30,84m ³ /t	12.5 bps	31 Dec 2025	
Year of issuance: 2021	USD 500 million		Initial coupon: 3.000%		Maturity: 2031

Source: CMPC website, CMPC (2019), Dealogic database and WBCSD (2021).

Regarding the first KPI, GHG emissions was one of the main issues raised in the CMPC's 2018 materiality study. The company's long-term goal of reducing 50% of its GHG emissions was constructed using the Science Based Targets Initiative (SBTi) and the 1.5°C pathway, determined by the Intergovernmental Panel on Climate Change (IPCC).²² In 2020, CMPC achieved a 10.6% (out of 50%) reduction in scope 1 and 2 emissions.²³

²¹ According to CMPC's website, its SLB issuance follows ICMA's SLBP. The company also states that it has published the bond framework and the SPO issued by DNVGL for its investors. In the case of CMPC, it was necessary to collect external non-official data on the KPIs and SPTs as well as to use its annual sustainability report (CMPC, 2020).

²² The Intergovernmental Panel on Climate Change (IPCC) is the United Nations body for assessing the science related to climate change.

²³ CMPC measures carbon dioxide emissions of all CMPC's 43 operating facilities.

According to CMPC, predictions of future water scarcity in the places where it operates, especially in Chile, were decisive when choosing the second KPI, industrial water usage. CMPC says that KPI 2 has been compared with the best available techniques and peer-reviewed, but the transparency of its sustainability performance target would be increased if the water usage target was disclosed by product. CMPC only shows the baseline total water usage and the total water usage target of 23.13 m³/t. Some products, such as tissue paper, naturally push the average water usage down because the best practices on the market range from 5 to 15 m³/t. On the other hand, pulp production best practices range from 20 to 50 m³/t, making it hard for investors to identify whether CMPC's overall target is ambitious. In 2020, CMPC reported only a 3% progress towards the KPI 2 goal of a 25% reduction in water usage by 2025.

b) Food and Beverage: FEMSA (Mexico) and JBS (Brazil)

Climate change mitigation is considered a key ESG issue faced by the Food and Beverages sector according to key ESG standards for reporting. Companies of this sector are highly GHG emissions intensive, namely in the process of animal farming and processed food, and thus a highly GHG-emitting industry. The sector is also exposed to water management and related climate change mitigation challenges, such as maintenance of biodiversity and reducing the environmental and social impacts on communities.

FEMSA, Mexico

Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA) is a Mexican multinational beverage and retail company. FEMSA adopted an SLB framework on 19 April 2021, which was prepared in accordance with the ICMA SLBPs, using IPCC risk model, and set goals on two KPIs: reducing the amount of waste sent to landfills and increasing the use of renewable energy (FEMSA, 2021). Specifically, FEMSA plans to not send any more waste to landfills and use at least 85% renewable energy by the end of 2030. The company sent 47% of waste to landfills and used renewable energy for 60% of its electricity in 2020, according to its prospectus.

The first KPI is aligned with SDG 12, Responsible Production and Consumption, Target 12.5 (by 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse). KPI 1 is described as the percentage of total operational waste diverted from landfills (measured as tonnes of waste recycled or reused/tonnes of total operational waste). The KPI covers all FEMSA's business units, including FEMSA Comercio, Coca-Cola FEMSA and FEMSA strategic businesses.

The second KPI is aligned with SDG 7, Affordable and Clean Energy, Target 7.2 (by 2030, increase substantially the share of renewable energy in the global energy mix). It is described as the percentage of total electricity consumption coming from renewable sources. The KPI covers all FEMSA's business units, including FEMSA Comercio, Coca-Cola FEMSA and FEMSA strategic businesses. Historically, the KPI covered approximately 98% of FEMSA's working centres.

On 22 April 2021, FEMSA issued two SLBs, a 2028 EUR 700 million and a 2033 EUR 500 million SLB. FEMSA has adopted ICMA's SLB issuance principles (table 6). Per the terms of the Notes, the satisfaction of the SPTs will be verified by an accredited external party, and if such targets are not satisfied by certain dates, there will be an interest rate step up of 25 basis points. In addition, the Company obtained a SPO from Sustainability in accordance with industry best practices.

Table 6
FEMSA's 2028 and 2031 SLBs: KPIs, SPTs calibration and bond characteristics
(SLBP's components 1, 2 and 3)

KPIs	SPTs	Baseline	One-time coupon step-up	Deadline	Long-term goal
1 Zero Operational Waste to Landfill	Increase the percentage of waste diverted from landfills to 65% by 2025 and 100% by 2030	2019: 52% or 134,426 metric tonnes	25 bps	2025	Increase the percentage of waste diverted from landfills to 100% by 2030
2 Renewable energy	Increase the percentage of total electricity consumption coming from renewable energy sources to 65% by 2025 and 85% by 2030	2019: 48% or 1,327,714 MWh	25 bps	2025	Increase the percentage of total electricity consumption coming from renewable energy sources to 85% by 2030
Year of issuance: 2021	EUR 700 million		Initial coupon: 0.5%		Maturity: 2028
Year of issuance: 2021	EUR 500 million		Initial coupon: 1%		Maturity: 2031

Source: FEMSA (2021) and Sustainalytics SPO document (Sustainalytics, 2021a).

JBS, Brazil

JBS is one of the world's largest food companies, operating in more than 190 countries on six continents through its well-recognized brands. Considering the importance of addressing global warming challenges, JBS says it has taken the most ambitious climate actions in its sector, such as achieving net-zero GHG emissions across its entire value chain by 2040, submitting all its SBTs for validation under Science Based Targets (SBTi) and tying executive remuneration to environmental performance. JBS global goals are aligned with the SDGs (box 8).

Box 8

JBS global goals are aligned with UN SDGs - Agenda 2030

JBS global goals support SDG Goals 2, 3, 6, 7, 8, 12 and 15. The company's concrete and measurable environmental objectives are described below:

1. Achieve net-zero GHG emissions by 2040.
2. Invest US\$ 1 billion in emission reduction projects in JBS-owned facilities over the next decade.
3. Invest US\$ 100 million by 2030 in R&D projects to assist producer efforts to strengthen and scale regenerative farming practices.
4. Eliminate illegal deforestation from JBS's Brazilian cattle supply chain — including the company's suppliers — in the Amazon and other Brazilian biomes by 2025 and advance traceability to assure deforestation-free supply chains.
5. Reduce scope 1+2 GHG emission intensity by 30% by 2030 vs. 2019 baseline.
6. Reach 60% renewable electricity by 2030.
7. Reduce water use intensity by 15% by 2030 vs. 2019 baseline.
8. Tie senior executive compensation considerations to performance against environmental goals and align interim targets to SBTi criteria.
9. Social objective: 30% improvement in Global Safety Index by 2030 vs. 2019-2020 average baseline.

Source: Our Global Goals | JBS USA | Sustainability Report (jbsfoodsgroup.com).

According to the SPO issued by ISS ESG, JBS's KPI selection – JBS's Global Greenhouse Gas (GHG) Emission Intensity (Scope 1 and 2, in MTCO_{2e} per MT of product) – is relevant and core to the issuer's business model and sustainability profile, material to the company's direct operations, but not material to the whole corporate value chain as the KPI does not include Scope 3 emissions. JBS issued a 2032 US\$ 1 billion SLB in June 2021 (table 7).

ISS ESG, in its SPO, finds that the SPT calibrated by JBS's is ambitious against the company's past performance and compared to Food and Beverages sector practices in terms of defining a GHG emissions reduction target. The calculation methodology selected by the issuer is widely used in the sector. The SPT remains in a similar order of magnitude as top tier companies in the sector as per ISS ESG's Universe. However, it is not as ambitious as other companies' targets which include Scope 3 emission. According to guidance on target setting from the SBTi, requiring to include Scope 3 for any company where more than 40% of emissions stem from Scope 3, the current SPT does not align with SBTi guidelines (ISS ESG (2021a), p.13).²⁴

Table 7
JBS's 2032 SLB: KPI, SPT, calibration and bond characteristics
(SLBP's components 1, 2 and 3)

KPI	SPT	Baseline	One-time coupon step-up	Deadline	2030 SDGs
1 JBS's Global Greenhouse Gas (GHG) Emission Intensity	Reduce the KPI by 30% by 2030 with respect to a 2019 baseline	2019: 0.26926 MTCO _{2e} /MT produced	25 bps	31 Dec 2025	Net-zero by 2040
Year of issuance: 2021	USD 1 billion		Interest rate: 3.625%		Maturity: 2032

Source: JBS (2021) and ISS ESG SPO (ISS ESG, 2021a).

c) Auto parts and equipment: Nemak (Mexico)

Nemak, S.A.B. de C.V. is a global automotive parts manufacturing company headquartered in Mexico. The company manufactures a wide range of automotive parts and systems with a primary focus on aluminium auto parts. It is among the 60 largest auto industry suppliers worldwide. The company has 38 facilities strategically located in 15 countries.

Nemak is well involved in sustainable initiatives, with approximately 80% of its products being currently made of recycled aluminium, and its climate change commitments include the long-term goal of carbon neutrality by 2050. Nemak says its sustainability goals align with the framework of the SDGs, with commitments to SDGs 4, 8, 9, 12, and 13, as well as the 10 principles of the UN Global Compact. In 2021, Nemak issued two SLBs, a 2031 SLB totalling US\$ 500 million issued in June, and a 2028 SLB totalling EUR 500 million issued in July. Its framework is based on the SLBPs by ICMA. In both SLB issuances, Nemak decided to track GHG emissions and use 2019 as its baseline year (table 8).

Due to the substantial amount of energy consumed by auto parts manufacturers in their process, the Sustainability Accounting Standards Board (SASB)²⁵ considers Energy Management as one of the

²⁴ The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (Greenhouse Gas Protocol, FAQ, https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf).

²⁵ Another standards proposal for disclosing financial-material sustainability information to investors is the Sustainability Accounting Standards Board (SASB), supported by the Value Reporting Foundation. These standards' initiative identifies a subset of environmental, social, and governance issues to financial performance in 77 industries.

most relevant topics to track and disclose by the Auto Parts industry. Despite Nemark's KPI covering GHG emissions scope 1 and 2, scope 3 emissions correspond to the majority of the company's overall emissions (roughly 70%). On the other hand, the firm is the only one in our sample that has set concrete long-term targets for scope 3 GHG emissions, i.e., global value chain emissions targets, in its sustainability-linked bond framework (reduce scope 3 GHG emissions from purchased goods and services by at least 14% by 2030 from a 2019 baseline). In terms of peer comparison, according to Sustainalytics, six out of the eight companies in its industry group have not established quantitative time-bound targets for absolute GHG emission reductions.

Table 8
Nemark's 2031 and 2028 SLBs: KPI, SPT, calibration and bond characteristics
(SLBP's components 1, 2 and 3)

KPIs	SPTs	Baseline	Changes by	Deadline	2030 SDGs
1 GHG emissions (Scope 1 and 2)	28% reduction in absolute Scope 1 and 2 GHG emissions by 2030	1,418,978 tCO ₂ e	25bps	31 Dec 2030	Reduce Scope 1 and 2 by 28% and scope 3 by 14%
Year of issuance: 2021	USD 500 million		Initial coupon: 3.625%		Maturity: 2031
2 GHG emissions (Scope 1 and 2)	18% reduction in absolute Scope 1 and 2 GHG emissions by 2026	1,418,978 tCO ₂ e	25bps	31 Dec 2026	Scope 1 and 2 by 28% and scope 3 by 14%
Year of issuance: 2021	EUR 500 million		Initial coupon: 2.250%		Maturity: 2028

Source: Nemark (2021) and Sustainalytics SPO document (Sustainalytics, 2021b).

2. Results and how standardized risk assessment could support sustainability

The sustainable commitments of the companies in our sample were all aligned with the ICMA's SLBPs and the United Nations SDGs. Four of the six companies analysed are aligned with the Science Based Targets Initiative (SBTi), and three out of six with the disclosure recommendations of the TCFD and Carbon Disclosure Project (CDP), which is a non-profit running a global disclosure system (table 9).

Table 9
Case studies: alignment of sustainable commitments

Companies	SLBP 2020	SBTi	UN SDGs	TCFD	CDP
Suzano	✓		✓	✓	
Klabin	✓	✓	✓	✓	✓
CMPC	✓	✓	✓		✓
FEMSA	✓	✓	✓		
JBS	✓	✓	✓	✓	✓
Nemark	✓	✓	✓		✓

Source: companies' annual reports and SPO documents. Note, the Science Based Targets Initiative (SBTi) is a collaboration between CDP, the United Nations Global Compact (UNGC), World Resources Institute (WRI), and the World Wide Fund for Nature (WWF).

Despite ESG KPIs being reported and quantified over the years, sometimes the information extracted is not quantifiable, benchmarkable, or externally verifiable; in some cases, companies are unable to provide KPI historical data when reporting. In other instances, companies chose to report using the same KPI as industry peers, but their metrics differ widely—which highlights the importance of defining sectoral standards. Providing raw data in ESG reporting is also critical to make comparisons between companies, sectors, and countries possible and would contribute to increase transparency in corporate reporting. The case studies that were documented in this report reveal that there is still room for improvement when it comes to transparency in ESG reporting. Transparency can be increased in several areas, including when reporting statistics for industry peers, such as specifying who these peers are or the main similarities and/or differences with the issuers. Within our sample of companies, it was common to see them reporting peer group statistics without disclosing the names of the peers in question, making it hard to measure the relative effort needed to accomplish the STP.

In some cases, enterprises seemed to choose a KPI that was tailored to the scope of their operations or business models, but by doing so, industry or sectorial comparability becomes more difficult. Nonetheless, the lack of comparability is in great part due to a lack of harmonized metrics on core business ESG KPIs, as many international targets have not yet been established. Consequently, it becomes more difficult to determine ambitiousness levels.

Many KPIs were assigned as limited by the SPOs usually due to peer data unavailability (table 10). In other cases, the reason for assigning "limited" to KPIs was the lack of historical data on the chosen KPI. The importance of creating standards to guide companies in their KPI selection cannot be understated. In some cases, companies are choosing KPIs for which no international target has yet been established or there are no similar market efforts. As the issuance of SLBs grow, it is important to move more towards the creation of common standards and indicators, by sector and by country, what would help to determine which are the most relevant KPIs for each industry and to establish a reasonable benchmark for a specific sector.

Table 10
Case studies: KPI comparison
(∅ = there does not exist)

Companies	KPIs	Measurable	Quantifiable	Externally Verifiable	Benchmarkable	Ambitious against issuer's past performance	Ambitious against peers	International Target	Note
Suzano	KPI 1	✓	✓	✓	✓	✓		✓	Limitations cannot be attributed to issuer
	KPI 2	✓	✓	✓	Limited	✓	✓	∅	
	KPI 3	✓	✓	✓	✓	Limited	✓	✓	
Klabin	KPI 1	✓	✓	✓	✓			✓	2020 status is already low
	KPI 2	✓	✓	✓	✓	✓	✓	✓	
	KPI 3	✓	✓						
CMPC	KPI 1	✓	✓	✓	✓	✓	✓	✓	
	KPI 2	✓	✓	✓	✓	✓	✓		
FEMSA	KPI 1 and 2	✓	✓	✓	✓	✓	✓	✓	
JBS	KPI 1	✓	✓	✓	Limited	Limited	Limited	Limited	Benchmarkable with strong limitations
Nemak	KPI 1 and 2	✓	✓	✓	✓	Limited	✓	✓	

Source: Companies' SLB frameworks and SPO reports.

Note: Reasons to be considered limited include lack of data disclosure and different measurement methodologies, among others.

ESG mandatory disclosure could also improve companies' information disclosure and ESG efforts. While mandatory ESG disclosure measures are reporting regulations, laws or reporting regimes, voluntary ESG disclosure measures can be found in the form of frameworks, guidelines, or international standards, as seen in the six case studies. Nonetheless, they could be used simultaneously. Krueger et al (2021) found that mandatory ESG disclosure increases the availability and quality of ESG reporting, especially in the case of low ESG performance firms. Furthermore, they pointed out that negative ESG incidents become less likely. According to the author's data, Argentina, Chile, and Peru are among the countries that have already profited from establishing ESG mandatory disclosure.

In addition to the implementation of mandatory disclosure, IPSF (2021) argues that measures could refer to specific KPIs adoption, which would increase peer comparability. Also, it would be important to supplement these measures with clear guidance on the calculations of the KPIs. Specific KPIs determination by governments reduces information asymmetry, brings transparency to reporting procedure, and minimizes potential greenwashing (e.g., cherry-pick KPIs with good performance).

III. Conclusions

In a scenario of high long-term sustainability and climate risks, which have significant impact on economic conditions, the emergence of instruments such as SLBs or sustainability bonds based on the SDGs appear as an alternative that can help countries face economic, social, and environmental challenges, which in some cases have been aggravated by companies' lack of action in mitigating the environmental and social impacts generated by their businesses. These challenges have also been exacerbated by the pandemic, and together with the increased frequency of extreme weather events, have made the response capacity and resilience of companies around the world, and particularly in Latin America and the Caribbean, more complex.

The issuance of cross-border GSSS bonds by LAC issuers has grown since 2014 and accelerated sharply in 2020 and 2021. As market participants increase their awareness of and interest in ESG strategies and projects, the use of these instruments should continue to grow. The financial market can play a relevant role in redirecting capital toward sustainable activities, including the transition to a low-carbon economy and a more equal society. Issuance of GSSS bonds can improve investor base diversification and the issuance of SLBs, in particular, has allowed for a more diverse group of issuers. The use of GSSS bonds as a financial alternative allows for an increased participation of the private sector in the development process and a bigger pool of finance.

The case studies in this report show that there is an increasing board involvement in the decision-making process related to climate risk. Nonetheless, with improvements in the quality of information captured by the market, it is still hard to use the information provided by companies' ESG reports to make direct comparisons between investments. Although in most cases data is quantified, the information may not be comparable across periods or sectors, and even within sectors. Investors are placing greater scrutiny on ESG instruments, increasingly seeking better information on risk, return and impact, and demanding actions to mitigate ESG risk exposure.

Although there are an important number of national and international organizations working to improve evaluation methodologies, in order to achieve comparable results that will help in the evaluation

of corporate ESG investments, an effort to standardize these metrics is required. Despite bringing recommendations on what to report on and how to report it (metric, format, and reporting frequency), ESG frameworks, as we saw, do not usually set targets for such metrics; the latter is left to the discretion of the company's ESG commitments and goals. In some cases, companies are choosing KPIs for which no international target has yet been established. As the issuance of SLBs grow, it is important to move towards the creation of common standards and indicators, by sector and by country.

The pace of standardization in the ESG sector has been slow, however, and a lack of taxonomies and definitions of sustainable activities aligned with developing countries' policies, needs and objectives, may be hindering the expansion of ESG strategies in these countries' business sectors. Sustainable activities that are relevant for developing countries should also include social areas, such as enhancing access to health care, clean water, food, and education, as well improving women's participation in the economy, including promoting women entrepreneurs. Some countries in the LAC region have moved in this direction, looking to establish a taxonomy that they can apply, focused on their development needs.

Developing a taxonomy for sustainable activities within the framework of the 17 SDGs could help sovereign and corporate bond issuers in the LAC region to widen and strengthen financing for sustainable development. The development of taxonomies and indicators would be important to create a common language that can translate and interpret the Paris Agreement's, the SDGs' and the COP26's commitments, in an economic context that facilitates sovereign and corporate decision-making processes. It could help with the determination of specific KPIs, reducing information asymmetry, bringing transparency to reporting procedure, and minimizing potential greenwashing. Such taxonomy would save time and reduce costs for issuers and investors, avoiding reputational risks for issuers and facilitating investment selection and how to measure its impact.

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The aim of this report is to study, from the governance perspective, the growing use of environmental, social and governance (ESG) bonds, and in particular sustainability-linked bonds (SLBs), by Latin American and Caribbean corporate issuers in international markets. Focusing on corporate sector sustainability performance, the report examines the potential of these instruments as a source of financing for investment projects and their role in strengthening companies' governance structures. It also analyses how these instruments can contribute to sustainable recovery in the region, taking into consideration the commitments to reduce climate risks in line with the Paris Agreement and the twenty-sixth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 26), and the implementation of the 2030 Agenda and the Sustainable Development Goals (SDGs).

