2023 Review & 2024 Outlook

Sustainable Finance - Latin America

INFORMATION, INSIGHTS, AND IDEAS

January 2024

TABLE OF CONTENTS

Executive Summary

2023 Trends and Year in Review

Macro Landscape

After a challenging 2022 for the sustainable finance, regional and global markets, 2023 was a year of normalization as ESG volumes resumed steady growth (14% increase YoY in LatAm), being supported by innovative sovereign ESG labelled debt offerings and continued engagement from large corporate entities across various labels.

Increased Innovation

Latin America continued its trend as an established hub for sustainable finance innovation supported by sovereign SLBs, taxonomy developments, multi-labelled sustainable financing solutions, deposit product offerings, and local context-centric solutions, among others.

Key Expected Themes During 2024

Trends to Watch

As the sustainable finance market continues to develop, so too will the suite of product offerings. Building on global efforts to meet the 2030 Agenda and Paris Agreement, blended finance, transition finance and biodiversity-related solutions will continue to be focus areas for future product development, as well as various ESG label combinations. Positive biodiversity solutions and increased reporting standardization will promote additional KPI and Use of Proceeds opportunities for the sustainable finance market, with sovereigns continuing to engage in the market through budget alignment and ambitions to achieve NDCs and social objectives.

Regulatory Landscape

As markets begin to release mandatory sustainability disclosures requirements, such as the ISSB standards, scrutiny for issuers in the sustainable finance market is expected to increase. Taxonomies will be leveraged as key guiding documents to align corporate and public ESG investment strategies, providing investors with a unified perspective on asset characteristics. The increasing pressure to understand, account for and manage biodiversity and ecosystem impacts has fostered the development and release of the TNFD Framework, which will be leveraged in the region.

Sustainable Finance at Scotiabank

Scotiabank's Sustainable Finance team continued to be a market leader in 2023, with strong capabilities across its global footprint. Its dedicated Latin American coverage has enabled Scotiabank to become the preferred one-stop-shop for sustainable finance solutions in the region, being recognized as Bank of the Year for Sustainable SSA Financing by The Banker and Sustainable Infrastructure Bank of the Year by LatinFinance.

2023 Trends and Year in Review

MACRO LANDSCAPE

Economic and Geopolitical Impacts on Sustainable Finance: After a 2022 plagued with recessionary fears, inflationary value erosion, interest rate hikes and geopolitical risk, 2023 has been a year of modest market normalization. Investors globally and in the Latin American region have been drawn to higher yields, as inflation subsides, and growth forecasts improve after 2022 record outflows. Well-grounded macro policy responses have enabled the Latin American region to increase its resiliency to global economic shocks, with employment, poverty and income indicators returning to pre-pandemic levels. In 2023, investors reallocated capital back into emerging market debt offerings, supported by high credit quality sovereign ESG labelled bond issuances.

The Increasingly Problematic Climate Crisis[1]: Extreme weather events continued to have adverse impacts across Latin America in 2023, which is expected to be exacerbated in 2024 with the effects of El Niño on food and agriculture. The impacts of climate change have been felt this year in Mexico through hurricane Otis, in Chile through persisting water scarcity and wildfires, in Brazil with wildfires also impacting millions of acres of biodiversity, and in Peru through heavy rainfall and destructive flooding. The IPCC's AR6 Synthesis Report released in 2023 highlights that Central and South America are amongst the regions that will be most impacted by climate change.

INCREASED INNOVATION

Continued Sovereign Engagement: Sovereigns in the Latin American region continued to account for a sizable portion of the sustainable finance market in 2023, representing over 60% of total ESG labelled debt[2]. Chile built upon its reputation as the world's first sovereign SLB issuer, with new SLBs in EUR, USD and CLP, which incorporated a social KPI related to the percentage of women in board of director positions.[3] Mexico, while having issued SDG labelled bonds across four markets (USD, EUR, MXN and YEN), released the world's first Sustainable Taxonomy inclusive of social criteria relating to gender equality.[4] Furthermore, Brazil released its Sovereign Sustainable Bond Framework, which includes a racial discrimination category, subsequently entering the sustainable finance market with a US$2Bn 7-Year inaugural green bond.[5]

Innovative Financing Solutions: Innovation across the Latin American sustainable finance market has increased in 2023, as entities continue to align their capital structures with ESG positive solutions. Repeat bond issuers have continued to diversify their debt offerings with differentiated ESG labels across tranches, and in the case of CMPC, pioneering the region's first combined green and linked label in a single issuance.[6] Ecuador successfully completed a debt-to-nature swap, directing investment into conservation and sustainable activates through the creation of the Galapagos Life Fund,[7] while Fibra Prologis became the first publicly traded real estate company to invest cash in a sustainability-linked deposit account with Scotiabank.[8]

Regional Sustainable Finance Growth Factors: Local context has been a driver of the sustainable finance market in 2023, with the *just transition* and social welfare at the centre of the many corporate, financial institution and sovereign bond issuances. While global investors have traditionally shown a preference for green labelled bonds, the local investor base has expressed heightened interest to invest in socially-focused debt as well as SLBs. This is clearly seen from the 59% of social and sustainability bonds in Latin American debt volumes compared with 22% at a global level.[2] Companies such as Grupo Energía Bogota, a Colombian utility company in a hard-to-abate sector, are engaging in the sustainable finance market to fund projects in support of both decarbonization activities and key social infrastructure.

SUSTAINABLE FINANCE LANDSCAPE 2023

Global Market [2]

- -14% change in volumes YoY
- 48% Green Bonds, 10% Social Bonds, 12% Sustainability Bonds, 5% SLBs, 9% Green Loans, 15% SLLs
- +1,870 market participants

Latin American Market [2]

- +14% change in volumes YoY
- 12% Green Bonds, 18% Social Bonds, 31% Sustainability Bonds, 27% SLBs, 3% Green Loans, 9% SLLs
- +60 market participants

Figure 1
CO_2e Emissions Per Capita in Latin America[9]

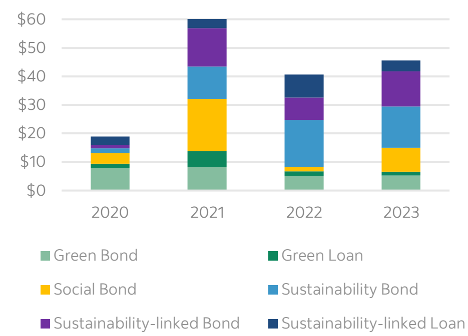
Country	CO_2e Emissions, 2022 *(tons per capita)*	
	5.99	Global Average: 6.76
	3.09	
	7.31	
	4.23	
	6.05	

Figure 2
Human Development and Social Progress Indices[10, 11]

Country	HDI Rank*	SPI Rank**
	86 (High)	71 (Tier 3)
	84 (High)	71 (Tier 3)
	42 (Very High)	81 (Tier 2)
	88 (High)	70 (Tier 3)
	87 (High)	71 (Tier 3)

* Human Development Index (HDI)
** Social Progress Index (SPI)

Figure 3
LatAm ESG Debt Volumes *($US eq. Billions)* [2]



As at December 31th, 2023

Figure 4
NDC and Sustainability Frameworks by Country[12]

Country	Latest NDC Release	SBF/GBF*	SLB**
	2022	✓	
	2020	✓	
	2020	✓	✓
	2020	✓	
	2023	✓	

* Sustainable Bond Framework/Green Bond Framework
** Sustainability-Linked Bond Framework

2024 SUSTAINABLE FINANCE KEY THEMES IN EXPECTED LATIN AMERICA

1 Latin America - a Hub for Sustainable Finance Innovation

Latin American countries have continuously been pioneers in testing new sustainable financing products. We see additional products and structures gaining traction in 2024, including:

- **New Product Combinations:** Green Sustainability-Liked Bonds will continue to be a desirable product for investors with similar structures expected to be replicated in lending transactions.
- **New Financing Products:** Blended finance growth is anticipated to persist as the world inches closer to the 2030 Agenda deadline. Product innovation on both sides of the balance sheet is expected to continue, specifically deposits, trade finance, and sustainable supply chain financing.
- **Transition Finance:** The Latin American region is expected to increase transition financing volumes irrespective of ESG labelled products, with a focus on social impacts to the region's resource-based economies.
- **Blue Finance[14]:** Increased blue financing opportunities will be supported by the release of *Bonds to Finance the Sustainable Blue Economy* (ICMA, IFC, UNGC, UNEP FI, ADB).

2 Biodiversity and Natural Capital

COP15 on Biodiversity[15] in 2022 advanced the sustainability narrative for Latin America and the world, with all Latin American countries adopting the Kunming-Montreal Global Biodiversity Framework after four years of negotiations, consisting of four goals and 23 targets to be achieved by 2030. Among the key components of the framework is the objective to protect 30% of earth's land, oceans, costal areas and inland waters. Furthermore, the TNFD published its final recommendations for nature-related risk management and disclosure to be adopted on a voluntary basis, building on the architecture from the TCFD Framework. Considering that Latin America houses 40% of global biodiversity,[16] sustainable finance transactions at both a corporate and government level are expected to incorporate increased biodiversity and climate adaptation attributes. Following COP26, the sentiment towards carbon credits was bullish, with values peaking in early 2022; however, since then, carbon credit values have starkly declined. Over the past year, various carbon market integrity initiatives have sought to rebuild trust and boost liquidity, being especially important to Latin American countries, which accounts for approximately 20% of the global market share.[17] With COP28 having addressed this key mechanism, a bounce back in price could be on the horizon. Alongside carbon credits, biodiversity credits are expected to increase in significance, albeit in early stages.

3 Sovereigns Setting the Tone

Sovereigns in the Latin American region have contributed to the promotion and development of the sustainable finance market with supportive policies, regulation, and the establishment of local taxonomies to increase guidance and transparency for the market. It is expected that sovereigns across the region will continue to participate with significant volumes in the market, further signaling the importance of private sector sustainable capital mobilization. Given the social mandate of these entities, a continued flow of social, green, and sustainability bond issuances in line with budgetary requirements is expected, noting that all Pacific Alliance countries have established frameworks or programs for these types of financings. It is important to note that both Uruguay and Chile have already issued SLBs, with the market keen to see if this trend will continue amongst other countries in the region, leveraging NDCs, biodiversity, and social commitments. The energy transition will continue to be a focus for sovereigns through low-carbon hydrogen plan development and additional sources of low carbon revenue from national oil companies, generating sustainable financing opportunities. Out of the 33 countries in the region, 16 have established net zero targets, eight have deforestation targets, eight have a hydrogen strategy, 11 have electricity access targets, and 16 have zero emissions vehicle policies.[18]

4 Blended Finance Solutions

Blended finance is a strategic option to fund ESG positive projects with different risk/return profiles than traditionally acceptable for private finance alone, with over US$200Bn in capital mobilized in 2023.[19] Common blended finance structures include concessional capital, technical assistance funds, risk insurance and design-stage grants. These solutions promote the mobilization of additional capital towards sustainable development in developing economies, while supporting progress to meet the 2030 Agenda and Paris Agreement. Noting a funding gap of US$3.3-4.5tn to achieve the 2030 Agenda[20] and lofty commitments made at last year's COP27 to provide loss and damage funding for vulnerable countries impacted by natural disasters, the prospects of increased blended financing solutions are strong. Blended finance solutions will continue to grow as information becomes increasingly standardized, and transparency on deal flows increases. Institutional investors and financial institutions will continue to seek out complementary investments to meet their public sustainability objectives.

Blended Finance Capital Allocation

- 72% Concessionary Capital
- 17% to Latin America and Caribbean
- 28% to Energy Sector
22% to Financial Service Sector
21% to Agricultural Sector
- 70% to SDG 8
50% to SDG 9
- 65% Private Investors
19% Public Investors
16% Philanthropic Investors

By the Numbers[19]

REPORTING LANDSCAPE

1 Mandatory Reporting Increases Scrutiny for Issuers

Beginning in 2024, Latin American issuers will release their sustainability disclosures under mandatory requirements in several jurisdictions. Such a milestone will culminate in investors and regulators calling for greater standardization and materiality reporting, especially regarding climate-related disclosures. As a result, companies are expected to provide concrete sustainability targets and metrics, granular data and reasonable explanations, where information is lacking (consistent with comply-or-explain policies). Additionally, in some jurisdictions, issuers will likely engage with assurance providers to curtail any risks of material inaccuracies and to mitigate potential information requests from supervisory bodies.

2 Taxonomies Expected to Drive Agenda for Disclosures

The region continues to evolve on taxonomy development, focusing on material aspects related to each country's particular economic context. In 2022, Colombia launched its taxonomy including broad environmental sustainability topics, such as land use, an aspect not covered by the EU taxonomy, while Mexico's taxonomy launched in 2023, is the first in the world to include a social objective with focus on gender equality. Countries like Chile, Brazil and Peru are making substantial progress in developing national taxonomies that encompass hard-to-abate sectors, and Brazil will also include social objectives. In providing continued support for greater market consistency during taxonomy development, the Common Framework for Sustainable Finance for Latin America and the Caribbean will continue to serve as a reference point for many countries.

3 Implementation of ISSB

The ISSB Standards, released in July 2023, represent a pioneering effort in consolidating and enhancing existing sustainability reporting standards and frameworks. As IFRS S1 and IFRS S2 come into effect in January 2024, organizations will begin implementing the new reporting requirements. Companies reporting under SASB, TCFD and CDSB will welcome a common baseline for their disclosures. The Standards have garnered the support of the International Organization of Securities Commissions, which has called its member jurisdictions to consider the adoption of the Standards at a national level. Brazil has led the way in such direction, with the Brazilian Securities and Exchange Commission's enactment of Resolution 193 on October 20, 2023, which mandates companies to report climate- and sustainability-related disclosures under the ISSB Standards starting January 2026.

4 Nature-Related and Biodiversity Disclosures

After the release of the TNFD in September 2023, the corporate sector is expected to begin the implementation of the Framework in 2024. Investors are aware that insufficient planning or management of risks derived from biodiversity and ecosystem loss can potentially disrupt companies' operations and financial prospects. As these risks are embedded within hyper-connected global value chains, companies are under increasing pressure to understand, account for and manage their biodiversity and nature dependencies and impacts. Since the TNFD Framework's architecture is compatible with the ISSB Standards, some sectors predict the ISSB might eventually include the Framework within its family of Standards.

Sustainability Reporting Regulation by Country

Country	Regulation	Regulated Entity	Scope	Enforcement Date
	Annex N – Securities Issuers Circular - Banking and Securities National Commission of Mexico	Securities issuers Large private companies	• Climate-related disclosures • Other sustainability-related disclosures	February 2021
	Resolution 018-2020 – Securities Market Superintendency of Peru	Securities issuers	• Climate-related disclosures (governance, GHG metrics) • Other sustainability-related disclosures	January 2021
	Act 461 – Financial Market Commission of Chile	Securities issuers	• Climate-related disclosures (governance, strategy risk management) • Other sustainability-related disclosures (governance, strategy, risk management)	December 2022 to December 2024
	Circular 031 -2021 – Financial Superintendence of Colombia	Securities issuers	• TCFD • Other sustainability-related disclosures (SASB)	February 2024
	Resolution 193-2023 – Brazilian Securities and Exchange Commission	Securities issuers, with some exceptions	• Climate-related disclosures (IFRS S2) • Sustainability-related disclosures (IFRS S1)	January 2026
	Resolutions 4943 and 4945 – Central Bank of Brazil	Financial institutions	• Climate-related disclosures (governance and risk management) • Sustainability-related disclosures (governance and risk management)	July 2022

Endnotes and Acronyms

ENDNOTES

1 IPCC: Sixth Assessment Report
2 Bloomberg Finance L.P., Scotiabank
3 Government of Chile Ministry of Finance: Sustainability-Linked Bonds
4 Government of Mexico Ministry of Finance: Taxonmía Sostenible de México
5 Government of Brazil: Brazil Sovereign Sustainable Bond Framework
6 CMPC: Green Sustainability-Linked Bond
7 IBD: Ecuador Debt-to-Nature Swap
8 Fibra Prologis: Cash Investments
9 EDGAR: Global CO_2e Emissions 2022
10 UNDP: Country Insights - Human Development Insights
11 Social Progress Imperative: 2022 Social Progress Index
12 UNFCCC: NDC Registry
13 COP28 UAE: Climate Finance Framework
14 International Capital Markets Association: Bonds to Finance the Sustainable Blue Economy
15 Convention on Biological Diversity: COP15: Landmark Biodiversity Agreement
16 OECD: Trends and Key Pressures on Biodiversity and Ecosystems
17 Climate Impact Partners: Latin America: The Potential for the Voluntary Carbon Market
18 International Energy Agency: Key Policy Initiatives in Latin America and the Caribbean
19 Convergence: Blended Finance
20 United Nations Sustainable Development Group: Unlocking SDG Financing

ACRONYMS

ADB	Asian Development Bank
CDSB	Climate Disclosure Standards Board
COP	Conference of the Parties
ESG	Environmental, Social and Governance
GHG	Greenhouse Gas
ICMA	The International Capital Market Association
IFC	International Finance Corporation
IFRS S1	General Requirements for Disclosure of Sustainability-related Financial Information
IFRS S2	Climate-related Disclosures
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
KPI	Key Performance Indicator
NDC	Nationally Determined Contribution
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals
SLB	Sustainability-Linked Bond
SSA	Sovereign, Supranational and Agency Debt
TCFD	Task Force on Climate-Related Financial Disclosure
TNFD	Taskforce on Nature-related Financial Disclosure
UNEP FI	United Nations Environment Programme Finance Initiative
UNGC	United Nations Global Compact

For more information or to connect with our Sustainable Finance Group, please get in touch with us at: sustainable.finance@scotiabank.com

gbm.scotiabank.com

TM Trademark of The Bank of Nova Scotia, used under license (where applicable). Scotiabank is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc. (Member-Canadian Investor Protection Fund and regulated by the Investment Industry Regulatory Organization of Canada). Scotia Capital (USA) Inc. is a broker-dealer registered with the SEC and a member of FINRA, NYSE, NFA and SIPC. The Bank of Nova Scotia is authorized and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority. The Bank of Nova Scotia and certain of its affiliates are subject to regulation by regulators in Australia, Singapore, Hong Kong, The People's Republic of China, Japan, Malaysia and India, including by the Hong Kong Monetary Authority, the Hong Kong Securities and Futures Commission and the Monetary Authority of Singapore. Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat; Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities. Banco Colpatria Multibanca Colpatria S.A. is duly authorized by the Colombian Financial Superintendence to promote and advertise The Bank of Nova Scotia's (Scotiabank) products and services by Resolution 058 of 2014. Not all products and services are offered in all jurisdictions. Services described are available only in jurisdictions where permitted by law. This information is not directed to or intended for use by any person resident or located in any country where its distribution is contrary to the laws of such country.

This communication, its content, or any copy of it, may not be altered in any way, transmitted to, copied or distributed to any other party without the prior express written consent of Scotiabank™. This communication has not been prepared by (i) a member of the research department of Scotiabank, or (ii) in accordance with the legal requirements designed to promote the independence of investment research. It is considered a marketing communication for regulatory purposes and is solely for the use of sophisticated institutional investors. This communication does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority and the UK Financial Conduct Authority, and by the Central Bank of Ireland (CBI), and its content is not subject to any prohibition on dealing ahead of the dissemination of investment research. This communication is provided for information and discussion purposes only.

An investment decision should not be made solely on the basis of the contents of this communication. It is not to be construed as a solicitation or an offer to buy or sell any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice and recipients should obtain specific professional advice from their own legal, tax, accounting or other appropriate professional advisers before embarking on any course of action. The information in this communication is based on publicly available information and although it has been compiled or obtained from sources believed to be reliable, such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance.

This communication is not directed to or intended for use by any person resident or located in any country where the distribution of such information is contrary to the laws of such country. Scotiabank, its directors, officers, employees or clients may currently or from time to time own or hold interests in long or short positions in any securities referred to herein, and may at any time make purchases or sales of these securities as principal or agent. Scotiabank may also have provided or may provide investment banking, capital markets or other services to the companies referred to in this communication.

If you are subject to the prohibition on third-party benefits in relation to portfolio management and independent investment advice under EU MiFID II (Directive 2014/65/EU and the accompanying Regulation (EU) No 600/2014) or the UK Markets in Financial Instruments (Amendment)(EU Exit) Regulations 2018, each as amended from time to time, and should not have received this communication, please advise us in writing at trade.supervision@scotiabank.com.

TM Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. The Bank of Nova Scotia is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority. Scotiabank (Ireland) Designated Activity Company is authorised and regulated by the Central Bank of Ireland (CBI). Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Scotiabank™
GLOBAL BANKING AND MARKETS