# Financing sustainable infrastructure in Latin America and the Caribbean

## Market development and recommendations

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# Acronyms and abbreviations

| | |
|---|---|
| 4G | Fourth-generation road infrastructure program – Colombia |
| ACAFI | *Asociación Chilena Administradoras de Fondos de Inversión* (Chilean Association of Investment Fund Administrators) |
| ACS | *Actividades de Construcción y Servicios* |
| AFIN | *Asociación para el Fomento de la Infraestructura Nacional* (Association for the Promotion of National Infrastructure) |
| AFORE | *Administradora de Fondo para el Retiro* (Retirement Funds Administrators) |
| AFP | *Administradora de Fondo de Pensiones* (Pension Funds Administrators) |
| AMAFORE | *Asociación Mexicana de Administradoras de Fondos para el Retiro* (Mexican association of pension funds) |
| ANBIMA | *Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais* (Brazilian Financial and Capital Markets Association) |
| ANI | *Agencia Nacional de Infraestructura de Colombia* (Colombian National Infrastructure Agency) |
| ASOFONDS | *Asociación Colombiana de Administradoras de Fondos de Pensiones y de Cesantía* (Colombian pension fund association) |
| AUM | Amount of assets under management |
| B3 | *Brasil Bolsa Balcão S.A.* (Brazil Stock Exchange and Over-the-Counter Market) |
| BANOBRAS | *Banco Nacional de Obras y Servicios Públicos* (National Bank for Public Works and Services) |
| BBVA | *Banco Bilbao Vizcaya Argentaria* |
| BCB | *Banco Central do Brasil* (Central Bank of Brazil) |
| BICE | *Banco de Inversión y Comercio Exterior de Argentina* (Argentine Foreign Trade and Investment Bank) |
| BMV | *Bolsa Mexicana de Valores* (Mexican Stock Exchange) |
| BNDES | *Banco Nacional do Desenvolvimento* (Brazilian Development Bank) |
| BRL | Brazilian Real |
| BVC | *Bolsa de Valores de Colombia* (Stock Exchange of Colombia) |
| BVL | *Bolsa de Valores de Lima* (Lima Stock Exchange) |
| CAF | Development Bank of Latin America |
| CBFE | *Certificados bursátiles fiduciarios de inversión en energía e infraestructura* (trust bonds for energy and infrastructure investment) |
| CBI | Climate Bond Initiative |
| CCFV | *Consejo Consultivo de Finanzas Verdes* (Climate Finance Advisory Council) |
| CEBDS | *Conselho Empresarial Brasileiro para o Desenvolvimento Sustentável* (Brazilian Business Council for Sustainable Development) |
| CerPi | *Certificado de Proyectos de Inversión* (Certificate of Investment Projects) |
| CKD | *Certificado de Capital de Desarrollo* (Certificate of Capital Development) |
| CLP | Chilean Peso |
| CMF | *Comisión para el Mercado Financiero de Chile* (Chilean Financial Market Commission) |
| CMN | *Conselho Monetário Nacional Brasileiro* (Brasilian National Monetary Council) |
| CNSP | *Conselho Nacional de Seguros Privados Brasileiro* (Brasilian National Council of Private Insurers) |
| CNV | *Comisión Nacional de Valores de Argentina* (National Securities Commission) |
| COFIDE | *Corporación Financiera de Desarrollo - Banco de Desarrollo del Perú* (Financial Development Corporation Peruvian Development Bank) |
| CONSAR | *Comisión Nacional del Sistema de Ahorro para el Retiro* (National Commission for the Retirement Savings System) |
| COP | Colombian Peso |
| CRA | *Certificados de Recebíveis do Agronegócio* (Agribusiness Receivables Certificates) |
| CRI | *Certificados de Recebíveis Imobiliários* (Real Estate Receivables Certificates) |
| CTEEP | *Companhia de Transmissão de Energia Eléctrica Paulista* |
| CVM | *Comissão de Valores Mobiliários* (Securities and Exchange Commission) |
| E&S | Environmental and social |
| EFPC | *Entidade Fechada de Previdência Complementar* (Closed Entities of Supplementary Social Security) |

| | |
|---|---|
| EGP | Enel Green Power |
| ESG | Environmental, social, and governance |
| ESIA | Environmental and social impact assessment |
| ETF | Exchange-traded fund |
| FCI | *Fondos Comunes de Inversión* (Investment Funds) |
| FCIA | *Fondos Comunes de Inversión Abierta* (Open-End Investment Funds) |
| FCIC | *Fondos Comunes de Inversión Cerrada* (Closed-End Investment Funds) |
| FDN | *Financiera de Desarrollo Nacional* (National Development Bank) |
| FEBRABAN | *Federação Brasileira de Bancos* (Brazilian Federation of Banks) |
| FGS | *Fondo de Garantía de Sustentabilidad* (Sustainable Guarantee Fund) |
| FIBRA | *Fideicomiso de Titulización para Inversión en Renta de Bienes Raíces* (Real Estate Investment Trust) |
| FIBRA E | *Fideicomiso de Inversión en Energía e Infraestructura* (Energy and Infrastructure Investment Trust) |
| FIDC | *Fundo de Investimento em Direitos Creditórios* (Credit Rights Investment Fund) |
| FII | *Fundo de Investimento Imobiliario* (Real Estate Investment Trusts) |
| FINEM | *Financiamento a empreendimentos* (Ventures Financing) |
| FIP | *Fondos de Inversión Privada* (Private Investment Funds) |
| FIP-IE | *Fundo de Investimento em Participações – Infraestrutura* (Infrastructure Equity Funds) |
| FIRBI | *Fondo de Inversión en Renta de Bienes Inmuebles* (Real Estate Lease Backed Securities) |
| Foinsa | *Fondo de Infraestructura S.A.* |
| FONADIN | *Fondo Nacional de Infraestructura* (National Infrastructure Fund) |
| GDP | Gross domestic product |
| GHG | Greenhouse gas |
| GIZ | *Deutsche Gesellschaft für Internationale Zusammenarbeit* (German Agency for International Cooperation) |
| GWh | Gigawatt hours |
| ICMA | International Capital Market Association |

| | |
|---|---|
| ICO2 | *Índice Carbono Eficiente* (Carbon Efficient Index) |
| IDB | Inter-American Development Bank |
| IFI | International finance institution |
| IOF | *Imposto sobre Operações Financeiras* (Tax on financial operations) |
| ISE | *Índice de Sustentabilidade Empresarial* (Corporate Sustainability Index) |
| ISR | *Impuesto Sobre la Renta* (Income tax) |
| IVA | *Ley del Impuesto a las Ventas y Servicios* (Value Added Tax) |
| LAC | Latin America and the Caribbean |
| LAC-6 | Refers to the six major economies of LAC (Argentina, Brazil, Chile, Colombia, Mexico, and Peru) |
| LCA | *Letras de Crédito do Agronegócio* (Agribusiness Letters of Credit) |
| LCI | *Letras de Crédito Imobiliário* (Mortgage Credit Certificate) |
| LD | Legislative decree |
| LEED | Leadership in Energy and Environmental Design |
| LIG | *Letra Imobiliária Garantida* (Real Estate Secured Bill) |
| MXN | Mexican Peso |
| NAFIN | *Nacional Financiera Mexicana* |
| NDC | Nationally Determined Contribution |
| OECD | Organisation for Economic Cooperation and Development |
| PEN | Peruvian Sol |
| PPI | *Programa de Parcerias de Investimentos* (Investment Partnership Program) |
| PPP | Public-Private Partnerships |
| PREVIC | *Superintendência Nacional de Previdência Complementar* (National Superintendence of Supplementary Social Security) |
| PROINVERSION | *Agencia de Promoción de la Inversión Privada de Perú* (Peruvian Private Investment Promotion Agency) |
| PROMAGUA | *Programa de Modernización de Organismos Operadores de Agua* (Targeted Modernization Program for Water Operators) |
| PROTRAM | *Programa de Apoyo Federal al Transporte Masivo* (Targeted Infrastructure Investment Program for Transport) |

| | |
|---|---|
| SDG | Sustainable Development Goal |
| SELIC | *Sistema Especial de Liquidação e Custódia* (Special Settlement and Custody System) |
| SFC | *Superintendencia Financiera de Colombia* (Financial Superintendence of Colombia) |
| SIEFORE | *Sociedad de Inversión de Fondos para el Retiro* (Retirement Fund Investment Societies) |
| SME | Small to medium enterprise |
| SMV | *Superintendencia del Mercado de Valores* (Capital Markets Regulator) |
| SPAC | Special purpose acquisition companies |
| SPV | Special purpose vehicle |
| SSE | Sustainable Stock Exchange Initiative |
| SSN | *Superintendencia de Seguros de la Nación* (Insurance Company Regulatory) |
| SUSEP | *Superintendencia de Seguros Privados* (Superintendence of Private Insurance) |
| TCFD | Task Force on Climate-Related Financial Disclosures |
| TJLP | *Taxa de Juros de Longo Prazo* (Long term interest fixed rate) |
| TLP | *Taxa de Longo Prazo* (Long term interest rate) |
| UN | United Nations |
| UN-PRI | United Nations backed Principles of Responsible Investment |
| UNEP-FI | United Nations Environment Programme Finance Initiative |
| USD | United States Dollar |
| WB | The World Bank |

# Executive summary

Infrastructure assets and services, the provision of water and electricity, transport, and information and communication, are the backbone for economic development, competitiveness and inclusive growth in Latin America and the Caribbean (LAC) (Serebrisky, Suárez-Alemán, Margot, & Ramirez, 2015). To achieve the economic, social, and environmental objectives embodied by the Paris Agreement and the Sustainable Development Goals (SGDs), this infrastructure must be sustainable, low-carbon, and climate resilient (Mercer & IDB, 2017).

Looking at LAC-6 countries (Argentina, Brazil, Chile, Colombia, Mexico, and Peru), this paper investigates the effectiveness of existing public and private sector investment vehicles in infrastructure projects, in particular through capital markets. It also analyzes how sustainability criteria are taken into account and how investment vehicles can be adapted for financing sustainable infrastructure projects.

### Objective

This paper should serve national and international investors, as well as development banks, to gain better insight on the different investment options available to increase their exposure to infrastructure assets, as well as to get a better understanding of how the infrastructure market may evolve. In addition, this paper should provide concrete examples of regulatory initiatives that stimulate infrastructure investment, sustainable or not, to financial market regulators and governmental organizations to stimulate the replication of best practices.

## Country-specific findings

**Argentina** implemented a new Capital Markets Law in 2018, aiming to revitalize its capital market and increase institutional investors participation, more specifically in project bonds and investment funds. CNV Resolution 764 establishes requirements for bonds, investments and trust funds to be in accordance with international standards for Green, Social, and Sustainability Bonds issuance. As these innovations are still fairly recent, their impact on the sustainable infrastructure investment market has yet to be determined.

**Brazil's** infrastructure investments are increasingly financed by capital market instruments, particularly infrastructure debentures due to fiscal incentives, after a strategic repositioning from its national development bank and changes in macroeconomic conditions. The government has begun developing environmental and social (E&S) guidelines for infrastructure projects granted to the private sector. The inclusion of projects with environmental benefits in the list of prioritized infrastructure projects eligible for tax benefits is currently under discussion. The Brazil Stock Exchange and Over-the-Counter Market has recently launched a green/social bond registration system to increase their visibility.

**Chile's** infrastructure investments are made primarily through investment and mutual funds, and have often been supported by the robust national Public-Private Partnership (PPP) framework. In the past, regulation[1] has proven to be the main driver of change. Recent regulatory changes seek to increase institutional investor participation in infrastructure investment. The sustainability transition is likely to follow suit, with five green and social bonds already issued in the country following the launch of a dedicated market for green and social bonds in April 2018 by the *Bolsa de Santiago*.

**Colombia** enacted changes to the capital market and PPP regulations over the past eight years focused mainly on improving the capacity of institutional investors to contribute to infrastructure projects, realizing that the regulatory push and strong commitment from the largest investors are crucial to triggering a paradigm shift in the Colombian infrastructure investment market. Investors appear as strong candidates to drive the evolution of the Colombian market towards sustainable infrastructure.

**Mexico** has developed new infrastructure-dedicated capital market instruments, such as FIBRA Es and CerPIs, to stimulate the infrastructure market. Local pension funds are key actors in the local capital market and are being directly targeted by these innovative instruments and national regulation to stimulate their capacity to invest in local infrastructure. The efforts of its pension funds and key commercial banks to at least consider environmental, social, and governance (ESG) criteria in their investment, if not more advanced sustainability criteria, could lead to a market shift towards the standardization of such measures.

[1] Regulation, in the context of this report, refers predominantly to the enabling conditions put in place to stimulate sustainable infrastructure investments, rather than the restrictions.

**Peru's** infrastructure financing still relies mostly on public investments. Recent regulatory innovations, such as the introduction of new financial instruments, aim to promote the capital market's relevance, with no focus on sustainability. In 2015, the banking sector regulator established minimum requirements for social and environmental risk management in large-scale project finance. However, there are no specific regulation or incentives regarding investments in sustainable projects or assets.

## Regional findings

The main drivers for the development of infrastructure and sustainable infrastructure investments in Latin America are bank financing, regulatory improvements in the capital markets, and voluntary initiatives by market players interested in sustainability.

**Bank financing** plays a key role in Latin American countries, especially in Argentina and Colombia, where additional government programs, such as the RenovAr program for renewable energy in Argentina, complement the efforts of the banking sector. In Brazil, there has been a shift from national development bank financing to capital markets financing in recent years with the growth of debentures and infrastructure debentures.

**Capital market instruments** are being improved to expand infrastructure investments through new regulation and advances that are being made:

(i) formalizing green, social, or sustainable labeling, as seen in Argentina and Mexico;
(ii) creating markets, bond labels, and disclosure of guidance and market data in stock exchanges, as seen in Chile, Brazil, Colombia, and Peru; and
(iii) voluntary initiatives, such as the Protocolo Verde in Colombia and the CCFV in Mexico.

Ranging from corporate and securitized bonds to investment in private equity funds and trusts, the consideration of ESG[2] issues in investing in these instruments are also driven by recent regulations for **institutional investors**, as seen in pension fund regulations in Mexico and Brazil. Considering the extensive share of capital markets held by this category of investors, adapting their regulation can prove an efficient vehicle of change. This process could be extrapolated to other groups of investors identified as having a large potential for investment in sustainable infrastructure.

On the other hand, few instruments themselves embed sustainability criteria and labeling is still constrained to bonds. In most markets, capital market instruments investing in infrastructure do not differentiate between investments in sustainable and non-sustainable assets. Developing **green, social, and sustainable labels** for types of instruments other than bonds has come as a recommendation of this study. The creation of incentives, such as targeted risk mitigation mechanisms, and labeling standards for issuances of sustainable infrastructure capital market instruments, are key steps in stimulating further investment in the sector. The definition of infrastructure or sustainable infrastructure as a **separate asset class** could facilitate the development of dedicated sustainability labels.

Furthermore, establishing a regionally accepted **sustainable infrastructure taxonomy** relevant for all stakeholders of the infrastructure ecosystem would further stimulate such investments. This taxonomy could build on the efforts of the European Union's taxonomy for sustainable activities (European Union, 2019) and be adapted to the regional context.

The certification of sustainability labels improves the transparency of environmental and social benefits, and, through independent verification, enforces monitoring, reducing the risks regarding the project's actual benefits.

In addition, there is a general lack of policies/incentives in all LAC-6 promoting sustainable infrastructure over regular infrastructure investments. The strong infrastructure push enacted through Brazil's tax reductions for infrastructure debentures is a good example of how such incentives can steer investments in a specific direction. Complementing such initiatives, it is crucial to improve the understanding of the long-term financial (and other) benefits of sustainable infrastructure among project developers and investors, and communicate these benefits to stimulate interest.

Lastly, **PPPs**, as a key element of the infrastructure landscape of all six countries studied, represent a central opportunity for governments to improve the mandatory sustainability criteria requirements for infrastructure projects. Imposing sustainability criteria in national PPP projects through regulation provides a further tool that could develop the sustainable infrastructure investment market.

## Summary of recommendations

Country-specific, cross-country analyses as well as the state of the global sustainable infrastructure investment market led to key recommendations – some of them already outlined above. The full summary of key recommendations for the development of a sustainable infrastructure investment market in Latin America can be found below.

[2] ESG criteria are necessary but not sufficient alone to ensure that infrastructure is sustainable. Nevertheless, due to their widespread adoption, they are considered a strong first step towards sustainability for the sake of this report.

### Market and government-led change

- Establish a regionally-accepted sustainable infrastructure taxonomy relevant for all stakeholders of the infrastructure ecosystem
- Align countries in the region on a common framework and reporting requirements for social, green, and sustainable bonds
- Promote policies that benefit sustainable infrastructure over regular infrastructure
- Research and communicate on the long-term financial benefits of sustainable infrastructure vs. regular infrastructure

### Stimulating the involvement of institutional investors

- Adapt pension fund, insurance, and investment funds regulation to stimulate sustainable infrastructure investments
- Evaluate the infrastructure investment potential of specific investor types

### Re-designing and innovating with investment vehicles

- Impose sustainability criteria in national PPP projects through regulatory adaptation (could also include a sustainability label)
- Develop green, social, and sustainable labels for other types of instruments than bonds
- Define infrastructure or sustainable infrastructure as a separate asset class
- Adapt or create new risk mitigation mechanism for sustainable infrastructure
- Connect infrastructure project developers to financing instruments and incentives dedicated to sustainable infrastructure

## Conclusion

Sustainable infrastructure investments in Latin America are still far from being mainstreamed, potentially jeopardizing progress towards the countries' SDGs. There is a general lack of governmental regulation dedicated to stimulating infrastructure investment, let alone sustainable infrastructure investments. Even if this is driven by market-led initiatives, regulatory support from governments is key to mainstreaming the inclusion of sustainability criteria. Governments play a lead role in PPP frameworks, which should enable a clear publicly-driven shift towards sustainable infrastructure. As a common denominator across the LAC-6, PPP regulation could be a driver of the sustainable transition. In addition, the market size of pension funds and insurance companies in LAC countries make them essential players in the private sector financing segment. However, there has been little activity from this investor group towards embedding sustainability criteria in their investment decision-making process. This is also the case for the other investor groups, and apart from green, social, and sustainable bonds, most investment instruments do not require sustainability reporting.

Similarly, the labeling of sustainable investments can significantly stimulate the market, as the strong market demand for sustainable bond issuances has shown. Only bond-type instruments currently have a sustainability label. This should be expanded to other infrastructure investment instruments. Additionally, dedicated infrastructure instruments such as Mexico's FIBRA E, can facilitate sustainability labeling specifically targeting infrastructure.

There is also a case for regulatory changes to these instruments to stimulate sustainable infrastructure investment, which could include mandatory reporting on sustainability criteria and financial incentives for alignment with sustainability standards among others. It is crucial to reference existing standards here, such as SuRe® (GIB, n.d.)[3], ENVISION (ISI, 2019)[4], or the more general International Capital Market Association's green, social, and sustainable bond guidelines, as a strong basis for any regional standard or criteria (ICMA, 2019). As mentioned above, the recent developments in the EU taxonomy on sustainable activities also provide a strong basis on which regional standards can build upon.

[3] SuRe – The Standard for Sustainable and Resilient Infrastructure is a global voluntary standard which integrates key criteria of sustainability and resilience into infrastructure development and upgrades.

[4] ENVISION is a framework that provides the guidance needed to initiate this systemic change in the planning, design, and delivery of sustainable and resilient infrastructure. Envision is a decision-making guideline, not a set of prescriptive measures.

## Mexico

Develop distinctions (e.g. labels) for infrastructure-prone investment instruments, such as CerPIs and FIBRA E, investing in infrastructure aligned with a climate 1.5°-scenario and high ESG standards.

Adapt AFORE regulation to standardize reporting and disclosure on sustainability criteria embedded in their investment decisions.

## Brazil

Incorporate sustainability criteria in investment funds through adapted regulation and specific sustainable labels.

Adapt or create new risk mitigation mechanism for sustainable infrastructure.

## Colombia

Adapt institutional investor regulations by embedding sustainability criteria or sustainability incentives to shift the infrastructure market to sustainable alternatives.

Stimulate knowledge sharing and capacity building among financial market actors on embedding sustainability in investment decisions.

## Peru

Develop dedicated sustainability labels for trust funds and private investment funds.

Further develop sustainable securitization instruments, enabling the packaging of smaller projects to access institutional investors.

## Argentina

Adapt institutional investor regulations to stimulate infrastructure investment and embed sustainability criteria.

Refine PPP regulation to include sustainability criteria and standardize reporting and disclosure practices.

## Chile

Implement sustainability criteria in national PPP projects through regulatory adaptation (could also include a sustainability label).

Further develop financing instruments dedicated to infrastructure, which could be done by defining infrastructure as a specific asset class.

## // Recommendations

- Stimulate involvement of investors.
- Differentiate sustainable or regular assets or infrastructure through labels.
- Re-design and innovate with investment vehicles.

## // Actions

### Regulation

- Create regulation
- Adapt/improve regulation

### Products

- Create products
- Adapt/improve product

# 1. Introduction

## 1.1 The importance of infrastructure for economic development

Infrastructure assets and services, the provision of water and electricity, transport, and information and communication, are the backbone for economic development, competitiveness and inclusive growth in Latin America and the Caribbean (LAC) (Serebrisky, Suárez-Alemán, Margot, & Ramirez, 2015). In this context, investments in well-designed infrastructure, particularly in developing countries, are essential to future growth and development, and directly impacts income inequality (Calderón & Servén, 2004). The long life-span of infrastructure assets means that current infrastructure decisions will have lasting impacts on economies, making it crucial to include sustainability in current infrastructure development.

The launch of the Sustainable Development Goals (SDGs) by the United Nations (UN) General Assembly in 2015 and, in the same year, 189 countries committing to fighting climate change under the Paris Agreement (officialized through their so-called Nationally Determined Contributions (NDCs) (Bhattacharaya, Oppenheim, & Stern, 2015)), strengthened the conviction that infrastructure must be developed considering sustainability criteria and must be aligned with the national commitments established at the country level. To support this dual agenda, future infrastructure will have to be environmentally and socially sustainable (Amin, 2017).

Latin American and the Caribbean (LAC) countries' demand for infrastructure financing is rising fast, with an investment of USD 250 billion needed annually over the next several years, in addition to USD 30 billion to incorporate mitigation and adaptation measures into those investments.[5] There is a need to upgrade the existing infrastructure and build new infrastructure that accommodates for rapid urbanization and matches the demand of the local population for better living conditions. Ensuring the sustainability of this infrastructure, particularly resilience to climate risks and social inclusivity, is crucial for the long-term sustainable development of LAC countries.

This increase in demand can only be served by mobilizing additional funds from the private sector. To attract the interest of institutional investors towards sustainable infrastructure, innovative financing mechanisms that integrate the strength of sustainable and resilient infrastructure are needed (Egler & Frazao, 2015).

## 1.2 Objective of this report

The dire need for more climate-resilient and sustainable infrastructure is strengthened by the current state of infrastructure investments in LAC and the currently limited involvement of capital markets in the infrastructure market. The objective of this study is to evaluate the effectiveness of existing public and private sector investment vehicles in infrastructure projects, in particular through capital markets, and the potential of these vehicles to be adapted for financing sustainable infrastructure projects.

Figure 1 illustrates the methodological approach for this study. The scope of the analysis focuses on Argentina, Brazil, Chile, Colombia, Mexico, and Peru (hereby referred to as LAC-6). The six countries, representing a cumulative 75% of the gross domestic product of the LAC region (The World Bank, 2018b), were selected based on the level of development of their financial market (IMF, 2019) and the size of their economies.

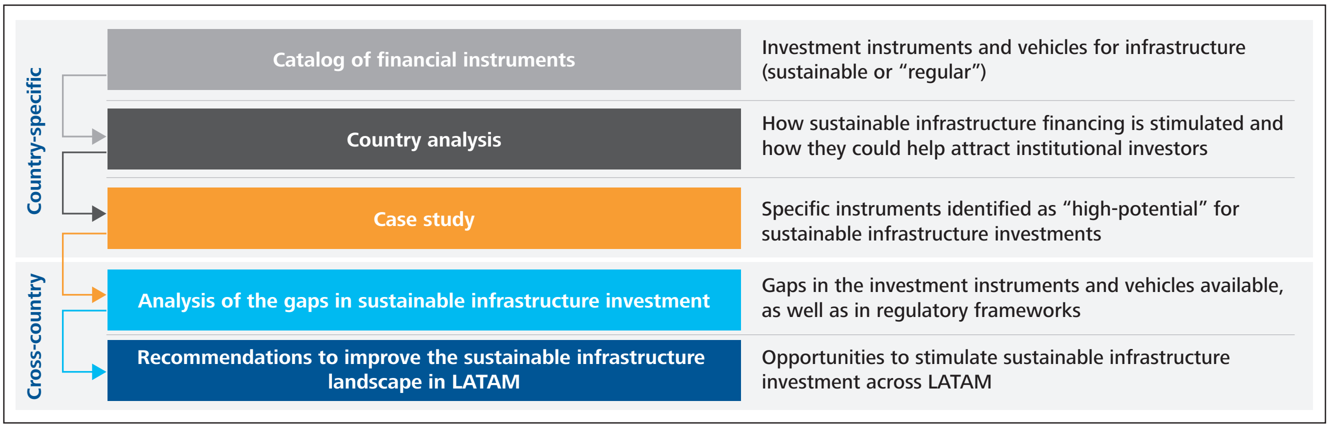


**Figure 1: Methodological approach for the analysis of the sustainable infrastructure financing status in LAC[6]**

[5] See country-specific infrastructure gaps in Section 3

[6] Own elaboration – the catalogs include an overview of the regulatory framework of the country regarding capital markets, 'Infrastructure investment and sustainable investments'. The country analyses also identify the 'institutional, regulatory, and financial' barriers hindering the scalability and replicability of these instruments and vehicles across countries and sectors.

This report compiles the conclusions of the above-mentioned analysis, beginning with the analysis of the current status of infrastructure investment in the LAC-6, focusing particularly on the capital market and institutional investor involvement. Secondly, the synergies and differences across the LAC-6, as well as the regulatory and financial gaps, are identified. Lastly, opportunities for the replication of successes across different countries are identified and recommendations on how these opportunities could be stimulated are established.

### 1.3 Current status of sustainable infrastructure financing in LAC

Although there have recently been significant efforts to align internationally on a definition and understanding of sustainable infrastructure, no common definition has been agreed by major actors of the industry. Among the commonly used sustainable infrastructure definitions are the ones presented in Figure 2. Environmental, social, and governance (ESG) criteria, often used as indicators of sustainability, will also be considered in this study.

**IDB Group**

"Assets that are sustainable on an environmental and climate basis, on economic and financial grounds, and on social and institutional capacities"

**Global Infrastructure Basel**

"Integrating environmental, social and governance considerations into project planning and development"

**Brookings Institution**

"Sustainable infrastructure is infrastructure that is socially, economically, and environmentally sustainable"

**Figure 2: Common sustainable infrastructure definitions (IDB, 2018) (Egler & Frazao, 2015) (Bhattacharaya, Oppenheim, & Stern, 2015)**

Based on elements from these definitions and other more generally accepted definitions of sustainable development, the Inter-American Development Bank (IDB) recently published an adapted definition of sustainable infrastructure (Bhattacharaya, et al., 2019):

> *"Sustainable infrastructure refers to infrastructure projects that are planned, designed, constructed, operated, and decommissioned in a manner that ensures economic and financial, social, environmental (including climate resilience), and institutional sustainability over the entire life cycle of the project."*

This report is based on the above-mentioned definition and focuses primarily on its social, environmental, and climate change aspects.

According to the Organisation for Economic Cooperation and Development (OECD), "infrastructure sits at the very center of climate and development pathways" (OECD, The World Bank, UN Environment, 2018). Recognizing that a fundamental transition towards sustainable infrastructure is aligned with a 1.5°C climate change scenario is essential to limiting the impacts of climate change. The OECD identifies a necessary reset of the financial system to finance this transition and align with long-term climate change risks and opportunities. In addition, IDB recommends the following integrated framework for the delivery of sustainable infrastructure.

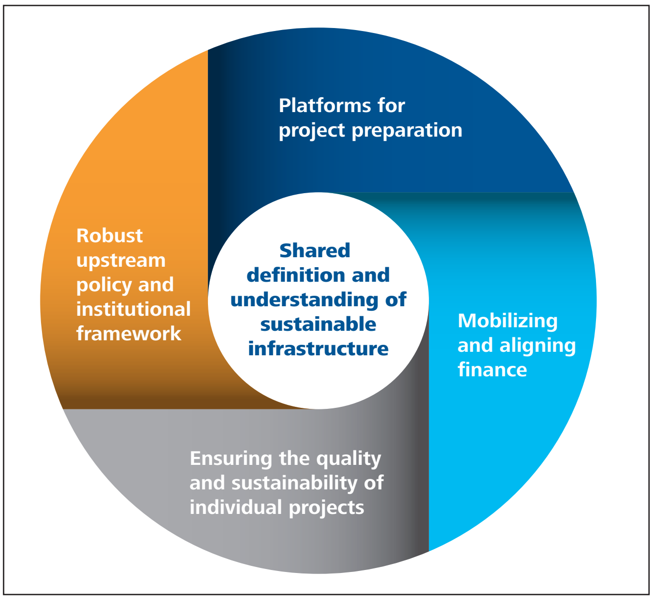


**Figure 3: IDB's Integrated framework for the delivery of sustainable infrastructure (Bhattacharaya, et al., 2019)**

The challenge of filling the sustainable infrastructure investment gap requires appropriate financial instruments and vehicles adapted to the new sustainable infrastructure paradigm. The OECD proposes a taxonomy of instruments and vehicles for infrastructure financing (OECD, 2015), providing a strong basis on which to evaluate the instruments available in LAC. The Global Infrastructure Basel (GIB) Foundation identifies "innovative financial mechanisms, which integrate the strength of sustainable and resilient infrastructure," as key to mobilizing public and private sector investments and proposing sustainable infrastructure as "best-in-class" or as a new asset class to stimulate investments towards these projects. The current data shortage regarding the actual long-term financial benefits of sustainable infrastructure versus regular infrastructure is the main barrier towards implementing these innovations.

In LAC, debt is the main source of private infrastructure funding, as presented in Figure 4.

The G20 recommends developing infrastructure as its own asset class to attract private investors, and particularly pension funds, which have low allocations to infrastructure, partly due to regulatory constraints (OECD, 2017a).

The World Bank highlighted the importance of robust Public-Private Partnership (PPP) frameworks in stimulating the private financing of infrastructure (Garcia-Kilroy & Rudolph, 2017). LAC economies are still in the process of improving the attractiveness of their PPP markets for international and national institutional investors.

Lastly, the recent adaptation of national banking regulations to the Basel III accords (BIS – Bank for International Settlements, 2017) may reduce the capacity of commercial banks, a major investor in infrastructure in LAC, to invest in such projects, further strengthening the importance of channeling institutional investors' capital towards that asset class.

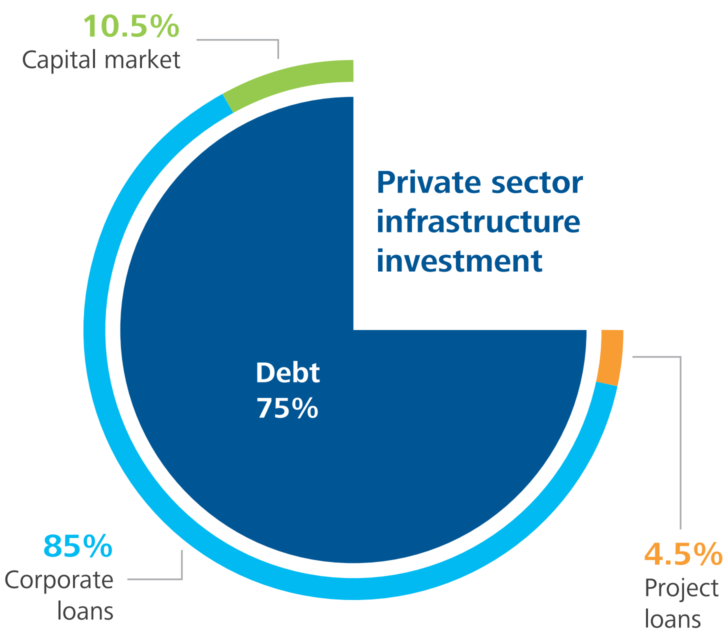


**Figure 4: Split of debt for private sector infrastructure investments (based on data from 2004-2014) (Serebrisky, Suárez-Alemán, Margot, & Ramirez, 2015)**

# 2. Methodological approach

This section describes the key assumptions used throughout the analysis and the development process of the catalogs of financial instruments for infrastructure, including their structure and sources, and the analyses. Six catalogs and country-specific analyses were developed for the LAC-6.

## 2.1 Considerations for the sustainable infrastructure investment analysis

Considering that there is no commonly accepted definition or label for sustainable infrastructure projects, this study considered the following references for sustainable infrastructure financing analysis.

### 2.1.1 IDB's definition of sustainable infrastructure

Based on elements of IDB's definition of sustainable infrastructure, this study focuses only on social and environmental sustainability and climate alignment. It considers the other criteria (governance/economic) to be more mainstreamed in infrastructure projects that involve capital market investors.

### 2.1.2 Consideration of ESG criteria

Given that ESG criteria have been the basis for global initiatives on responsible investment in different sectors, the mapping of financial instruments for infrastructure undertaken in this study considered whether these criteria were embedded in the instruments' regulations or voluntarily adopted by financial institutions. It should be noted that alignment with the country's NDCs and resilience to climate change-related risks are two elements key to sustainable infrastructure that are not yet commonly considered under ESG criteria. Nevertheless, due to their widespread adoption, they are considered key towards developing sustainable practices in infrastructure financing.

### 2.1.3 The nature of infrastructure projects

Another common assumption regarding sustainable infrastructure is that the nature of the project is sufficient to determine whether it is sustainable. For example, solar power plants or water treatment plants tend to automatically be considered sustainable. However, if these projects are not planned, designed, constructed, operated, and decommissioned in a manner that ensures economic, financial, social, and environmental sustainability, the project cannot be categorized as sustainable.

In the context of this study, this assumption has been made in some cases, in particular at the sectoral level (highlighting the fact that projects may not be sustainable), as the alternative would require an in-depth analysis of the projects invested in to determine their level of sustainability.

The only clearly recognized "sustainable infrastructure" projects are those financed through green, social, or sustainable bonds certified by the internationally-recognized Climate Bond Initiative (CBI).

## 2.2 Instrument catalogs: the process of development

The country-specific instrument catalogs were developed based on the research of all capital market instruments and key existing credit instruments (e.g., key financing lines from development banks) for infrastructure projects, available in the LAC-6. The relevance and past use of the instruments for infrastructure investment were analyzed for the selection of key instruments. For each financial instrument, eligible infrastructure sectors and key sustainability benefits were identified. The research was based on both public sources and local stakeholder interviews.

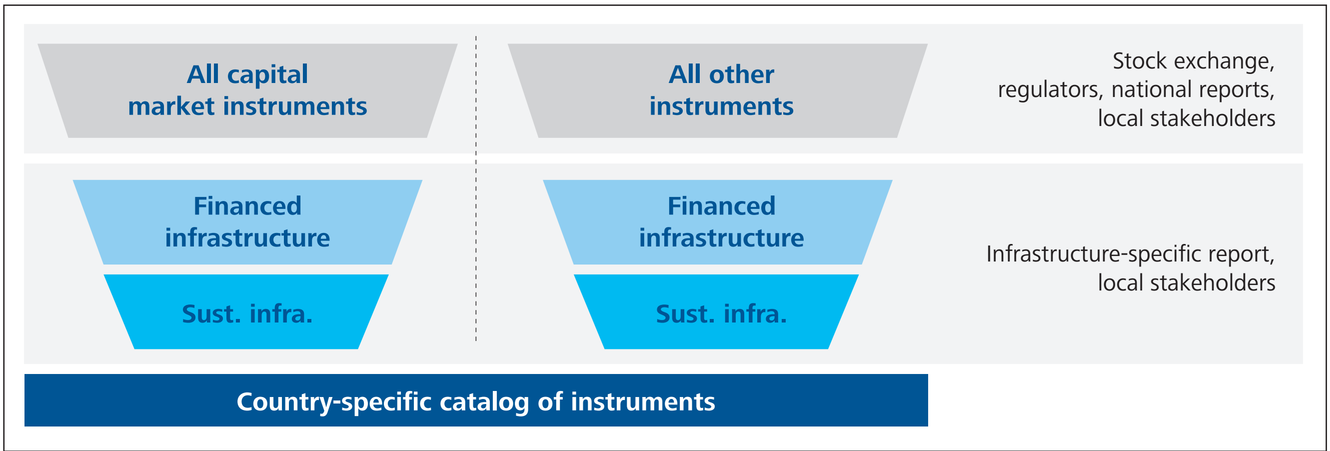


**Figure 5: Instrument selection process for the country-specific catalogs[7]**

[7] Own elaboration – "Sust. infra." = sustainable infrastructure

The catalogs serve the following objectives:

1. provide an overview of each financial instrument including definition, regulatory background, key regulators, issuance and trading processes, typical investor profile, investment risks, and available incentives;
2. provide information on how mapped instruments support sustainable infrastructure investments, including focused infrastructure sectors, intended environmental, social, and climate benefits and availability of green, social, and sustainability labeling mechanisms;
3. provide specific information targeted at project developers and investors; and
4. provide a systematized and comparable data set for all countries, given that the countries analyzed have highly different infrastructure investment environments and levels of development of the capital markets.

### 2.2.1 Instrument overview

The countries' catalogs provide an overview of each available financial instrument that supports or could support sustainable infrastructure in the analyzed LAC countries. The instruments overview consists of three main sections: general information, sustainability criteria, and instrument details.

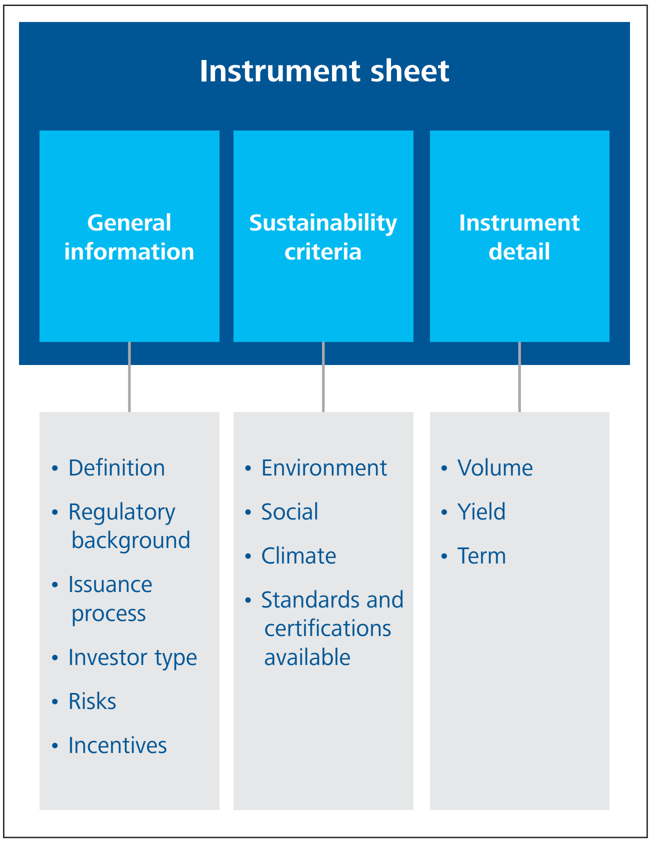


**Figure 6: Investment instrument information collected for catalogs[8]**

The introductory part ("general information") of the catalogs provides project developers with a clear understanding of the instrument and its issuance process, and thus, insight on whether the instrument is an option for the infrastructure projects under consideration.

In addition, it also aims to provide investors with an overview of the type of projects that they could finance through such instruments, their eligibility or regulatory restrictions for such investments, the trading process, and the popularity of the instrument according to the investment volume to date. A focus was set on gathering data to analyze the potential adoption of these instruments and vehicles by institutional investors.

The sustainability criteria were developed according to IDB's definition of sustainable infrastructure (IDB, 2018), with a focus on social, environmental, and climate sustainability. For each criterion, a level of sustainability was assigned based on the amount of investment made through each instrument.


**Figure 7: Sustainability criteria established for the catalogs[9]**

Additional information is provided on the "sustainable sectors" of the economy that have been invested in through these instruments, as well as the mandatory (e.g., ESG reports imposed by regulation) and voluntary (e.g., green bond label) guidelines, criteria, and standards that exist for each instrument.

[8] Own elaboration

[9] Own elaboration

### 2.2.2 Regulatory framework

In addition to the instruments overview, key financial markets and infrastructure-related regulations were mapped and evaluated based on their impact on enabling sustainable infrastructure investments.[10]

The most important regulations affecting three frameworks, listed below, have been identified and their impact analyzed with regard to infrastructure investing or sustainable infrastructure investing.

- Capital market investment framework
- Infrastructure investment framework
- Sustainable infrastructure investment framework

Considering the importance of PPPs as one of the main common denominators for infrastructure investments across the LAC-6, the regulatory framework regarding PPPs and their accessibility to institutional investors were also considered in the analysis.

## 2.3 Main sources of information for the catalogs

The instruments and regulatory data collected for the catalogs were obtained via a desk study of publicly available information, such as records of past infrastructure projects, a review of past reports related to financing infrastructure or sustainable infrastructure in LAC, local institution public information, and interviews with national stakeholders. The main sources of information include local market associations, stock exchanges, regulators such as the national securities commission, central banks, and insurance and pension funds regulators. Publicly available information of International financial institutions (IFIs), such as IDB, Development Bank of Latin American (CAF by its previous name *Corporación Andina de Fomento*), the World Bank (WB), and the national development banks were also analyzed. In addition, interviews were conducted with key stakeholders. The main country-specific sources of information are listed in Annex III.

[10] Regulation, in the context of this report, refers predominantly to the enabling conditions put in place to stimulate sustainable infrastructure investments, rather than the restrictions.

# 3. Financing sustainable infrastructure in the LAC-6

## 3.1 Global initiatives impacting infrastructure investment

Each country in LAC has its own regulatory framework and a distinct infrastructure investment ecosystem. Nevertheless, there are initiatives with international reach that can influence the local ecosystems.

In 2013, the latest version of the Basel Accords – Basel III (BIS – Bank for International Settlements, 2017) – establishing legally non-binding regulatory requirements to improve the resilience of banks and banking systems, was launched. These requirements were to be translated into national regulation to align with international standards before 2019. This latest update has had an impact on the infrastructure investment sector across the LAC-6, affecting the ability and appetite of local banks to finance infrastructure through the following three modifications (Beck, 2018):

- tightening the large exposure rule (exposure of a bank to one borrower or project);
- tightening capital requirements for infrastructure projects; and
- constraints through liquidity requirements.

On the investor side, the **United Nations-backed Principles of Responsible Investment (UN-PRI)** investment principles to guide the incorporation of ESG issues into investment practice, have resonated in all LAC-6 countries at different levels of magnitude.[11] PRI signatories commit to incorporating ESG issues in their decision-making process, ownership policies, and practices. But more importantly, according to Principle 3, they also seek appropriate disclosure on ESG issues by the entities in which they invest. Although ESG criteria may not be sufficient to assign a "sustainability" label to an investment, the widespread commitment to the PRI in a given national market demonstrates a commitment to the transition towards more responsible investing and can influence capital seekers to adopt similar requirements.

Similar to the PRI, the **Equator Principles** (Equator Principles, 2019) is a risk management framework "for determining, assessing and managing environmental and social risk in projects", intended to establish minimum standards on risks in investment decision-making processes. Five of the six LAC-6 have local signatories to these principles.

In response to the necessary shift of the financial markets to align with the goals set out in the Paris Agreement, the **Task Force on Climate-Related Financial Disclosures** (TCFD) was created. The TCFD released its Final TCFD Recommendations (in 2017), outlining voluntary guidelines on how to assess and disclose on the climate-related risks and opportunities facing investment portfolios and businesses in general. The increasing pressure on financial institutions worldwide to disclose on these issues will likely impact the infrastructure sector, positively gearing investments towards sustainable infrastructure that is resilient and aligned with the objectives of the Paris Agreement. Brazil is the only country in the LAC-6 in which the implementation of the TCFD recommendations has been supported by a public entity: the Brazilian Federation of Banks (FEBRABAN by its Portuguese acronym).

Lastly, the **Green and Social Bond Principles** and the **Sustainability Bond Guidelines** of ICMA have been used as a basis for all the national green, social, and sustainable bond guidelines issued in the LAC-6.


Image source: iStock

[11] Detail on national signatories can be found in the country-specific sections

## 3.2 Argentina

**Key findings**

Argentina implemented a new Capital Markets Law in 2018, aiming to revitalize its capital market and increase institutional investors participation, more specifically in project bonds and investment funds. CNV Resolution 764 establishes requirements for bonds, investments, and trust funds to be in accordance with international standards for Green, Social, and Sustainability Bonds issuance. As these innovations are still fairly recent, their impact on the sustainable infrastructure investment market has yet to be determined.

According to the Global Infrastructure Hub created by the G20, Argentina has an infrastructure gap of USD 358 billion until 2040 (USD 810 billion in investment needed less the USD 452 billion investment trend) – an average of USD 14 billion per year.

During the 1990s, public infrastructure investments were about 1% to 2% of GDP and a flow of international investment occurred in this period due to privatizations in energy, water, and telecommunications. Since the 2002 economic crisis, investments in infrastructure have been primarily public. Private participation has been, on average, 21% of total infrastructure investments in Argentina in the 2008-2015 period and is concentrated in the telecommunications segment.

To bridge the investment gap, the country has recently introduced a series of measures, such as the implementation of a PPP framework that allows for the immediate launch of infrastructure projects, including those related to renewable energy.

### 3.2.1 Regulatory framework overview

#### 3.2.1.1 Capital market

The Argentine capital market is relatively small compared with other major LAC countries (USD 108.7 billion in 2017) (The World Bank, 2019). Fixed income instruments have been the main driver market dynamics, while listed equity represents a small share of the influence. Due to a history of high inflation and currency depreciation, retail investors have tended to invest in real estate or strong currencies rather than domestic capital markets (Miranda, 2018).

This scenario is changing due to the recently approved and highly anticipated new Capital Markets Law (Law 27,440/2018) (Gobierno de Argentina, 2018a), which has brought a series of improvements that will help develop the local capital market and financing by creating a new range of products, simplifying existing ones, eliminating bureaucratic obstacles, and increasing the attractiveness of some transactions. It also promotes the growth of the investor base and number of firms accessing the capital market, promoting productive financing, especially for micro, small, and medium-sized companies.

Some of the regulatory highlights include (Serrano Redonnet, 2018):

- modifications in the National Securities Commission's (CNV by its Spanish acronym) attribution, reducing the intervention powers of this institution in firms, expanding its capacity to create regulations to avoid systemic risks, allowing it to regulate private placements, and strengthening it as the exclusive regulator of the capital market;
- modifications in the Law of Investment Funds, such as the promotion of investment funds as productive financing vehicles[12]; the regulation of exchange-traded funds (ETF) and

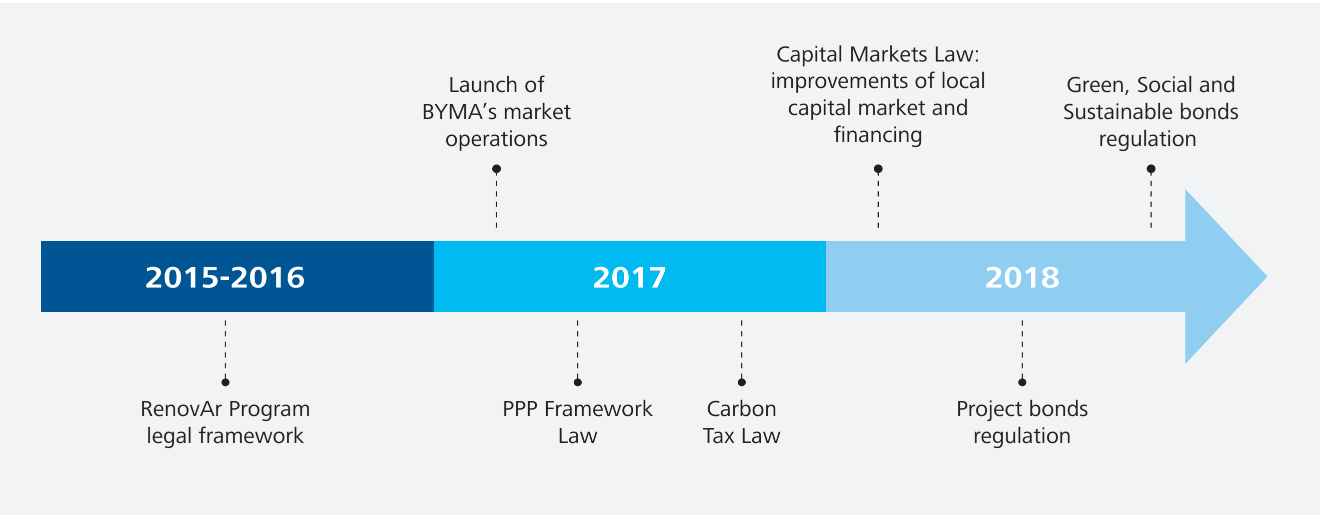


**Figure 8: Argentina's regulatory evolution impacting the sustainable infrastructure investment market[13]**

[12] It considers the suitability of closed-end funds for the financing of productive activities and agricultural, industrial, real estate, or any other sector projects. It determines its functioning, including the composition of the fund's assets which can include publicly and privately traded securities. These funds will have a maximum number of shares, will cover a specific term, and provide a prospectus for public offering, providing a structure to foster a secondary market for these funds.

[13] Own elaboration

the constitution of funds focused on retirement or pensions, forming long-term savings vehicles to bring institutional investors into the market;
- modifications in the Law of Negotiable Obligations, such as enabling the issuance of negotiable obligations with limited and exclusive recourse to certain assets of the issuer (but not all of its assets), establishing a framework that facilitates the issuance of project bonds for infrastructure financing;
- modifications in trust funds' (*fideicomisos*) regulations, such as the clarification that CNV registration is only needed for public offers; allowing fiduciaries, trustors and third parties to issue debt guaranteed by assets in trusts;
- regulation of derivatives, which indirectly affects the productive financing of companies, allowing them to obtain coverage or limit the risk that comes off any eventual changes in interest rates, input prices, currency, and other variables; and
- small to medium enterprises (SMEs) strengthening, such as the establishment that public works certificates may be negotiated in the capital market through a public offer, which allows for the financing of public works contractors in the capital market.

#### 3.2.1.2 Infrastructure investment

Currently, public investment has mainly driven infrastructure investments. According to research by *Banco Bilbao Vizcaya Argentaria* (BBVA), there are concerns that the banking system may not be sufficiently strong to cover the existing infrastructure gap in Argentina, considering the large investment amounts, the timeframes for project implementation, and the reality that the financing systems' total assets are about 3.8% of gross domestic product (GDP) – credit for the private sector is 15% of GDP. In addition, the financial system is based on short-term deposits and the 2008 crisis-imposed restrictions on banking regulations that favor low-risk investments over long-term ones in infrastructure (BBVA, 2018). The latest Basel Accords led to the restriction of banks' ability to invest in infrastructure projects by tightening the large exposure rule and established capital and liquidity requirements for infrastructure projects.

On the other hand, pension funds are more aligned with a long-term investment profile and have invested in infrastructure due to a regulatory requirement. However, since the nationalization of pension funds, the Sustainable Guarantee Fund (FGS by its Spanish acronym) has invested in infrastructure well below the regulatory investment maximum limit of 50% of its portfolio in productive and infrastructure projects. FGS had only 4% of its portfolio invested in infrastructure projects in 2017.[14]

The expectation of larger private participation relies on PPP contracts, regulated by Law 27,328/2017. An important feature of this type of contract is that it assigns risks between the public and private sectors, permitting the latter to absorb manageable risks. The Ministry of Finance estimates over USD 26 billion in PPP investments for the next five years (Gobierno de Argentina, 2018b).

In addition, regulation on project bonds (a special category of negotiable obligations) through Law 27,440/2018, complemented by CNV Resolutions 747/2018 and 726/2018, allows for reduced risks in financing public and private infrastructure projects as special purpose vehicles (SPVs) may be created for this purpose. The negotiable bonds category can only be offered to qualified investors.[15]

As part of its Tax Reform Law (27,430/2017), Argentina has established a carbon tax imposed on the implicit greenhouse gas (GHG) emissions of fossil fuels. Part of the associated revenue will be directed to the Transport Infrastructure Trust Fund (28.5%), the National Housing Fund (15%), Hydro Infrastructure Trust Fund (4.3%), and public transport subsidies (2.5%). This effort to meet the country's NDC also represents a stimulus to public infrastructure investment.

#### 3.2.1.3 Sustainability regulations impacting infrastructure

Recent regulations have boosted growth perspectives in infrastructure financing through modifications in existing bonds and the introduction of new instruments, such as project bonds. In this sense, innovation in capital markets seems to be propelled by the establishment of new regulatory frameworks and sustainable financing through government programs such as the RenovAr program to stimulate renewable energy projects in the country.

The banking system still lacks a regulatory incentive in providing financing to sustainable projects. On the voluntary side, according to a survey done by UNEP FI in 2016 (UNEP-FI, 2016) with 50% of banks operating in the country (87% of the financial system's assets), 39% of banks managed ESG risks in their portfolio (representing a growth from two to 12 banks in 10 years) and 26% offered green credit lines. In addition, about 58% of banks follow some type of voluntary ESG code of conduct, with 35% adopting the Equator Principles. This indicates that the sustainability financing market is evolving but still has a gap to overcome to reach the entire banking system.

CNV Resolution 764/2018 has introduced the ruling of social, green, and sustainable securities' issuances. The purpose of this

[14] ibid.

[15] Qualified investors are (i) international organizations; (ii) public trust funds; (iii) pension funds; (iv) publicly offered financial trusts; (v) insurance and reinsurance companies, and labor risk insurance companies; (vi) mutual guarantee associations; (vii) agents registered with the CNV, provided that they act on their behalf; (viii) individuals registered with the CNV; and (ix) individuals or legal entities, other than those mentioned above, that hold, at the time the investment is made, investments in securities and/or deposits in financial entities for an amount of at least 350 purchasing power units (UVA 350,000), equivalent to ARS 9,128,000 according to the value applicable as of the date of publication of the Resolution 761-E/2018.

resolution is to promote the development of financial instruments that generate social and/or environmental impacts through the capital market. It defines these types of securities according to the use of proceeds, based on the CBI standard and the Social, Green, and Sustainability Bonds Principles established by the ICMA.

These securities are structured financially in the same way as traditional securities, but with the specific use of proceeds to finance social, green, or sustainable activities or projects that are attested by external reviews. In Argentina, these securities could be issued through the following structures: (i) negotiable obligations and project bonds; (ii) mutual funds of investment; and (iii) trust funds.

They must follow the same requirements as conventional issuances plus disclosure on the use of proceeds, management of proceeds, the process for selection, and the evaluation of projects and reporting. It is worth mentioning that markets could suspend the sustainable labeling of the security if the issuers do not comply with this regulation (i.e., the correct use of proceeds and reporting).

The main expected incentive that companies will have to issue social, green, and sustainable securities will be the possibility of offering them to the growing share of institutional investors with ESG mandates. In addition to diversifying the investors' base, potential reputation and pricing benefits from issuing sustainable securities may also be achieved, as per the experience of international green bonds issuance.

Existing instruments used for sustainable infrastructure investments do not provide economic incentives for projects with social and/or environmental positive impacts. CNV Resolution 764/2018 also did not introduce special tax benefits for these types of securities.

### 3.2.2 Fundamental instruments for sustainable infrastructure investments

**Table 1: Argentina's fundamental instruments for sustainable infrastructure investments**[16]

| | | |
|---|---|---|
| **Negotiable obligations** | Bond, constituting units of a debt contracted by the company for the development of their investment projects or other purposes | |
| **Type:** Bond<br>**Sectors:** All | **Latest regulation:**<br>Law 23,576/1988<br>Law 23,962/1991<br>(updates 23,576/88) | **Investments (2014-Nov/2018):**<br>USD 12.6 billion (ARS 474.3 billion)[17] |
| **Sustainable investment:**<br>USD 130 million<br>(Green and Sustainable Bonds) | **Sustainability criteria:**<br>Issuers can voluntarily label issuances as green, social, or sustainable | **Sustainable investment example:**<br>Banco Galicia – green bond |
| **Status:**<br>Project bonds (*bonos de proyectos*) have been recently created to support infrastructure investments. They are a type of negotiable obligations that can be issued at different stages of implementation project and the bond payments should arise from the cash flow generated by the project. Only qualified and institutional investors can participate in the offer. | | |

| | | |
|---|---|---|
| **Trust fund** | A trust fund is a financial instrument in which a company/person (grantor or *fideicomitente*), transfers assets to another entity (trustee or *fiduciario*), for the constitution of the fund. | |
| **Type:** Fund<br>**Sectors:** All | **Latest regulation:**<br>Law 24,441/1995<br>Resolution CNV 368/2001 | **Investments (2014-Nov/2018):**<br>USD 5.23 billion (ARS 196.3 billion) |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>Issuers can voluntarily label issuances as green, social, or sustainable | **Sustainable investment example:**<br>Not available |
| **Status:**<br>Infrastructure project finance represented 2.4% of total issuance volume in the period between January and November 2018. There have been few infrastructure trust funds issued in 2018. Some trust funds were issued for energy infrastructure in 2017, according to an interview with stakeholders. | | |

[16] Own elaboration

[17] Exchange rate ARS/USD as of December 2018: 37.6

| **Open-End Investment Funds** | Open-End Investment Funds (FCIA) are mutual funds, in which the number of outstanding shares may increase or decrease over the life of the fund. | |
|---|---|---|
| **Type:** Fund<br>**Sectors:** All | **Latest regulation:**<br>Law 24,083/1992<br>Decree 174/1993<br>Decree 194/1998<br>CNV 2013 Regulations | **Investments (Sep/2018)::**<br>USD 15.1 billion |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>Issuers can voluntarily label issuances as green, social, or sustainable | **Sustainable investment example:**<br>Not available |
| **Status:**<br>Fixed income funds represent over 56% of open-end fund deals. As of September 2018, infrastructure-focused FCIA represented 1.0% of the industry, with a total of 10 funds. FCIA's assets related to infrastructure investments were only USD 0.16 billion (ARS 5.9 billion). | | |

| **Closed-End Investment Funds** | Closed-End Investment Funds (FCIC) are mutual funds composed of a maximum fixed number of shares that are issued at the placement stage and whose amount cannot increase or decrease. | |
|---|---|---|
| **Type:** Fund<br>**Sectors:** All | **Latest regulation:**<br>Law 24,083/1992<br>Decree 174/1993<br>Decree 194/1998<br>CNV 2013 Regulations | **Investments 2016-2018*:**<br>ARS 6.4 billion (~ USD 0.17 billion)<br>*Jan-Nov/2018. |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>Issuers can voluntarily label issuances as green, social, or sustainable | **Sustainable investment example:**<br>Not available |
| **Status:**<br>There is only one Infrastructure focused closed-end fund listed at CNV. This instrument peaked due to a *Superintendencia de Seguros de la Nación* (SSN) resolution that required pension funds to invest in investment funds focused on infrastructure, among other sectors. There is a lack of demand and, consequently, the FCIC's offer was revoked. | | |

### 3.2.3 Analysis of the sustainable infrastructure investment landscape

Argentina has a large infrastructure gap and is still dependent mainly on public investments to develop infrastructure projects. Bridging this investment infrastructure gap will require a significant contribution from the private sector over the next 20 years – new regulations have recently been put in place to better structure private participation through PPP contracts.

The role of large public banks in supporting sustainable infrastructure is currently focused on renewable energy generation and government programs, such as the RenovAR credit line from the Argentine Foreign Trade and Investment Bank (BICE by its Spanish acronym), which is also the trustee of this program's trust fund.

It is worth mentioning the role of the RenovAr program in fostering investments in sustainable infrastructure. The initiative has attracted almost ARS 6 billion (~ USD 160 million) in commitments to invest in renewable energy, through corporate bonds, equity, and financing.

Recent regulation on capital market functioning positively affected several financial instruments that support infrastructure investments, such as negotiable obligations (especially the creation of project bonds), trust funds, and investment funds. In addition, new regulations on derivatives can offer the opportunity to reduce investment risks.

The new Capital Markets Law is expected to stimulate the growing participation of institutional investors, most specifically in project bonds. Although there is a small number of PRI signatories from Argentina (one investment manager and one service provider), the new CNV resolution on Green, Social and Sustainable Bonds provides a structured voluntary label that can be used to track positive ESG impacts of institutional investors' portfolios.

The voluntary green and/or social labeling of securities is expected to facilitate issuances since the issuance of labeled securities has been scarce. Existing financial instruments have been used for both infrastructure and sustainable infrastructure projects, although there are no specific incentives for the latter.

Finally, the creation of *Bolsas y Mercados Argentinos* set a new standard for the integration of key capital markets agents, operations through a robust technological platform, and corporate governance.

### Case study: Closed-end and open-end investment funds

*Fondos comunes de inversión* (FCI) are mutual funds formed with the contributions made by investors subscribing shares (shareholders). FCI can be classified as open-end or closed-end according to their form. Their main differences lie in the investment object they develop (Article 1 Law 24,083) and the inherent procedures in the treatment of subscriptions and redemption of shares (Article 21 Law 24,083). Most of the FCIs currently operating are open-end. Below are two examples for FCI: one open-end and another closed-end.

Argentina has an established market for open-ended investment funds, which had around USD 19.5 billion of assets under management by December 2018. However, infrastructure funds represent less than 1% of those assets, with only 10 infrastructure investment funds active by the end of 2018. To promote the use of financial instruments focused on infrastructure projects, there is a need to tackle the insufficient demand for such funds and securities. The lack of demand is caused by the widespread perception of the high risk and low returns associated with infrastructure projects; investors prefer the highly liquid sovereign bonds. The current Infrastructure Open-End Investment Fund's portfolio is mainly composed of fixed income instruments, with public bonds still playing a relevant role (almost 48%).

#### Compass Group Open-End Investment Fund

Compass Group, present in nine countries in the Americas, is an asset manager with more than 20 years of experience. As of December 2018, it had over USD 37 billion in assets under management. Compass Group started its activity in Argentina in 1997 through the subsidiary Investis Asset Management, recognized by Standard & Poor's as a "Top Manager" in the Argentinian market in 2009, 2010, and 2011. Compass Group became a PRI signatory in November 2018, describing it as a significant step in consolidating its commitment to responsible investing. The asset manager states that its portfolio managers and analysts have long considered ESG issues a key component in the investment decision process and that it aims to encourage robust ESG practices within invested companies.

Its FCIA Desarrollo Argentino II assets include negotiable obligations from Genneia, a company focused on energy generation from wind (311 MW), solar (82 MW), and biogas and diesel thermal power (643 MW). It is the leading wind generation company in Argentina, with four wind farms (Rawson, Madryn I, Trelew, and Chubut Norte I), all located in the Buenos Aires Province. Genneia has also approved the development of projects for wind (433 MW) and biomass (19 MW) generation (GENNEIA, 2019). The company expects to have 58% of its generation capacity linked to renewable sources by 2021.

**Table 2: Compass Group's Open-End Investment Fund details**

| | | |
|---|---|---|
| **Compass Group FCIA Desarrollo Argentino II** | **Use of proceeds:** The investment portfolio is composed of fixed-income and equity assets directed at financing regional productive projects and infrastructure in Argentina. | |
| **Instrument:** Open-end investment fund | **Volume:** ARS 488 million (~ USD 13 million) as of April, 2019 | **Return rate:** 55.99% in 2018, 27.54% annual average (2007-2018) |
| **Issuance type:** Public issuance | **Rating:** A-bf.ar (Moody's) as of March 2019 | **Issuance date:** September 2007/ August 2010 (re-launch) |

## Grupo SBS Closed-End Investment Fund

Grupo SBS is an Argentinian holding specialized in securities trading, portfolio management, asset management, structured finance, and securities placement and issuance. It started its management of investment funds activities in 2007 with the creation of SBS Asset Management SA SGFCI. It was recognized by Standard & Poor's as a "Top Manager" in the Argentinian market every year between 2010 and 2014. It currently has ARS 15 million (~ USD 400 million) of assets under management among 17 investment funds.

The group has a closed-end infrastructure investment fund, FCIC SBS *Infraestructura y Desarrollo Productivo*, which is focused on fixed income bonds to finance infrastructure projects. The FCIC will be responsible for financing over a third of total infrastructure investment costs from those projects. Details on the FCIC can be found in Table 3.

In its prospectus, Grupo SBS reports on the environmental impact for each project according to a specialized engineering company's assessment. It demonstrates that the companies tried to minimize the negative environmental impacts during the construction phase. The solar project stands out due to its potential environmental benefits. The specific purpose entity (SPE) Aceitera General Deheza Energía S.A. is responsible for the development of a 50 MW generation capacity solar farm at Jocolí, in Mendoza province. The solar farm will use polycrystalline solar panels.

**Table 3: Grupo SBS' Closed-End Investment Fund details**

| | | |
|---|---|---|
| **SBS *Infraestructura y Desarrollo Productivo* FCIC Ley 27,260** | **Use of proceeds:** Investment on infrastructure projects from the company Aceitera General Deheza focused on transport, energy, and productive development | |
| **Instrument:** Closed-end investment fund | **Volume:** USD 120 million | **Return rate:** N/A |
| **Issuance type:** Public issuance | **Rating:** - | **Issuance date:** March 2017 |

### 3.2.4 Key takeaways

**Table 4: Key takeaways of the Argentinian market[18]**

| Key takeaways – Argentina | |
|---|---|
| **Investment instruments** | • Infrastructure investments have been driven mainly by public investment. The banking system may not be sufficiently strong to cover the large infrastructure gap in Argentina, and the financial system is mainly focused on the short-term.<br>• The launch of the new Capital Markets Law (No. 27,440/2018) is expected to develop the Argentinian capital market with its regulatory improvements, which include the promotion of investment funds as productive financing vehicles. |
| **Institutional investors** | • The Argentinian capital market is relatively small compared with other major LAC countries. Due to a history of high inflation, retail investors usually invested in real estate or strong currencies rather than domestic capital markets, and financial investments were concentrated in fixed income instruments.<br>• Recent changes in the Law of Investment Funds and the new Capital Markets Law are expected to stimulate the growing participation of institutional investors, most specifically in project bonds and investment funds. |
| **Sustainability** | • There is still little participation of green, social, or sustainable infrastructure projects in the investment funds portfolio. Investment funds that are purely composed of these types of projects have yet to be launched.<br>• Recent regulation (CNV Resolution 764) establishes requirements for bonds, investments, and trust funds to be in accordance with international standards for Social, Green and Sustainability Bonds issuance. This regulation may facilitate the diffusion of investment funds focused on sustainable infrastructure.<br>• As this innovation was recently enacted, it is too early to assess its effectiveness. There are currently no economic incentives or tax benefits to promote the issuance of such securities. To minimize the economic constraints, the Argentinian government may consider implementing such incentives to promote the Social, Green and Sustainability Bonds market in the country. |

### 3.2.5 Main recommendations considering the local context

| Recommendations – Argentina |
|---|
| • Adapt institutional investor regulations to stimulate infrastructure investment and embed sustainability criteria or sustainability incentives to shift the infrastructure market<br>• Adapt PPP regulation to standardize reporting and disclosure on sustainability criteria |

[18] Own elaboration

## 3.3 Brazil

### Key findings

Brazil's infrastructure investments are increasingly financed by capital market instruments, particularly infrastructure debentures due to fiscal incentives, after a strategic repositioning from its national development bank and changes in macroeconomic conditions. The government has begun developing environmental and social (E&S) guidelines for infrastructure projects granted to the private sector. The inclusion of projects with environmental benefits in the list of prioritized infrastructure projects eligible for tax benefits is currently under discussion. The Brazilian Stock Exchange and Over-the-Counter Market (B3) has recently launched a green/social bond registration system to increase their visibility.

According to the Global Infrastructure Hub created by the G20, Brazil has an infrastructure gap of USD 1.2 trillion until 2040 (USD 2.7 trillion in investment needed less the USD 1.5 trillion investment trend) – an average of USD 49.5 billion per year (GIH, 2018a).

Historically, infrastructure finance has come mainly from the public budget (federal and local governments) and official banks concessional loans (Brazilian Development Bank (BNDES), Caixa Econômica Federal, etc.), complemented by private investment. Brazil is a top performer in the World Bank Rating of Private Participation in Infrastructure, at third place in number of projects (942) and first place in volume of investment (USD 391.7 billion) between 1990-2018 (The World Bank, 2018).

However, since 2015, the country has struggled to resume the same rate of investment in the area. Due to fiscal limitations, there has been an effort to foster and increase the role of private banks and the capital market as financing sources to support infrastructure investment.

The capital market, which represented only 7% of infrastructure private investments financing sourced through project finance in 2017, according to the Brazilian Financial and Capital Markets Association (ANBIMA), has surpassed BNDES' infrastructure financing through its credit line FINEM (Ventures Financing) in 2018 (Rosa, 2019). This shift is due to the greater competitiveness of capital market instruments after the substitution of Brazil's long-term interest fixed rate (TJLP) for the TLP, which consists of both a fixed rate and flexible rate component based on the inflation rate and is the base rate of BNDES's financing.

### 3.3.1 Regulatory framework overview

#### 3.3.1.1 Capital market

Brazil's capital market is large compared to other LAC countries, which is a result of both the weight of the country's economic activity and the progressive development of its capital market. As Brazil's market regulation has developed in the past decades, the financial market remains concentrated on short-term instruments and government bonds. This is mainly due to historically high inflation and interest rate volatility, which has increased the risk aversion of Brazilian investors (S&P Global Ratings, 2017). Additionally, the private bond market has an investor base limited in size and an issuer base limited in diversity (Park, 2012). Due to the recent decrease in inflation and interest rates, funding for infrastructure projects has become more attractive. In addition, Basel III changes have led to a preference for bonds over long-term financing instruments for infrastructure projects.

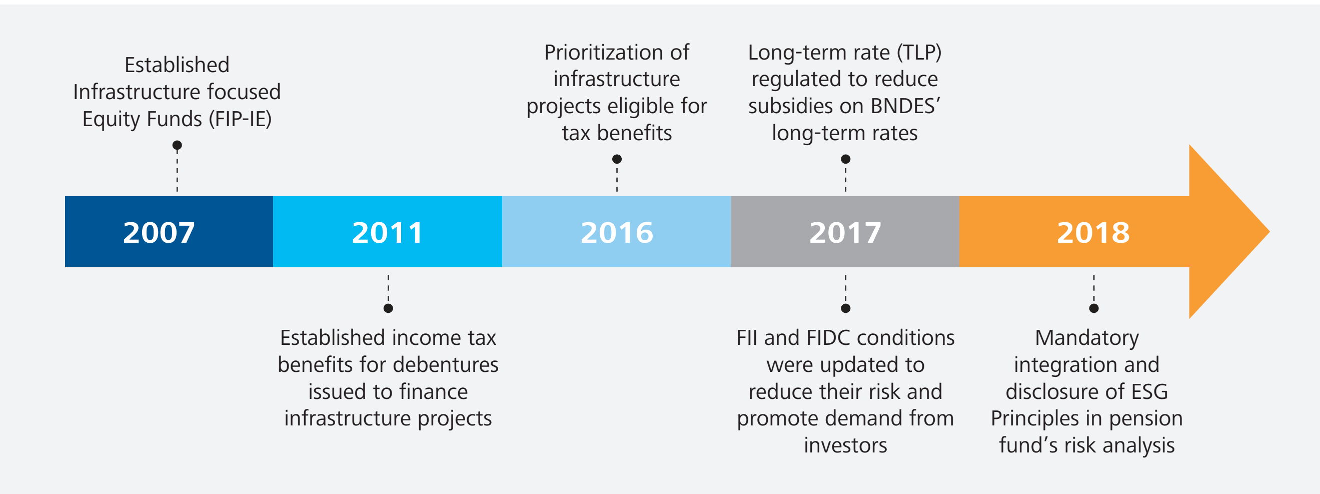


**Figure 9: Brazil's regulatory evolution impacting the sustainable infrastructure investment market**[19]

[19] Own elaboration

### 3.3.1.2 Infrastructure investment

Brazilian private infrastructure investment has relied historically on direct credit provided by BNDES, accounting for roughly 70-80% of investments in infrastructure projects from 2006 to 2016 (S&P Global Ratings, 2017). However, the development bank's loans have been decreasing for the past four years due to its strategic repositioning. Combined with a lower SELIC[20] rate, this cost increase in BNDES loans represents an opportunity for growth in private sources.

Basel III has been under implementation in Brazil since 2013, a process that is expected to be completed in 2019. This latest regulation is likely to limit the capacity of commercial banks to invest in infrastructure projects by tightening the capital requirements for these projects, among other measures.

In addition, recent innovations in financial instruments promoted by financial market regulators aim at promoting infrastructure investments through the capital market. Established by Law 11,478 in May 2007 to promote infrastructure investments, the Infrastructure Equity Funds (FIP-IE by its Portuguese acronym) are a specific type of Private Investment Funds (FIP by its Portuguese acronym) with income tax exemptions for certain investors and at least 90% of FIP-IE assets directed to energy, transportation, water and sanitation, irrigation, and other project types considered priorities by the federal government. Other important regulatory innovations were Law 12,431/2011, which established infrastructure debentures and Decree 8,874/2016, which regulate the conditions for the approval of investment projects considered to be priorities in the infrastructure sector. They created incentives (income tax and financial operations tax (IOF by its Portuguese acronym) exemption for resident citizens and foreign non-resident investors) for debentures focused on financing infrastructure projects. Since the creation of this instrument, approximately BRL 57 billion (USD 14.7 billion)[21] were issued in infrastructure debentures, which has become the most common form of green bond issuance.

The National Monetary Council's (CMN by its Portuguese acronym) Resolutions 4,604/2017 and 4,661/2018 are expected to promote institutional investors' demand for infrastructure-related financial instruments. The former altered investment limits and conditions for Credit Receivables Investment Funds (FIDC by its Portuguese acronym) and Real Estate Investment Funds (FII by its Portuguese acronym). The latter changed the rules for investment in the real estate sector by closed-end private pension entities (EFPC by its Portuguese acronym), prohibiting direct acquisition and allowing a larger share of EFPC's investments in the infrastructure sector, from 8% to 20%, through financial instruments.

### 3.3.1.3 Sustainability regulations impacting infrastructure

The integration of social, environmental, and climate sustainability criteria in Brazil has been happening at the infrastructure project level. Financial innovation, driven both by voluntary initiatives and regulatory improvements, has established minimum sustainability requirements for the financial market.

As part of BNDES' loan process, infrastructure developers must disclose expected environmental and social impacts, as well as prove its compliance with environmental and labor legislation. Although this disclosure is not mandatory for commercial bank loans, the main banks active in project finance in Brazil are Equator Principles signatories, and thus, consider environmental and social risks in project financing.

The Brazilian Central Bank's Resolution 4,327/2014 was a landmark for environmental and social risk integration in the national banking system. It determined the mandatory establishment and implementation of a Social and Environmental Responsibility Policy by financial institutions. Banking institutions shall comply with this regulation, considering the principles of relevance and proportionality in their portfolio.

CMN Resolution 4,661/2018 also requests that EFPCs consider material social and environmental aspects in their risk analysis and for procedures for risk management to be more robust and better disclosed.

The National Superintendence of Supplementary Social Security (PREVIC by its Portuguese acronym) released Instruction 6 in November 2018 to regulate the implementation of Resolution 4,661 among EFPC. According to the *Banco Central do Brasil* (BCB) 4,661/2018, private pension fund's, statutory boards are responsible for ensuring the effective integration of ESG risk assessment in its investment policy and risk management processes. PREVIC's Instruction 6 also suggests the adoption of a sector-specific approach to risk assessment.

The Superintendence of Private Insurance (SUSEP by its Portuguese acronym) is currently finalizing updates for the *Conselho Nacional de Seguros Privados'* (CNSP) Resolution 321/2015 and CMN Resolution 4,444/2015, which regulate investment policy for insurance companies and open-end private pension entities. The drafts being discussed would make it mandatory for said companies to disclose whether their investment decisions integrate ESG principles.

Through the Decree 2.866/2019, the Infrastructure Ministry has created an Environmental Management Committee to implement

[20] SELIC is the basic interest rate in the country corresponding to the weighted average of daily rates in the Special System for Settlement and Custody of federal public bonds.

[21] Exchange rate BRL/USD as of December 2018: 3.88

E&S guidelines for all infrastructure projects concessions to the private sector. These E&S guidelines are still under development but are expected to promote sustainability among infrastructure projects, mainly in the mobility sector.

There is also a proposal to update Decree 8,874/2016, which would include infrastructure projects with environmental benefits, as attested by second opinion, rating or certification, as eligible for high priority for the government – the same level of priority as the Investment Partnership Program (PPI by its Portuguese acronym) projects.

At the beginning of 2019, FEBRABAN released a roadmap to assist the Brazilian banking sector in the implementation of the TCFD recommendations in line with international efforts.

B3 has launched two sustainability-related company indexes, the Corporate Sustainability Index (ISE by its Portuguese acronym) and Carbon Efficient Index (ICO2 by its Portuguese acronym) in 2005 and 2010, respectively. In 2018, B3 introduced the possibility of registering bonds as social, green, or sustainable.

On the investor side, 50 Brazilian institutions have adhered to the PRI, of which 52% are investment managers, 30% are asset owners, and 18% are service providers.

### 3.3.2 Fundamental instruments for sustainable infrastructure investments

**Table 5: Brazil's fundamental instruments for sustainable infrastructure investments[22]**

| | | |
|---|---|---|
| **Infrastructure debenture** | Fixed income instrument representing medium- and long-term debt that guarantees debenture holders a right of credit against the issuing company. This type of debenture offers fiscal incentives to investors in infrastructure projects. | |
| **Type:** Bond<br><br>**Sectors:** Energy, water and sanitation, transport, telecommunications, agribusiness, and forestry | **Latest regulation:**<br>Law 12,431/2011<br>Decree 8,874/2016 | **Investments 2014-2018*:**<br>BRL 47 billion<br>(~ USD 11.8 billion) issued<br><br>*Jan-Oct/2018 |
| **Sustainable investment:**<br>BRL 1.19 billion (~ USD 308 million) in green bonds issuances | **Sustainability criteria:**<br>Issuers can voluntarily label issuances as green, social, or sustainable | **Sustainable investment example:**<br>ISA CTEEP – Energy transmission |
| **Status:**<br>Since 2012, infrastructure debentures have increased their role in financing infrastructure projects in the capital markets, reaching a total of 174 issuances of infrastructure debentures from 2012 to September 2018 for projects focused on energy (127), transportation (38), telecom (5), and sanitation (4). The main investors in infrastructure debentures from January to September 2018 were individuals (17%), institutional investors (46.7%), and others (36.3%). | | |

[22] Own elaboration

| **Infrastructure Private Equity Investment Fund** | *Fundo de Investimento em Participações – Infraestrutura* (FIP-IE) is a closed-end investment fund in which at least 90% of the equity must be invested in infrastructure sectors. | |
|---|---|---|
| **Type:** Fund<br><br>**Sectors:** Energy, water and sanitation, transport, agribusiness, and forestry | **Latest regulation:**<br>Law 11,478/07<br>CVM Instruction 578/2016<br>CVM Instruction 460/2007 | **Investments:**<br>BRL 6 billion<br>(~ USD 1.5 billion) in total assets as of Aug/2018 |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>This instrument has no embedded social, environmental, or climate criteria, nor incentives for socially and environmentally positive investments. | **Sustainable investment example:**<br>FIP IE BB VOTORANTIM ENERG SUSTENT (I, II, and III) – Renewable Energy |
| **Status:**<br>Due to returns in the medium to long term and higher minimum investments requirements in FIP-IEs, this instrument attracts more institutional investors than individuals, although there is an income tax exemption for the latter. Only Infrastructure Private Equity Investment Funds are currently listed by B3. | | |

| **Certificate of Agribusiness Receivables** | *Certificado de Recebíveis do Agronegócio* (CRA) is a securitization instrument backed by agribusiness receivables that can only be issued by securitization companies. | |
|---|---|---|
| **Type:** Bond<br><br>**Sectors:** Agribusiness and forestry | **Latest regulation:**<br>Law 11,076/04<br>CVM Instruction 600 | **Investments 2014-2018*:**<br>BRL 36.2 billion (~ USD 9.2 billion) issued<br><br>*Jan-Oct/2018 |
| **Sustainable investment:**<br>BRL 1 billion (~ USD 0.26 billion) in green bond issuance | **Sustainability criteria:**<br>Issuers can voluntarily label issuances as green, social, or sustainable bonds | **Sustainable investment example:**<br>Suzano Green Bond CRA |
| **Status:**<br>The securitization of agribusiness receivables has increased recently and is expected to grow further due to the importance of agribusiness to the economy. From January to September 2018, the main investors of CRA were individuals (71%), institutional investors (17.8%), and others (11.2%). | | |

| **Credit Receivables Investment Fund** | FIDC are open or closed-end investment funds composed of financial securities backed by loans, leases, or receivables. | |
|---|---|---|
| **Type:** Fund<br><br>**Sectors:** All | **Latest regulation:**<br>CVM Instruction 356<br>CVM Instruction 489<br>CVM Instruction 399<br>CVM Instruction 606 | **Investments 2014-2018*:**<br>BRL 49.3 billion (~ USD 12.7 billion) issued<br><br>*Jan-Oct/2018 |
| **Sustainable investment:**<br>BRL 0.5 billion (~ USD 129 million) | **Sustainability criteria:**<br>Issuers can voluntarily label issuances as green, social, or sustainable bonds | **Sustainable investment example:**<br>BNDES – Renewable Energy Fund |
| **Status:**<br>The main FIDC investors are financial institutions related to the issuance of credit rights by the originators (39.3%), companies (40.6%), and investment funds (11.6%). Pension funds do not represent a significant share of FIDC investors (only 5.3%) as FIDC have complex structures and higher risk exposure than these institutions usually deal with. | | |

### 3.3.3 Analysis of the sustainable infrastructure investment landscape

Brazil has a significant infrastructure gap, explained by decades of insufficient investment rates and the steady deterioration of infrastructure assets. Although BNDES and large public investment programs played a major role in infrastructure investments in the past decades, there is currently an effort to boost private investment to compensate for the relative decline in public investments. The Brazilian government has implemented various regulatory innovations in the past few years, with a special focus on capital market instruments. As a result, two financial instruments focused on infrastructure were created: infrastructure equity funds (2007) and infrastructure debentures (2011), the latter becoming the most relevant source of infrastructure finance in the capital market.

On the investor side, there were recent initiatives, although not specifically climate-focused, to promote ESG criteria incorporation into investment risk analysis that has the potential to promote investments focused on sustainable infrastructure. Still, there is currently little integration of sustainability criteria in infrastructure financial instruments, with Green Bond issuance being the main example. The Brazilian Green Bond market has grown since the first issuance by a Brazilian company in 2015, with around 40% and 4% of proceeds focused on the energy and construction sectors in 2017, respectively (CBI, 2018).

There is still no specific regulation for green bonds in Brazil, as this market has developed mainly through private initiatives. In 2016, FEBRABAN and the Brazilian Business Council for Sustainable Development (CEBDS by its Portuguese acronym) launched the Guidelines for Issuing Green Bonds in Brazil, which is a non-binding guide aligned with the ICMA's Green Bonds Principle and the Climate Bonds Taxonomy. It has become an important reference for green bond issuance in the country.

By the end of 2018, Brazilian companies had issued BRL 15.8 billion (USD 4.1 billion) in green bonds. The majority of issuance has come from corporate entities of various sectors, but mainly from energy and agriculture and forestry. BNDES is still the only Brazilian bank that has issued a green bond. The launch of its Sustainable Energy Fund in 2017, aimed at investing in infrastructure debentures focused on low-carbon energy projects, will increase the demand for these green bonds.

There are suggested updates to financial regulations aimed at promoting the Brazilian green bond market that are expected to come into force in the near future. Potential innovations are the inclusion of projects with environmental benefits in the list of prioritized infrastructure projects eligible for tax benefits (Decree 8,874) and increasing the flexibility of concentration per issuer and longer timeframes to change concentration limits for funds that invest in green bonds.

#### Case study: Green infrastructure debentures – ISA CTEEP

ISA CTEEP, the largest private-sector electricity transmission company in Brazil, issued a BRL 621 million (USD 192 million) infrastructure debenture to finance the development of eight transmission line projects that provide connection to renewable energy and efficiency in Brazil's Interconnected National System.

The issuance attracted over 3,700 investors under CVM Instruction 400 public issuance regulation. Seven Institutional investors participated in the process, including those with dedicated green portfolios that had access to the issuance through investment funds, indirectly allocating resources.

The demand reached BRL 1.8 billion (USD 551 million), oversubscribing by 2.87 times with all greenshoe options exercised (original volume on roadshow was BRL 450 million). Additional details on the issuance can be found in Table 6.

The company was highly motivated to issue a green bond due not only to obtaining reputational benefits but also because of the alignment of their projects with the company's strategy of reaching sustainability goals. Nevertheless, pricing benefits due to green labeling were not evidenced in this issuance.

This case is an example of a successful green bond issuance. The new feature of this issuance is its public reach – it is the first green bond in the Brazilian market distributed to the general public. Replication of this type of issuance could be achieved through the proposed improvement in Decree 8,874/16 that could place a governmental priority on sustainable infrastructure projects.

**Table 6: ISA CTEEP's infrastructure debenture details**

| **ISA CTEEP Green bond issuance** | **Use of proceeds:** New transmission lines to connect renewable power generators and increase the efficiency of the national grid | |
|---|---|---|
| **Instrument:**<br>Infrastructure debenture | **Volume:**<br>BRL 621 million (USD 192 million) | **Return rate:** 4.7% p.a. + IPCA<br>(Brazilian consumer price index) |
| **Issuance type:**<br>Public issuance<br>(CVM instruction 400) | **Rating:**<br>AAA (bra) (Fitch Ratings) | **Tenor:**<br>7 years |

### 3.3.4 Key takeaways

**Table 7: Key takeaways of the Brazilian market[23]**

| **Key takeaways – Brazil** | |
|---|---|
| **Investment instruments** | • BNDES credit lines have decreased after a strategic repositioning, creating an opportunity for capital market instruments to play a bigger role in this segment, mainly through debentures (especially infrastructure debentures, due to fiscal incentives), Infrastructure Equity Funds, and Real Estate Investment Funds.<br>• Although eligible for green bond issuances, Letras de Crédito do Agronegócio (LCA), Letras de Crédito Imobiliário (LCI), CRA, Certificados de Recebíveis Imobiliários (CRI), and FIDC have not been explored extensively by the market for green labeling – only one green labeled CRA has been issued so far. |
| **Institutional investors** | • As per current regulations, pension funds are subject to ensure the effective integration of ESG risk assessment in its investment policy and risk management processes.<br>• Proposed legislation for insurance companies may determine mandatory disclosure if their investment decisions integrate ESG principles. |
| **Sustainability** | • Regulatory innovations such as the recent establishment of E&S guidelines for infrastructure projects granted to the private sector, the expected implementation of tax benefits for projects with environmental benefits and a potential increase in regulatory flexibility could increase funds' demand for Green Bonds and boost the market in Brazil.<br>• Inclusion of projects with environmental benefits in the list of prioritized infrastructure projects eligible for tax benefits is currently being discussed.<br>• B3 has recently launched a green/social bond registration system to increase visibility for these bonds. |

### 3.3.5 Main recommendations considering the local context

| **Recommendations – Brazil** |
|---|
| • Develop green, social, and sustainable labels for investment funds<br>• Adapt insurance regulation to incorporate sustainability issues in investment criteria<br>• Adapt PPP regulation to standardize reporting and disclosure on sustainability criteria |

[23] Own elaboration

## 3.4 Chile

**Key findings**

Chile's infrastructure investments are made primarily through investment and mutual funds, and have often been supported by the robust national PPP framework. In the past, regulation has proven to be the main driver of change. Recent regulatory changes seek to increase institutional investor participation in infrastructure investment. The sustainability transition is likely to follow suit, with five green and social bonds already issued in the country following the launch of a dedicated market for green and social bonds in April 2018 by the *Bolsa de Santiago*.

According to the G20's Global Infrastructure Hub, Chile has an infrastructure gap of USD 53 billion until 2040 (GIH, 2018b) (USD 264 billion in investment needed with USD 212 billion in investment trends) – an average of USD 2.4 billion invested per year.

Chile's investment in infrastructure grew substantially over the past 25 years due to an ambitious infrastructure program based on concessions. Between 1994 and 2015, USD 16 billion was invested in public infrastructure concessions (Serebrisky, Pastor, Suárez-Alemán, Alberti, & González, 2017), through the implementation of new instruments allowing further private capital to be invested in such projects.

### 3.4.1 Regulatory framework overview

#### 3.4.1.1 Capital market

The main regulatory entity in Chile for financial markets is the *Comisión para el Mercado Financiero* (CMF, 2019a) (CMF replaces the *Superintendencia de Valores y Seguros* since 2018), which ensures the proper functioning, development, and stability of the financial market. Additionally, local financial institutions and pension funds have their individual regulatory bodies. Adapting to the international recommendations outlined in the Basel III Accords, the update of the *Ley General de Bancos* integrated the *Superintendencia de Bancos e Instituciones Financiera* within the CMF (Silva Salas, Forteza Saavedra, Figueroa de la Barra, & Cayazzo González, 2018).

The *Ley de Mercado de Valores* (Gobierno de Chile, 2014a), or "Capital Market Law", first issued in 1981 by the CMF, set the legal framework for the registration and trading processes within the capital markets of Chile, defining the type of instruments, issuers, and investors in the market. The capital market framework set-up in Chile has succeeded in attracting local institutional investors and international investors, partly through the regulatory efforts described here. The Pension Fund Law issued a year before, defined the list of instruments in which pension funds are authorized to invest in, including national and subnational government bonds, corporate bonds, securities, and credit lines from financial institutions. This contributed to an increase of approximately 31% (SAFP, 2003) in pension funds investment on the capital market between 1981 and 2001.

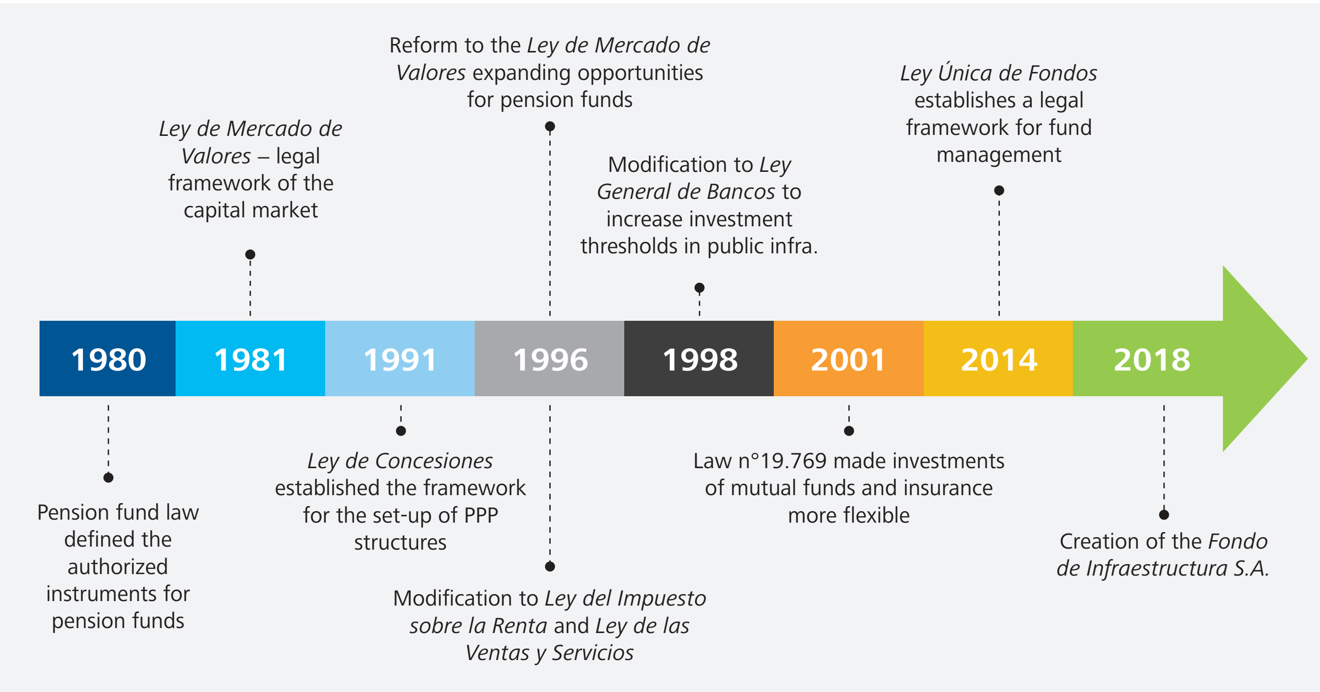


**Figure 10: Chile's regulatory evolution impacting the sustainable infrastructure investment market**[24]

[24] Own elaboration


Image source: Pixabay

In 1996, a reform to the Capital Market Law removed barriers on financial instruments available to institutional investors to invest in infrastructure projects, expanding their range outside of indirect instruments such as equity and bonds issued by private companies. In 20 years, over USD 1 billion (Macías, 2016) has been invested directly by pension funds into infrastructure projects in Chile. Previously restricted to investment funds and direct investment through listed entities, the latest version of the "Pension Fund Law" in 2017 (Gobierno de Chile, 2017a) authorized alternative investments for pension funds: private equity, private debt, infrastructure, and real estate.

A law issued in 2001 (Ley n°19.769 (Gobierno de Chile, 2001)) made investments of mutual funds more flexible by removing the risk limit of funds that have purely qualified investors to allow each fund to determine their risk-appetite within their investment strategy, facilitated the internationalization of the Chilean financial sector by aligning the standards of insurance company investments to the International Association of Insurance Supervisors, and improved the laws on investment funds by reinforcing their self-regulating mechanisms, improving the mandatory reporting requirements and clarifying the responsibility of fund directors. In 2014, the *Ley Única de Fondos* established a legal framework for the management of funds (mutual funds, investment funds, and international investment funds) and regular portfolios. This new framework aligned the legal obligations of the different types of funds, local, and international.

Lastly, in 2016, the *Ley de Productividad* revised the pension fund law, further expanding the scope of instruments that pension funds are authorized to invest in, including venture capital and private equity funds.

### 3.4.1.2 Infrastructure investment

The *Ley de Concesiones* (Gobierno de Chile, 2017b), or Concession Law, issued in 1991 (updated in 2017), enabled the Ministry of Public Works of Chile to launch infrastructure projects, whether it be the construction, maintenance, or improvements of public infrastructure, under its jurisdiction. This regulatory update opened the infrastructure market to PPPs, under the supervision and strategic drive of the Ministry of Public Works. The Ministry of Public Works defines PPP contracts as long-term contracts between the private and public sectors where the private sector assumes a significant portion of the infrastructure provision risk. Other ministries are also authorized to launch such projects through an agreement with the Ministry of Public Works. The previously mentioned law defines the legal boundaries, stakeholder roles, and processes for the establishment of public infrastructure concessions. In particular, it defines the legal framework for PPPs in infrastructure projects. The traditional set-up of such PPPs under this framework is that the private sector is in charge of the construction, operation, and maintenance of the infrastructure to ensure the long-term impact of the projects. An addition to the above-mentioned regulation released in 1993 provided in-depth insights into the project approval criteria and sought to strengthen the regulatory framework of PPPs. A particularity of the PPP framework in Chile is that it forces project owners to contribute at least 20% of the initial funds necessary for the construction of infrastructure projects to access the concessions market. Between 1992 and 2015, 82 concession projects reaching close to USD 19 billion of investments were undertaken (Gobierno de Chile, 2015).

In 1996, the *Ley del Impuesto a las Ventas y Servicios* (IVA) and the *Ley del Impuesto de Renta* were modified (Kristjanpoller Rodríguez & Díaz Antillanca, 2011) to exempt road tolls from IVA, facilitating the repayment of credit accumulated during the construction of public road infrastructure and regulating the depreciation of the taxable income on rent. Two years later, the *Ley General de Bancos* (Gobierno de Chile, 1998) was modified to increase the investment threshold in public infrastructure concessions from 10% to 15% of the total assets of a financial institution. Both regulatory changes contributed to the registered increase in investments in concession projects, road infrastructure in particular.

However, the latest version of the Basel Accords may affect the ability and appetite of banks to further finance infrastructure. The CMF and the Government of Chile are currently in the process of adapting the *Ley General de Bancos* considerably to improve the robustness of its financial system and align with the latest international norms.

In March 2018, the Ministry of Public Works issued a law (Ley n°21.082 (Gobierno de Chile, 2018a)) creating the *Fondo* *de Infraestructura S.A.* (Foinsa), an independent legal entity with a cooperative governance system that will support the development of financing activities for businesses and public infrastructure projects from 2019 onwards. The fund will follow the concession law regarding the involvement of any third-party. In addition, the legal text defines the evaluation and selection processes of the fund, as well as the responsibilities of the fund to define a five-year investment plan on a yearly basis, among other administrative obligations of solvency and fiscal responsibility. The expected impact of the fund is to further stimulate private sector investments in public infrastructure projects.

#### 3.4.1.3 Sustainability regulations impacting infrastructure

A normative change in 2015 (Superintendencia de Valores y Seguros, 2015) attempted to improve the available information on the corporate governance, social responsibility, and sustainable development of listed companies through a set of recommendations that include the uptake of the Global Reporting Initiative standards (GRI, 2019). These recommendations triggered the path towards sustainability of the *Bolsa de Santiago*. However, this norm does not apply to investment funds. The CMF is currently working on an update of the norm focused on diversity, and potentially including TCFD, to facilitate the comparison of companies' sustainability performance. The CMF identified the lack of knowledge of issuers and a failure to consider short and long-term benefits of sustainability disclosure as key elements impeding the development of the market.[25]

On the investor side, there is no strong push towards sustainability criteria in investment decisions. Indeed, in 2018, only four Chilean entities adhered to the PRI: two investment managers, one asset manager, and one service provider (according to PRI categorization). The largest banks, pension funds, and insurance companies are not signatories, which shows a low level of engagement from the Chilean financial market. However, this can partly be explained by the PRI's lack of presence and marketing efforts in the country, where the first dedicated presentation happened at the end of 2018.

The first Chilean pension fund adhered to the PRI in January 2019. Although sustainability is only starting to emerge in the pension fund sector, the *Superintendencia de Pensiones* is considering making it mandatory for pension funds to disclose on sustainability criteria, although it would still not be mandatory to include these criteria in their investment decision-making processes.

However, in the capital market, the *Bolsa de Santiago* launched a market dedicated to green and social bonds in April 2018 (Bolsa Santiago, 2019), demonstrating the objective of the regulatory entities to support the financial sector in transitioning to more sustainable investments. In less than one year, four green and social bonds have been issued within this market.[26] The *Bolsa de Santiago* had already demonstrated a voluntary commitment to sustainability performance and transparency by joining the Sustainable Stock Exchange Initiative (SSE) in 2014. Its commitment to stimulating the uptake of ESG reporting standards is demonstrated by the information, tools, and guide on sustainability reporting and responsible investing being disseminated and the workshops, presentations, and capacity building activities being undertaken.[27]

At the infrastructure investment level, sustainability criteria are not legally mandatory and do not have a strong role in the investment decisions of the financial sector in Chile. There have been attempts to stimulate the development of infrastructure with strong social benefits through several initiatives:

- the *Fondo Social Presidente de la Republica* (Gobierno de Chile, 2018b) was created in 1996 as a public fund investing through grants in social equipment and social infrastructure projects initiated by public entities or not-for-profit private entities. These projects must complement the government's social investment strategy. The fund will finance the construction, retrofitting, growth, or maintenance of any social infrastructure project (max. USD 41,000) in line with its selection criteria;
- *Ley de Subsidios Públicos* (Gobierno de Chile, 2009) in 2009 created the *Fondos de Espejo*, forcing the government to invest as much in transport infrastructure in the Santiago metropolitan area as in other areas of the country; and
- *Ley de Inclusión Escolar* (Gobierno de Chile, 2018c) in 2016 created a guarantee fund for school infrastructure, guaranteeing debt emissions of such infrastructure projects to improve their risk score and subsequently lowering their financial burden.

The experience of the Chilean infrastructure investment market with PPPs demonstrated that innovation was led by regulatory changes stimulating banks and capital market investments. This pattern is likely to be replicated for the sustainable transition of infrastructure investments.

[25] Interview with national stakeholder

[26] Additional information can be found in Section 3.4.2

[27] Interview with national stakeholder

### 3.4.2 Fundamental instruments for sustainable infrastructure investments

**Table 8: Chile's fundamental instruments for sustainable infrastructure investments**[28]

| | | |
|---|---|---|
| **Securitized bonds** | Tradable debt instruments issued by the private sector (S.A.) to anticipate predictable future incomes of the assets of a company or financial institution | |
| **Type:** Bond<br>**Sectors:** All | **Latest regulation:**<br>*Ley de Mercado de Valores –* TÍTULO XVIII<br>Norma de Carácter General N°303 | **Investments 2014-2018:**<br>CLP 553 billion<br>(~ USD 843 million – total issued amount)[29] |
| **Sustainable investment:**<br>Not applicable | **Sustainability criteria:**<br>There are no indications of sustainability criteria embedded in the issuance process. | **Sustainable investment example:**<br>Not applicable |
| **Status:**<br>The capital market's participation in the infrastructure investment landscape is mainly through securitized bonds and investment funds dedicated to infrastructure projects. The former are known as "*Bonos de Infraestructura*", with a yearly issuance of USD 37.6 million. The main advantage of the securitized structure is to isolate the infrastructure project from the risk of the owner of the project and increase the liquidity of the investment. These have been used for concession projects where the targeted infrastructure has predictable future incomes (e.g., roads, energy). These bonds are available to all types of investors but are historically held by institutional investors: pension funds and insurance companies. | | |

| | | |
|---|---|---|
| **Corporate bonds** | Debt instruments issued by corporations and other types of public entities to obtain resources directly from the securities markets | |
| **Type:** Bond<br>**Sectors:** All | **Latest regulation:**<br>*Ley de Mercado de Valores*<br>Norma de Carácter General N°303 | **Investments 2014-2018:**<br>CLP 394.3 trillion<br>(~ USD 601 billion – total issued amount) |
| **Sustainable investment:**<br>USD 1 billion<br>(Green and social bonds – USD and CLP issuances – four issuances) | **Sustainability criteria:**<br>Voluntary sustainable bond label | **Sustainable investment example:**<br>• Empresas CMPC 2017 – forestry, water management, biodiversity, pollution, energy efficiency<br>• BancoEstado 2018 – social investments<br>• Aguas Andinas 2018 – water infrastructure |
| **Status:**<br>Corporate bonds have indirectly financed infrastructure in the past and are particularly relevant with four green and social corporate bonds issued with targeted sustainability purposes, amounting to the equivalent of just over USD 1 billion. The green and social bonds were issued by Empresas CMPC, Aguas Andinas, Banco del Estado de Chile, and Caja Los Héroes. | | |

[28] Own elaboration

[29] Exchange rate CLP/USD as of December 2018: 694

| | | |
|---|---|---|
| **Investment funds** | Funds that invest in securities and assets of companies, firms, and other legal entities, administered by a registered S.A. for the sake and at the risk of its investors. | |
| **Type:** Fund<br>**Sectors:** All | **Latest regulation:**<br>*Ley de Mercado de Valores*<br>*Ley Única de Fondos* N°20.712 – 2014 | **Investments 2014-2018:**<br>USD 82 billion<br>(assets under management) |
| **Sustainable investment:**<br>Not applicable | **Sustainability criteria:**<br>The sustainability criteria of investment funds are defined in the internal regulations of the fund but are not mandatory. A majority of funds do not embed sustainability criteria voluntarily. | **Sustainable investment example:**<br>• Asset Atlas Renewable Energy Investment Fund – 2016<br>• Investment Fund Lignum Forestry – 2006<br>• BICE Renewable Energy Investment Fund – 2015 |
| **Status:**<br>In 2015, there were ten investment funds dedicated to infrastructure, energy, or natural resources with a combined USD 250 million assets under management. Out of these 10 investment funds, three were managed by signatories of the PRI: BTG Pactual, Atlas Infrastructure, and LarrainVial. After securitized bonds, they are the second-largest capital market contributor to infrastructure projects. | | |

| | | |
|---|---|---|
| **Mutual funds** | Investment vehicles that pool together capital from both natural and legal bodies to invest in publicly-traded securities such as equity shares, bonds, mortgage notes, investment funds, etc. They differ from investment funds mainly in the minimum time allowed for an investor to reclaim funds, which is significantly lower than for investment funds. | |
| **Type:** Fund<br>**Sectors:** Variable | **Latest regulation:**<br>*Ley de Mercado de Valores*<br>*Ley Única de Fondos* N°20.712 – 2014 | **Investments 2014-2018:**<br>CLP 133 trillion<br>(~ USD 197 billion – assets under management) |
| **Sustainable investment:**<br>Not applicable | **Sustainability criteria:**<br>A majority of mutual funds do not integrate any sustainability criteria. | **Sustainable investment example:**<br>Not applicable |
| **Status:**<br>Information is lacking on mutual funds’ consideration of sustainability criteria in Chile. | | |

| **Public Infrastructure Fund** | Public infrastructure equity fund created by the *Ministro de Obras Públicas* as a separate entity to facilitate the involvement of the public sector in developing economic activities and investing in public infrastructure projects. | |
|---|---|---|
| **Type:** Fund<br>**Sectors:** Public infrastructure (particularly schools and hospitals) | **Latest regulation:**<br>Law N°21.082 established the Fondo de Infraestructura S.A in March 2018. | **Investments 2014-2018:**<br>No investments to date. Law issued in March 2018, with an official launch of the fund in March 2019 |
| **Sustainable investment:**<br>Not applicable | **Sustainability criteria:**<br>The public infrastructure fund will invest only in public infrastructure projects with positive social impacts. | **Sustainable investment example:**<br>Not applicable |
| **Status:**<br>In March 2018, the Minister of Public Works of Chile created the Foinsa to facilitate the involvement of the public sector in developing economic activities and investing in public infrastructure projects. Its objective is to develop business activities around investments in infrastructure projects. The CLP 6,500 million fund (~ USD 10 million) will regroup the state activities and investment decisions regarding third-party concessions, respecting the same laws for concessions as the ministry previously did, and stimulate a longer-term approach with a five-year infrastructure plan revised on an annual basis. The independent structure of the fund will shield the state from additional indebtment. The fund will officially launch its activities in 2019. | | |

### 3.4.3 Analysis of the sustainable infrastructure investment landscape

The Chilean infrastructure investment market is restricted to a small number of instruments, of which only one has voluntary sustainability criteria: corporate bonds. With the release of a green and social bond dedicated market within the *Bolsa de Santiago* in 2018, the capital market has formalized the differentiation of sustainable investments applicable to infrastructure and offered a set of voluntary sustainability criteria for bond issuers. Only four corporate bonds have been labeled green or social to date and no securitized bond has yet received a sustainability label. However, with Chile acting as president of the major climate convention in 2019, there is significant movement on the topic of sustainability in the financial sector. A noteworthy issuance came in the first semester of 2019, with the issuance of the first Sovereign Green Bond in Chile and the Americas (Gobierno de Chile, 2019), which mainly targets clean transportation, for which demand was twelve times higher than the initial principal. This represents a clear governmental backing of the labeled sustainable investment market.

As mentioned previously, the experience of the Chilean infrastructure investment market with PPPs demonstrated that innovation was led by regulatory changes. As financial regulators continue demonstrating their involvement in the sustainable investment market, sustainability criteria will likely become a defining factor of future infrastructure.

In December 2018, Harvard, IDB, and GIZ[30] presented the evaluation of two Chilean infrastructure projects through the ENVISION Sustainable Infrastructure Rating System (ISI, 2019) to several national ministries. The presenters recommended embedding these sustainability criteria in the entire Chilean infrastructure sector. The actions taken by the government following these recommendations will be observed in 2019.

Regarding investment funds and mutual funds, although there are those that specifically and voluntarily target renewable energy, natural resources, and social infrastructure through their selection criteria, there are no overarching sustainability criteria for these instruments.

Lastly, the recently created Foinsa will primarily support public infrastructure projects through concessions. The public nature of the infrastructure will likely stimulate the consideration of social and economic development criteria in investment decisions.

[30] Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

### 3.4.4 Key takeaways

**Table 9: Key takeaways of the Chilean market**[31]

| Key takeaways – Chile | |
|---|---|
| **Investment instruments** | • Investment in the Chilean infrastructure sector is made primarily through investment and mutual funds.<br>• The recently created Foinsa will support the development of financing activities for businesses and public infrastructure projects.<br>• The national PPP framework, established in 1991, enabled USD 19 billion of investments in infrastructure up until 2015. During this period, innovation was driven by regulatory change rather than by entities involved. |
| **Institutional investors** | • Regulatory changes over the past 30 years have aimed at growing the involvement of institutional investors in infrastructure projects. |
| **Sustainability** | • The sustainable bond market in Chile is growing, with four green and social bonds issued in two years.<br>• As in past infrastructure transitions, the sustainability transition is likely to be driven by regulatory reforms. |

### 3.4.5 Main recommendations considering the local context

| Recommendations – Chile |
|---|
| • Further develop instruments dedicated to infrastructure, which could be done by defining infrastructure as a specific asset class<br>• Adapt PPP regulation to standardize reporting and disclosure on sustainability criteria<br>• Adapt current capital market regulation to standardize reporting and disclosure on sustainability criteria |

[31] Own elaboration

## 3.5 Colombia

**Key findings**
Colombia enacted changes to the capital market and PPP regulations over the past eight years focused mainly on improving the capacity of institutional investors to contribute to infrastructure projects, realizing that the regulatory push and strong commitment from the largest investors are crucial to triggering a paradigm shift in the Colombian infrastructure investment market. Investors appear as strong candidates to drive the evolution of the Colombian market towards sustainable infrastructure.

According to the G20's Global Infrastructure Hub, Colombia has an infrastructure gap of USD 100 billion until 2040 (GIH, 2018c) (USD 339 billion in investment needed with USD 238 billion in investment trends) – an average of USD 5 billion invested per year.

Colombia's investment in infrastructure has increased significantly over the past 10 years, driven partly by the government's ambitious fourth-generation (4G) road infrastructure program (ANI, 2017), stimulated by the regulatory innovation and the increased attractiveness of the Colombian financial market for international investors.

During this period, investments in infrastructure mainly came from bank loans, local and international, combining to cover 69% of investments in 2016 (FDN, 2018). The capital market, however, represented only 16% of investment in Colombian infrastructure in the same year, mainly through equity and mezzanine funds. Indeed, none of the publicly-listed capital market instruments target exclusively infrastructure projects and very few invest in infrastructure at all. The remaining 15% of infrastructure investments were from the *Financiera de Desarollo Nacional* (FDN), the Colombian development bank that specializes in infrastructure investments and debt funds.

Between 2016 and 2018, the role of banks and capital markets progressively decreased to 50% and 9%, respectively, while the share of investments from unlisted debt funds and the FDN almost doubled during the same period.

### 3.5.1 Regulatory framework overview

#### 3.5.1.1 Capital market

The principal regulatory entity in Colombia is the *Ministerio de Hacienda* through its *Unidad de Proyección Normativa y Regulación Financiera*, which defines resolutions that drive the national regulation of the financial system, supported by the Superintendencia Financiera de Colombia (SFC) (SFC, 2010). The SFC oversees the implementation of these regulations, seeking to ensure the stability of the national financial system, the integrity and transparency of the stock market, and the protection of the rights of all financial players.

In 2010, the Ministry issued Decree 2555 (Gobierno de Colombia, 2013a), defining and regulating all the instruments and investments in the *Bolsa de Valores of Colombia* (BVC). The BVC, based in Colombia's capital Bogota, is the only stock exchange

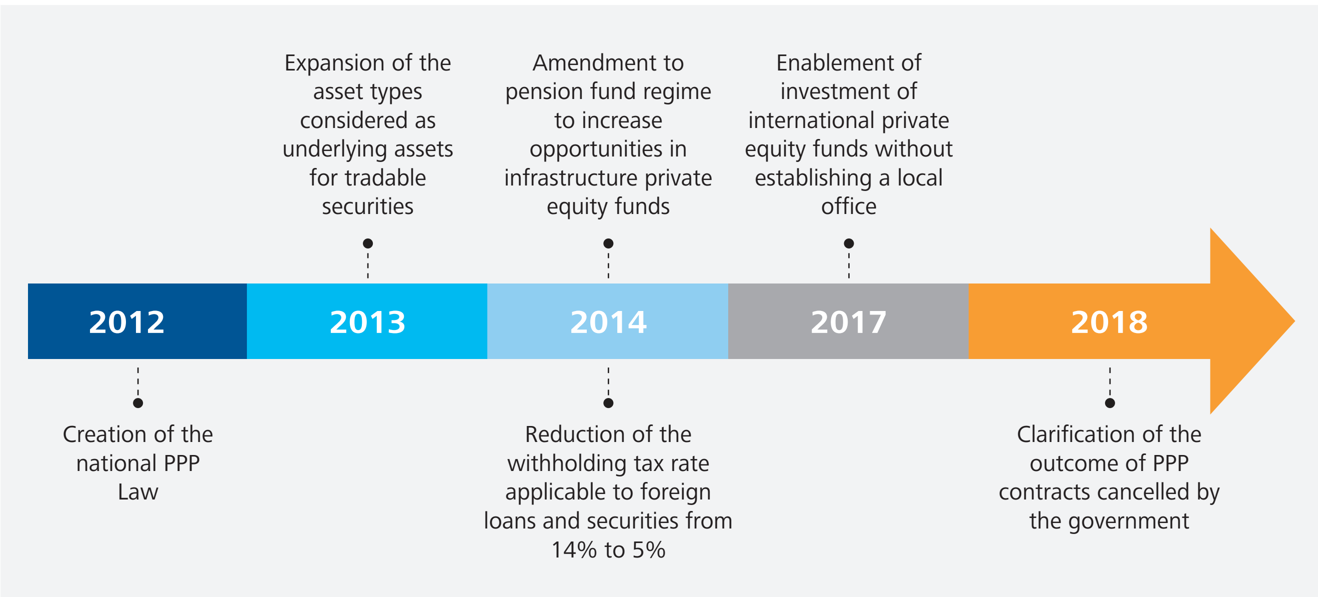


**Figure 11: Colombia's regulatory evolution impacting the sustainable infrastructure investment market[32]**

[32] Own elaboration

in the country, centralizing all capital market activities. Between 2010 and today, the Colombian capital market became more accessible to institutional investors and gained attractiveness with international investors through a series of regulatory changes detailed below. To improve access to credit through the capital market, the government implemented a law (Gobierno de Colombia, 2013a) to expand the asset types that can act as an underlying asset for tradable securities.

In 2014, Decree 816 (Gobierno de Colombia, 2014a) was issued, modifying the private equity funds' investment regime to remove the one-third limit of the number of assets under management (AUM) that may be invested in debt securities issued by PPP concessionaires. The new regulation also clarified that private equity funds are allowed to grant loans and purchase existing loans with their AUM, provided that the proceeds are used to finance a PPP project. In addition, another decree in 2017 enabled the investment of international private equity funds in Colombia without the need to establish a local office or obtain local authorization (Gobierno de Colombia, 2017).

Colombia's regulated investment regime for pension funds does not provide a specific asset class for infrastructure projects. Pension funds may invest in infrastructure assets by investing in private equity funds and debt securities issued by the PPP private partner. Investing directly in said debt securities is an option that triggers the necessity of having an internal and well-developed due diligence team that specializes in infrastructure assets (e.g., construction risk, sponsor analysis, project finance) (Oxford Business Group, 2016). In 2014, Decree 816 also modified the investment regime of pension funds to allow further investments into infrastructure projects through private equity funds. This change contributed to the strong share of pension funds in infrastructure investments through such funds, reaching 64% in June 2018 (EY & ColCapital, 2018).

In parallel, the ambitious 4G road infrastructure program was launched and the government intended to attract further international investments by implementing a tax reform reducing the withholding tax applicable to foreign loans and securities invested in long-term PPP projects from 14% to 5% (Gobierno de Colombia, 2014b).

#### 3.5.1.2 Infrastructure investment

The infrastructure investment sector in Colombia was given a significant boost through the creation of the *Agencia Nacional de Infraestructura* (National Infrastructure Agency - ANI) in 2011 (ANI, 2016), with the objective of stimulating the PPP market in Colombia. The "PPP Law", issued in 2012 (Gobierno de Colombia, 2012), defined the Colombian PPP framework. This law defines PPPs as an instrument of private capital linkage, which is materialized in a contract between a state entity and a natural person or legal entity for the provision of public goods and their related services. This involves the retention and transfer of risks between parties. The payments to the private sector are conditioned to the availability of the asset or service, as well as to the accomplishment of performance standards. In Colombia, the ANI is the main public entity responsible for all national transportation projects, such as ports, airports, trains, roads, and highways, and the Department of National Planning and the Ministry of Finance play a supervisory role. However, any national or subnational entity can legally carry out its own PPP program.

Between 2012 and 2018, additional regulatory adaptations were undertaken to stimulate the PPP market, both from the PPP framework side, creating new tools to shorten processes and time related to land expropriations (Gobierno de Colombia, 2013b), and from the investor side. More recently, in 2018, the government provided clearer guidelines for lenders in case a concession contract is canceled by the government (Gobierno de Colombia, 2018), reducing the uncertainty for investors in PPP projects.

The evolution of the regulatory framework around PPPs enabled the closing of 15 infrastructure projects between 2016 and 2018, for a total invested amount of USD 22 billion (FDN, 2018), reaching more than 50% of the financial needs of the ambitious 4G program running until 2020.

As stated previously, the role of local banks in infrastructure investments has considerably decreased since 2016 from 47% to 36% of investments. This can be attributed partly to the latest version of the Basel Accords launched in 2013, explaining the previously mentioned regulatory modifications, as the government attempts to involve national and international capital markets by enabling further investment through private equity funds and debt funds into infrastructure projects to fill the gap left by local banks (Bristow & Cancel, 2018).

Moreover, the regulatory changes to the pension fund investment regime in 2016 (Gobierno de Colombia, 2016) re-organized the categorization of assets, separating traditional assets from alternative assets. Concretely, the previous limit of 10% of AUM applicable to private equity funds now excludes those that invest in infrastructure under the PPP scheme, for which the limit is now 20%. The same regulatory change modified the investment regime of insurance companies focusing on long-term insurance schemes (e.g. life insurance), to authorize investments of up to 5% of their AUM into debt or private capital funds on the condition that they invest at least two thirds of their capital in PPP projects. Lastly, a 2019 modification to the pension fund investment regime will allocate new contributions from young contributors automatically, if not decided otherwise, to high risk portfolios, which include infrastructure investments. According to the national pension fund association (ASOFONDOS by its Spanish acronym), this could increase the AUM of these portfolios from COP 3 trillion to COP 15 trillion (~ USD 900 million to USD 4.6 billion).[33]

Tapping into the institutional investors' capital for PPP projects is another governmental strategy to compensate for the gap left by local banks.

### 3.5.1.3 Sustainability regulations impacting infrastructure

The capital market in Colombia, as in other LAC countries, has not yet systematically embedded sustainability criteria in its investments (IDB, 2018). On the investor side, only three entities have adhered to the PRI, all three of them investment managers (as per PRI categorization). A noteworthy signatory is Bancolombia, the largest commercial bank of Colombia, which has adhered to sustainability principles since 2014. However, the other major banks have not followed, as the two other signatories are smaller investors in sustainable sectors of the economy.

Although the recent regulatory changes have stimulated investments in infrastructure through PPPs, the sustainability innovation in the Colombian capital market is being driven by the private sector through the "*Protocolo Verde*". The recent update to the protocol amplifies its scope beyond the banking sector to stimulate the sharing of best practice and methodologies with other institutional investor groups. Other private sector initiatives have demonstrated the important role the private sector can have in the sustainable transition of infrastructure investments:

- the voluntary commitment to sustainability performance and transparency of the BVC, by joining the Sustainable Stock Exchange Initiative (SSE) (SSE, 2017) in 2014;
- the creation of the Committee of Insurance Companies on Sustainability in 2011, which has produced guidelines and built capacity on ESG reporting within insurance companies. Within the Committee, some insurance companies have developed their own qualitative methodology to verify their alignment with the SDGs. The Committee is currently focused on measuring the climate risk, including physical and transition risk[34], of the portfolios of investment of all insurance companies in Colombia;[35] and
- the recent creation of an ESG Committee by ASOFONDOS to grow the capacity of pension fund investment analysts to embed ESG in their investment decisions.

In infrastructure project investments, the integration of social, environmental, and climate sustainability criteria remains scarce in the Colombian market. ANI includes resilience to extreme weather events as part of the technical specificities that need to be provided for PPP projects and encourages the integration of social and environmental sustainability to reduce costs in the long term. The latter is particularly relevant for projects that seek investments from multilateral development banks, which have higher requirements relative to sustainability criteria than other investor types. In addition, the concession contracts of ANI include guidelines for environmental and social impact assessment (ESIA). Following their adhesion to the Green Protocol in 2014, the FDN launched its socio-environmental policy in 2015 to establish that a sustainability and related risk management dimension would be included at all stages of FDN involvement for all the projects that they finance, structure, and manage (FDN, 2019). FDN requests that debt funds embed ESG criteria in their investment decisions analysis. Moreover, they offer standard forms to report on ESG for project developers and support them in meeting those standards.

Lastly, the SFC has developed a non-binding guidebook of best practices for the due diligence of Private Equity funds by Pension Funds which includes an ESG section containing: publicly declare the inclusion of ESG factors in their decision process, evaluate if the fund has an ESG policy, and evaluate how ESG risks are taken into consideration and how they may impact the financial performance of the fund. The SFC is also in the early stages of development of a national taxonomy for sustainable investments.

Image source: Pixabay

[33] Exchange rate COP/USD as of December 2018: 3254

[34] According to the TCFD, physical risk is considered as the risk of disruption of operations or destruction of property due to extreme weather events, and transition risk as policy constraints on emissions, imposition of carbon tax, water and land use restrictions, and market demand and supply shifts (TCFD, 2017).

[35] Interview with national stakeholder

### 3.5.2 Fundamental instruments for sustainable infrastructure investments

**Table 10: Colombia's fundamental instruments for sustainable infrastructure investments[36]**

| | | |
|---|---|---|
| **Bonds (corporate and project)** | Fixed income debt securities issued by corporates to raise capital or financing infrastructure or other types of projects | |
| **Type:** Bond<br>**Sectors:** All | **Latest regulation:**<br>Decreto 2555 de 2010 – Art 6.4.1.1.1 – URF | **Investments 2014-2018:**<br>COP 26.7 trillion<br>(~ USD 9.7 billion) |
| **Sustainable investment:**<br>Not applicable | **Sustainability criteria:**<br>Voluntary sustainable bond label | **Sustainable investment example:**<br>• Bancóldex Social Bond – SMEs and financial inclusion – 2018<br>• Bancóldex Green Bond -various sectors, main investments in resource management and energy efficiency – 2017<br>• Bancolombia Green Bond – Energy efficiency and renewable energy – 2016 |
| **Status:**<br>Colombia has seen the issuance of five green bonds and one social bond, five of them that comply with the ICMA guidelines issued by Bancóldex, Bancolombia, and Davivienda, and another green bond from the "*Empresa de Energía del Pacífico*". The total issued amount reaches the equivalent of USD 540 million and has mainly channeled investments in energy efficiency, renewable energy, production technologies, sustainable transport and infrastructure, and green buildings. None of these bonds directly targeted infrastructure investments. However, although the BVC does include requirements for sustainable bond issuances in its internal regulation, the government does not recognize this bond categorization, considering them "regular", and no national regulation for such bonds currently exist.<br><br>The high market demand for green and sustainable bonds in Colombia has affected the capacity of pension funds to invest, due to the ability and willingness of other investor groups to accept lower rates for exposure to sustainable investments. | | |
| **Private equity funds** | Private capital funds that often have a specific predefined investment philosophy | |
| **Type:** Fund<br>**Sectors:** All | **Latest regulation:**<br>Decreto 2555 de 2010 – Art. 3.1.1.1.1 – URF | **Investments 2014-2018:**<br>USD 11 billion<br>(accumulated invested amount – of which USD 5.6 billion in infrastructure) |
| **Sustainable investment:**<br>Not applicable | **Sustainability criteria:**<br>Some infrastructure equity funds embed ESG criteria in their investment decisions (78%) | **Sustainable investment example:**<br>MGM Sustainable Energy Fund – energy efficiency and renewable energy |
| **Status:**<br>As of June 2018, 11 private equity funds dedicated to infrastructure were recognized under Colombian law, amounting to USD 5.6 billion of investments, of which 64% come from pension funds. Dedicated private equity funds are currently the sole vehicle for institutional investors to participate directly in infrastructure investments. | | |

[36] Own elaboration

| | | |
|---|---|---|
| **Debt funds** | Funds providing senior debt financing to companies or specific projects | |
| **Type:** Fund<br>**Sectors:** Transport | **Latest regulation:**<br>Not applicable – depends on the country of registration | **Investments 2014-2018:**<br>COP 4.6 trillion<br>(~ USD 1.5 billion – accumulated from five debt funds) |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>Invest only in 4G infrastructure program which embeds ESG criteria | **Sustainable investment example:**<br>Not available |
| **Status:**<br>Private equity funds are currently the sole vehicle for institutional investors to participate directly in infrastructure investments, while equity usually represents only 20-30% of infrastructure financing. Hence, the role of debt funds, as potential vehicles for local institutional investors to finance infrastructure projects, has the potential to grow. | | |

| | | |
|---|---|---|
| **Loan fund (Pesos)** | Credit line in Colombian Pesos for international investors targeting infrastructure projects in the country | |
| **Type:** Loan<br>**Sectors:** Transport, energy, social infrastructure | **Latest regulation:**<br>Created in 2017 by FDN and the *Ministerio de Hacienda* | **Investments 2014-2018:**<br>USD 1.4 billion<br>(total amount allocated to the fund) |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>Loans only to investors in infrastructure/PPP which embed sustainability criteria | **Sustainable investment example:**<br>Not available |
| **Status:**<br>This fund managed by the FDN aims to lend in local currency to international investors, for them to circumvent the limitations of investments in foreign currencies in infrastructure projects (limitation not applicable to all investments) and to limit their exposure to currency risk. | | |

| | | |
|---|---|---|
| **Green credit lines** | Loans to companies and individuals to stimulate certain sectors of the Colombian economy | |
| **Type:** Loan<br>**Sectors:** Energy, real estate, transport, social infrastructure | **Latest regulation:**<br>Voluntary labels that are under the same rules as regular credit lines | **Investments 2014-2018:**<br>COP 2.6 trillion<br>(~ USD 830 million – aggregated information) |
| **Sustainable investment:**<br>COP 2.6 trillion<br>(~ USD 830 million) | **Sustainability criteria:**<br>These credit lines finance exclusively sustainable sectors. | **Sustainable investment example:**<br>• Bancóldex – credit line for energy efficiency in hotels, hospitals, and clinics – 2019<br>• Davivienda – credit line for renewable energy, sustainable construction, cleaner production, and energy efficiency – 2017 |
| **Status:**<br>The Green Protocol launched in 2012 led to four entities launching dedicated green credit lines: Bancóldex (state-owned commercial bank), Findeter (national development bank), Bancolombia, and Davivienda (commercial banks), amounting to more than USD 800 million allocated to green credits. The funds for these credit lines are either proper funds, private placements from international financial institutions (e.g., IDB, IFC), or proceeds from green bonds issued by the managing entity. These credit lines are the only instrument dedicated to sustainable investments, including sustainable infrastructure. | | |

### 3.5.3 Analysis of the sustainable infrastructure investment landscape

To date, the only dedicated investments into sustainable infrastructure have come through green bonds financing renewable energy, clean transportation, and green buildings. There have been five issuances of green bonds since 2016 from private and public sector actors – a majority of the proceeds from these bonds do not directly target infrastructure. The BVC has developed requirements for sustainable bond issuances; however, these have not yet been reflected in the national regulation.

Launched in 2012, the Green Protocol led to four entities developing dedicated green credit lines, the only instruments dedicated to sustainable investments, including sustainable infrastructure. In addition, at the end of 2018, only three financial players had subscribed to the PRI, although 17 banks and financial players have committed to the Green Protocol. The recent updated Green Protocol may stimulate sustainability investment practices further due to the increased involvement of actors such as insurance companies, that have demonstrated a strong commitment to improving their sustainable investment practices and sharing best practices within the national financial market.

Through its manual for PPP infrastructure projects, ANI encourages infrastructure projects to incorporate climate-resilience and ESG criteria into the development phase of projects. These voluntary guidelines, however, are indicative and do not enforce any legal obligation for project developers. The growing pressure on international financial institutions to disclose the social and environmental impacts (e.g., PRI), and climate risk of their investments (e.g., TCFD), may stimulate the uptake of such considerations from Colombian infrastructure projects, but thus far this has not been the case in Colombia. As mentioned before, the Colombian banking association is currently in discussions with the government to make sustainability criteria mandatory in the investment decisions of Colombian banks. With more than 50% of investments in infrastructure coming from banks, the pressure of these actors on the infrastructure sector would have the potential to transform the landscape of infrastructure investment.

### Case study: Bancóldex Sustainable Bonds

Bancóldex is Colombia's public development bank focused on promoting business growth and foreign trade (Bancóldex, 2019). As a public development bank, Bancóldex must promote the growth of all Colombian companies and the national economy as a whole in line with social prosperity and environmental responsibility. Bancóldex's commitment towards promoting environmental sustainability through its investments is demonstrated by its key role in the development of the Green Protocol and the issuance of their first public green bond in 2017 (Bancóldex, 2017c). Their two sustainable bond issuances in 2018 are aligned with their growing consideration of sustainability in their investment decisions and can potentially drive the market to further channel capital market funds to sustainable investments.

The 2018 issuances of the green and social bonds of Bancóldex demonstrated the variety of project types and sectors that could benefit from the proceeds of such instruments: pollution control and efficient resource management, sustainable transport, energy efficiency, renewable energy, sustainable construction, affordable basic infrastructure needs, and affordable housing. A breakdown of the financial distribution is not publicly available, but the sectoral allocation on the number of projects financed by green bond's proceeds can be found in Figure 12.

Although not all proceeds of these bonds target infrastructure, there is an opportunity for energy, transport, water and sanitation, and social infrastructure to benefit from such issuances. In addition, the demand for the bonds reached quadruple the initial offering, demonstrating a strong appetite for capital market investors for labeled sustainable investments.

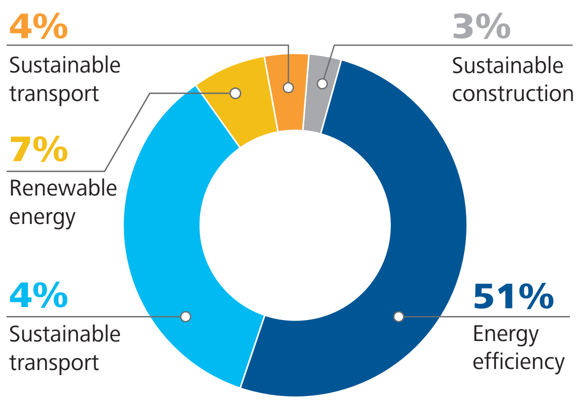


**Figure 12: Sectoral breakdown of the Bancóldex green bond financed projects**

**Table 11: Bancóldex green bond issuance details**

| **Bancóldex green bond** | **Use of proceeds**: Pollution control and efficient resource management, sustainable transport, energy efficiency, renewable energy, sustainable construction | |
|---|---|---|
| **Instrument:** Bonds | **Volume:** COP 200 billion (~ USD 60 million) | **Return rate:** 7.3 % or 3.2% + IPC (Colombian consumer price index) |
| **Issuance type:** Public issuance on the BVC ("Dutch auction") | **Rating:** AAA (Colombia) (BRC Investor services SA) | **Tenor:** 5 years |

**Table 12: Bancóldex social bond issuance details**

| **Bancóldex social bond** | **Use of proceeds**: Job creation through SMEs, improved access to essential services, affordable basic infrastructure needs, affordable housing, food security | |
|---|---|---|
| **Instrument:** Bonds | **Volume:** COP 400 billion (~ USD 120 million) | **Return rate:** 3.3% + IPC; 6.4% or 1.55% + IBR (Colombia interbank rate) |
| **Issuance type:** Public issuance on the BVC ("Dutch auction") | **Rating:** AAA (Colombia) (BRC Investor services SA) | **Tenor:** 3 years; 5 years |

### 3.5.4 Key takeaways

**Table 13: Key takeaways of the Colombian market[37]**

| **Key takeaways – Colombia** | |
|---|---|
| **Investment instruments** | • With the share of the capital market in infrastructure investments having decreased over the past two years, it is crucial for it to further develop its offering for infrastructure investments and to attract further financing sources.<br>• With the growing involvement of debt funds in infrastructure projects, these could be evaluated as potential vehicles for local institutional investors.<br>• The regulatory push and strong commitment from the largest investors are crucial to triggering a paradigm shift in the Colombian infrastructure investment market. |
| **Institutional investors[38]** | • Dedicated private equity funds are currently the sole vehicle for institutional investors to participate directly in infrastructure investment, while equity usually represents only 20-30% of infrastructure financing.<br>• Changes made to the capital market and PPP regulations over the past eight years focused mainly on improving the capacity of institutional investors to contribute to infrastructure projects.<br>• The lack of a common sustainable investment taxonomy and regulation flexible enough to incorporate sustainability factors in investment decisions has slowed the transition to more sustainable investments. |
| **Sustainability** | • Local banks are demonstrating an interest in embedding sustainability criteria into their investment decisions, which would require such criteria to be considered by infrastructure project developers.<br>• Investors appear as strong candidates to drive the evolution of the market towards sustainable infrastructure. |

[37] Own elaboration

[38] FDN estimated in 2015 that the potential for infrastructure investments for local institutional investors was close to USD 12 billion

### 3.5.5 Main recommendations considering the local context

| Recommendations – Colombia |
|---|
| • Develop further instruments dedicated to infrastructure – which could be done by defining infrastructure as a specific asset class<br>• Develop a national/regional taxonomy for sustainable investments<br>• Adapt institutional investor regulations to stimulate infrastructure investment and embed sustainability criteria or sustainability incentives to shift the infrastructure market<br>• Stimulate knowledge sharing and capacity building among financial market actors on embedding sustainability in investment decisions<br>• Adapt PPP regulation to standardize reporting and disclosure on sustainability criteria |

## 3.6 Mexico

**Key findings**

Mexico has developed new infrastructure-dedicated capital market instruments, such as FIBRA Es and CerPIs, to stimulate the infrastructure market. Local pension funds are key actors in the local capital market and are being directly targeted by these innovative instruments and national regulation to stimulate their capacity to invest in local infrastructure. The efforts of its pension funds and key commercial banks to at least consider ESG criteria in their investment, if not more advanced sustainability criteria, could lead to a market shift towards the standardization of such measures.

According to the G20's Global Infrastructure Hub, Mexico has an infrastructure gap of USD 522 billion until 2040 (USD 1.1 trillion in investment needed with USD 544 billion in investment trends) (GIH, 2018d) – an average of USD 25 billion invested per year.

Mexico's infrastructure investment landscape is driven by debt from local and international banks, representing 70% of investments in infrastructure projects in 2016 (BANOBRAS, 2017). The agility of banks to structure infrastructure debt gives them an advantage over other institutional investors such as pension funds. The remaining 30% is invested through publicly-traded capital market instruments.

### 3.6.1 Regulatory framework overview

#### 3.6.1.1 Capital market

Capital markets are organized around four groups of actors: regulators, the stock exchange, investors, and issuers. Within the capital market, Retirement Funds Administrators (AFOREs by their Spanish acronym) play a strong role in infrastructure investments.

A 2018 modification of the provision of the pension fund regulatory entity, "*Comisión Nacional del Sistema de Ahorro para el Retiro*" (CONSAR), applicable to pension funds and the retirement savings system, enabled further investments of AFOREs in this market by increasing the range of authorized financial instruments, officially including Special Purpose Acquisition Companies (Grupo BMV, 2017a), Certificate of Investment Projects (CerPIs by their Spanish acronym), and mutual investment funds (CONSAR, 2018b). In addition, the new regulation enforces the adoption of ESG criteria as part of AFORE investment analysis.

In the past 10 years, partly through the recent regulatory modifications described in this report, the proportion of investments from institutional investors into infrastructure investment funds, with the direct or indirect objective of developing or managing infrastructure projects formalized through internal regulation, has grown steadily.

They have become the second largest capital market contributor to infrastructure.

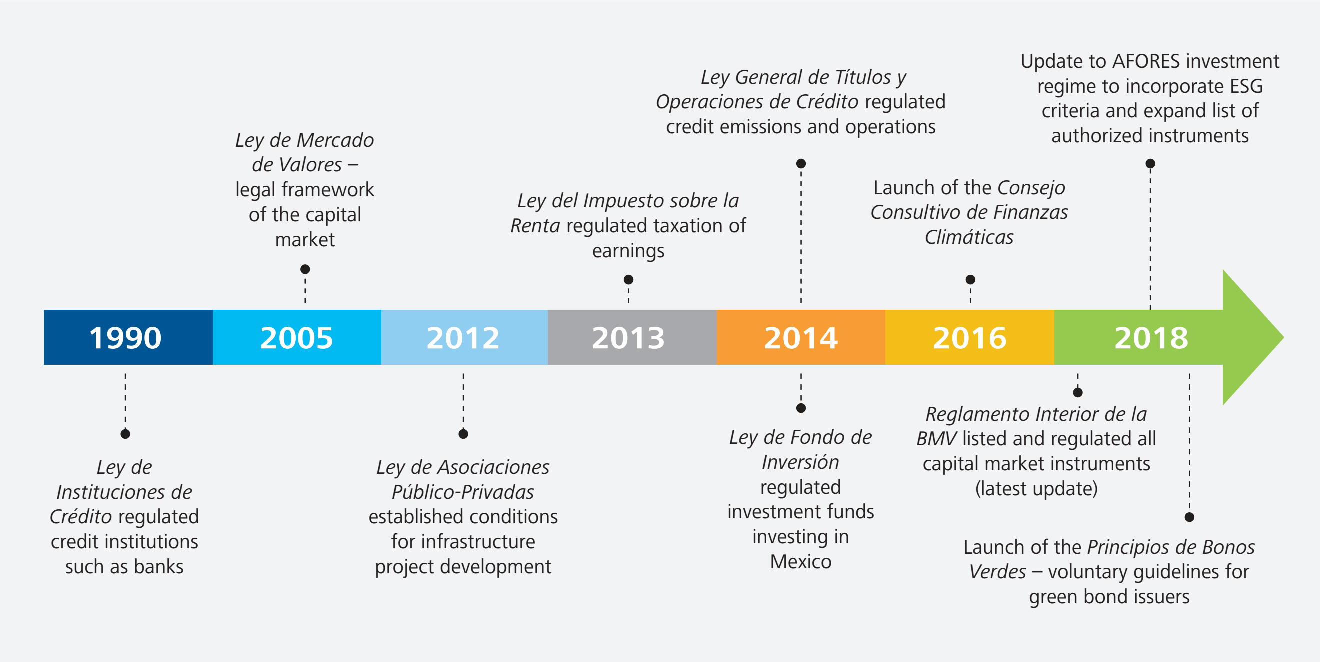


**Figure 13: Mexico's regulatory evolution impacting the sustainable infrastructure investment market[39]**

[39] Interview with national stakeholder

### 3.6.1.2 Infrastructure investment

The current status of infrastructure investment in Mexico is that the supply of bankable infrastructure projects is trailing behind investment demand. According to a stakeholder interview, no Mexican infrastructure project has failed to reach closure due to lack of available financing. Moreover, the agility of banks has enabled them to be responsible for 70% of the infrastructure investment share, even though they already comply with the latest version of the Basel Accords (BANOBRAS, 2019). The solid financial indices of Mexican commercial banks have enabled them to remain the major actor in national infrastructure investment, while the capital market, including AFOREs, has been limited to only 30% of infrastructure investments.

There is potential and demand from AFOREs to get further involved in infrastructure projects, which are legally authorized to invest between 15% and 20% of their total assets in structured instruments, 10% in investment trusts, and between 15% and 30% in securitized instruments (depending on the type of SIEFORE[40]) (CONSAR, 2017). However, banks retain a key role in the infrastructure investment market and there is a lack of well-structured projects[41] for AFOREs to get involved in.

In terms of regulation, the *Ley de Asociaciones Público-Privadas* and the associated PPP regulations, created in 2012 and recently updated in 2018, establish the conditions for infrastructure project development (Gobierno de México, 2012). Enabled in part by the standardization of PPPs through this law, there are currently USD 71 billion of active investments in PPP in Mexico. The "*Banco Nacional de Obras y Servicios Públicos*" (Banobras), the state-owned national development bank, which focuses on sub-national and project finance, invests in the majority of public infrastructure projects in Mexico structured as PPPs.

### 3.6.1.3 Sustainability regulations impacting infrastructure

As is the case in other LAC countries, the transition to sustainable infrastructure investments in Mexico is still lagging (IDB, 2018), even though there have been some indications in the market of movement towards more sustainable investments from the investor standpoint. For example, eight Mexican entities have signed the PRI, among which are two of the largest banks in Mexico: BBVA Bancomer and Grupo Financiero Banorte, and the largest issuer of Certificates of Capital Development (CKDs by their Spanish acronym)[42], CKD Infraestructura México. The presence of key market players in the PRI signatories indicates a potential market shift towards further inclusion of sustainability criteria in investment decisions, as these signatories are likely to drive best practices in the financial sector.

In 2016, the *Consejo Consultivo de Finanzas Verdes* (CCFV) was officially launched by the *Bolsa Mexicana de Valores* (BMV),

Image source: Pixabay

member of the SSE and all the major actors of the Mexican financial sector (Grupo BMV, 2016). The objective of this council is to engage all actors across the financial market to stimulate the financing of "green" projects in Mexico, through market best practices, new regulations, or investment mandates, to incentivize the development of the green finance market. In 2018, the CCFV launched the *Principios de Bonos Verdes MX*, a set of principles, aligned with the ICMA Green Bond Principles and CBI, to promote the issuance of green bonds in Mexico. It is early to draw conclusions on the impact of these principles, but they represent a significant first step for the BMV towards recognizing sustainable investments. The mobilization of the capital market towards more sustainable investments is driving innovation from within, while regulation plays a complementary role.

The previously mentioned modification in the pension funds' investment regime requires AFOREs to include sustainability criteria in their investment analysis process. It also requires AFOREs to embed natural disaster risk as part of the investment analysis for structured instruments, FIBRAs, and certificates linked to real estate. However, the lack of dedicated sustainability teams in pension funds and capacity building on existing best practices are impeding the sustainable transition of their investments. On the other hand, the regulatory update could shift AFOREs investments into sustainable infrastructure projects and may simultaneously motivate project developers to report on ESG criteria to access AFOREs funds. Lastly, the Mexican association of pension funds (AMAFORE) is currently seeking to develop a reference sustainable investment taxonomy for the market.

[40] Retirement Fund Investment Societies, SIEFORE, *Sociedad de Inversión de Fondos para el Retiro*

[41] Interview with national stakeholder

[42] Additional information on the instrument can be found in Annex I – Catalog of financial instruments

### 3.6.2 Fundamental instruments for sustainable infrastructure investments

**Table 14: Mexico's fundamental instruments for sustainable infrastructure investments**[43]

| | | |
|---|---|---|
| **Certificates of Capital Development (CKDs)** | Securities or trust securities issued by the trusteeship that are designated for the sole purpose of financing one, or several projects, or the acquisition of one or several companies | |
| **Type:** Fund<br>**Sectors:** All | **Latest regulation:**<br>*Ley de Mercado de Valores* – CNBV (2019)<br>*Circular Única de Emisoras* – CNBV (2018) | **Investments 2014-2018:**<br>MXN 50 billion<br>(~ USD 2.6 billion – 72 issuances)[44] |
| **Sustainable investment:**<br>Not applicable | **Sustainability criteria:**<br>Issuers can voluntarily report ESG criteria with no differentiation benefit | **Sustainable investment example:**<br>CKD Infraestructura Mexico – Villanueva Solar Plant – climate-aligned project with no differentiation |

**Status:**
The main structured instrument through which infrastructure investments are made, according to *Proyectos México*, is the CKD. The equivalent of close to USD 9 billion issued through 78 certificates was invested in infrastructure projects through CKDs. CKDs are the main vehicle used by AFOREs to invest in infrastructure, holding more than 85% of the CKDs in the market according to CONSAR. In addition, CKD investments composed 4.9% of the total portfolio of AFOREs at the end of 2017. Given their potential to invest up to 15-20% into structured instruments, the additional investment capacity of AFOREs is high, an estimated USD 16 billion.

| | | |
|---|---|---|
| **Fiduciary Security Certificates of Investment Projects (CerPIs)** | Securities whose issuance resources are used to finance projects and invest in stock, business interests or company financing, whether directly or indirectly through one or more investment vehicles. | |
| **Type:** Fund<br>**Sectors:** All | **Latest regulation:**<br>Ley *General de Títulos y Operaciones de Crédito (2014)*<br>Ley *de Mercado de Valores* – CNBV (2019) | **Investments 2014-2018:**<br>MXN 12.7 billion<br>(~ USD 640 million – 19 issuances) |
| **Sustainable investment:**<br>Not applicable | **Sustainability criteria:**<br>Issuers can voluntarily report ESG criteria (AFOREs – major investor in this instrument) | **Sustainable investment example:**<br>MGM Sustainable Energy Fund – energy efficiency and renewable energy |

**Status:**
CerPIs were created in 2016 and are similar to CKDs except that issuers retain full decision-making rights over the investment of their resources, as they do not require the approval of the technical committee or the shareholders' meeting to make investments. In addition, CerPIs are issued through a restricted offering targeting exclusively institutional investors and target mostly real estate, energy, infrastructure, and private equity. The legal capacity of CerPIs to invest up to 90% of allocated capital internationally has made the instrument attractive to international investors as well as AFOREs, for which it is the unique vehicle to invest internationally. This exposure to international investments will also expose pension funds to international best practices regarding sustainability reporting.

CerPIs have gained traction over the past two years, going from a single USD 40 million equivalent issuance to 18 certificate issuances cumulating to more than USD 600 million equivalent. Although the scale remains small relative to total infrastructure investment, the evolution of CerPIs shows a growing interest in the instrument.

[43] Own elaboration

[44] Exchange rate MXN/USD as of December 2018: 19.7

| **Energy and Infrastructure Investment Trust (FIBRA E)** | Investment trusts that issue publicly traded securities in the form of trust bonds or *certificados bursátiles fiduciarios de inversión en energía e infraestructura* | |
|---|---|---|
| **Type:** Fund<br><br>**Sectors:** Energy, transport, social infrastructure | **Latest regulation:**<br>*Ley General de Títulos y Operaciones de Crédito* (2014)<br>*Ley de Mercado de Valores* – CNBV (2019) | **Investments 2014-2018:**<br>MXN 54.3<br>(~ USD 3.3 billion – four issuances) |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>None of the issuances have reported sustainability criteria | **Sustainable investment example:**<br>INFRAEX, PRODEMEX, social infrastructure |

**Status:**
Status:
Complementing the structured instruments in the capital market investment landscape in infrastructure is the "investment trust" instrument family, to which FIBRA E was added in 2016. Similar to FIBRAs, FIBRA Es are focused exclusively on energy and infrastructure investment trusts. There are currently four FIBRA Es in Mexico, cumulating to an issuance of USD 3.3 billion equivalent, with three of them being issued in 2018 (BANOBRAS, 2018b). These instruments have invested in energy, transport, and social infrastructure.

Currently, the FIBRA E regulation impedes investments in the early stages of infrastructure projects, due to the 12-month activity requirement. This may limit the opportunities for FIBRA E issuances. Softening this requirement could expand the appeal of FIBRA E as an infrastructure investment instrument. Currently, AFOREs own 25% of all FIBRAs in the market.

| **Bonds (corporate and project)** | Fixed income debt securities issued by corporates for the purpose of financing infrastructure or other types of projects | |
|---|---|---|
| **Type:** Bond<br><br>**Sectors:** All | **Latest regulation:**<br>*Ley General de Títulos y Operaciones de Crédito* (2014)<br>*Ley de Mercado de Valores* – CNBV (2019) | **Investments 2014-2018:**<br>MXN 1,200 billion<br>(~ USD 64 billion – 720 issuances) |
| **Sustainable investment:**<br>USD 7.7 billion<br>(Green, social, and sustainable bonds – 12 issuances) | **Sustainability criteria:**<br>Voluntary sustainable bond label based on the *Principios de Bonos Verdes* | **Sustainable investment example:**<br>• NAFIN 2015 – wind energy<br>• Mexico City 2016 – urban sustainability<br>• FIRA 2019 – agriculture |

**Status:**
In 2018, the CCFV launched the *Principios de Bonos Verdes MX*, a set of principles, aligned with the ICMA Green Bond Principles and CBI, to promote the issuance of green bonds in Mexico. It is early to draw conclusions on the impact of these principles, but they represent a significant first step of the BMV towards recognizing sustainable investments. The mobilization of the capital market towards more sustainable investments is driving innovation from within, while regulation plays a complementary role.

| **Mezzanine funds** | Funds managed mostly by private equity firms, with varying structures that can be tailored to the transaction and capital structure of the company receiving the financing | |
|---|---|---|
| **Type:** Mezzanine<br>**Sectors:** Energy, transport, telecommunication, water and sanitation, social infrastructure | **Latest regulation:**<br>Not applicable – depends on country of registration | **Investments 2014-2018:**<br>USD 340 million<br>(aggregated value not available – deducted from the information encountered on four funds) |
| **Sustainable investment:**<br>USD 62.5 million (social and environmentally-focused SMEs) | **Sustainability criteria:**<br>Some mezzanine funds have embedded sustainability criteria (internally defined) | **Sustainable investment example:**<br>• Adobe Social Mezzanine Fund<br>• Adobe Mezzanine Fund II |
| **Status:**<br>International mezzanine funds have been active in Mexico since 2008 and two nationally dedicated funds were launched by Adobe in 2013 and 2017, respectively: Social Mezzanine Fund I and Mezzanine Fund II. These funds voluntarily embed social and environmental impact criteria into their investment analysis, selecting early-stage companies with high potential social or environmental impacts. | | |

### 3.6.3 Analysis of the sustainable infrastructure investment landscape

A recent regulatory revision to the AFOREs investment regime, the main investors in CKDs and CerPIs, promotes investments into entities that report on ESG criteria by including these criteria in their investment decision-making process. There is no official definition of the criteria to be reported; however, the guidelines of the BMV sustainability index provide a strong basis. In addition, the adoption of CerPIs as an instrument to enable investments of AFOREs into energy and infrastructure projects provides another vehicle for infrastructure investment, although it does not currently embed sustainability criteria.

FIBRAs often include ESG criteria in their investment analysis on a voluntary basis and have invested in certified sustainable assets in the past (e.g., buildings with LEED[45] certification).[46] However, FIBRAs are currently not authorized to be part of the sustainability index of the BMV, an index composed of companies listed in the BMV that comply and report on ESG criteria following pre-defined guidelines (Grupo BMV, 2017b). To date, only equity shares of companies can be part of this index. A few FIBRAs have been part of foreign sustainability indices in the past, such as FTSE4Good and the Dow Jones Sustainability Index. The association of FIBRAs is currently trying to change the Mexican capital market regulation accordingly.

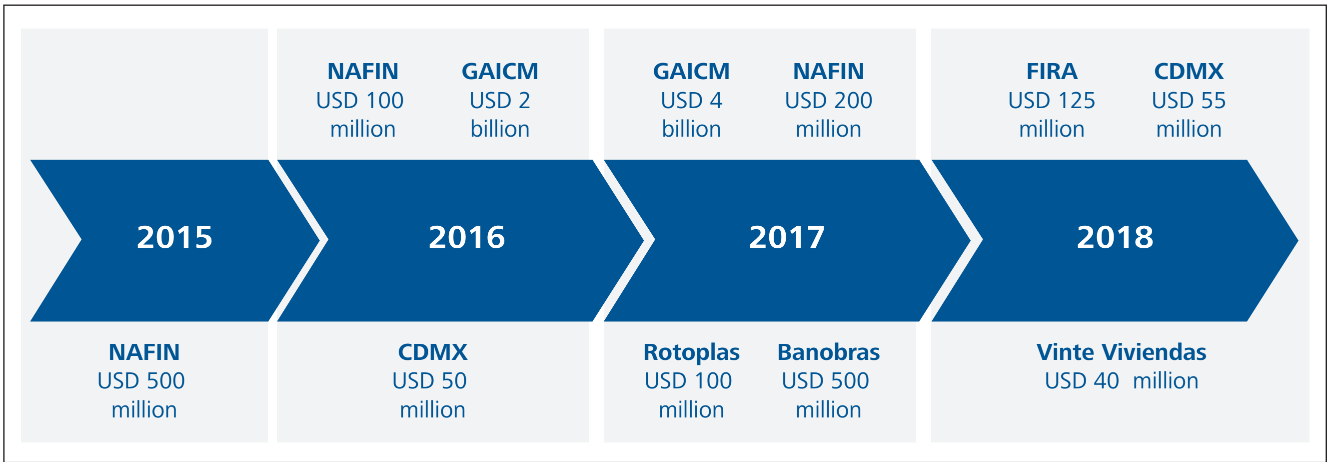


**Figure 14: Evolution of sustainable bond issuances in Mexico[47]**

[45] LEED – Leaderrship in Energy and Environmental Design
[46] Interview with national stakeholder
[47] Own elaboration

Although a majority of Corporate Bonds, including those from infrastructure project developers, have not been issued with a sustainability label, nor embedded with sustainability criteria, there have been corporate bonds issued to finance social and environmental infrastructure projects. This is best illustrated by the 12 sustainable[48], green, and social bonds issued in Mexico between 2015 and 2018, targeting affordable housing, energy, transport, and water management among others. Nacional Financiera (NAFIN) and Banobras account for close to half of these issuances. It is likely the green bond market was boosted in 2018 by the CCFV's *Principios de Bonos Verdes MX*, adapting ICMA's guidelines to the context of Mexico. In parallel, the CCFV is exploring the possibility of developing green labels for other instruments than bonds, in particular, CKDs and CerPIs. This label would follow similar guidelines to those defined in the green bond national guidelines and is likely to stimulate the uptake of sustainability criteria in such projects. The innovative guidelines are due to be released in 2019.

The CCFV demonstrates a strong motivation from the public sector and investors to further develop green finance in Mexico. In December 2018, the members of the CCFV, including pension funds holding the largest capital market share in Mexico (~ 60%), signed a joint letter encouraging all legal entities active in the capital market to start reporting on ESG criteria in 2019, and embedding ESG criteria into their investment decisions (MéxiCO2, 2018). In addition, Banobras, which is involved in the majority of public infrastructure projects, is increasing its requirements from project developers in terms of sustainability criteria, progressively requesting the enforcement of ESG evaluations.[49]

Lastly, the National Infrastructure Fund's (FONADIN by its Spanish acronym) targeted infrastructure investment programs for transport (PROTRAM by its Spanish acronym) and water (PROMAGUA by its Spanish acronym), and NAFIN's green credit lines all have social and environmental criteria embedded in their selection processes, acting as catalyzers of private investment into sustainable infrastructure projects.

### Case study: CKD issuance for Villanueva I & III Solar Plant

In March 2018, the Villanueva Solar Plant was inaugurated in the state of Coahuila in Mexico. The USD 650 million investment made it the largest solar plant in the Americas with a total capacity of 754 MW (SENER, 2018). Enel Green Power (EGP), the renewables branch of the Enel Group, initiated the project under the Mexican government's first long-term power auction, securing a 15-year power purchase agreement and 20-year clean energy certificates (SENER, 2016).

On the equity side of the solar power investment, 80% of the capital was raised through the proceeds of a restricted public issuance of CKDs (equivalent to close to 50% of total investment in the project). The remaining 20% of the project investment is equity from EGP, which retained control of the operation and maintenance of the solar plant. There is no publicly available information on the investors in the issued CKDs, but considering Mexican pension funds (AFOREs) hold 80% of CKDs in Mexico, we can assume that they make up a majority of the investment group (CONSAR, 2018a).

The INFRACK[50] issuance is a concrete example of how CKDs channel institutional-investor capital into sustainable infrastructure projects such as the Villanueva solar plant. In their current state, CKDs do not embed any sustainability criteria as part of their regulatory framework. In INFRACK's emission prospect document, there is a subsection on environmental performance, but it simply states that as a new entity the trustor does not have an environmental policy. There is no legal differentiation between this investment and non-sustainable ones. This may not be a direct investment barrier but it does not support the development and stimulation of a "sustainable CKD" instrument family.

**Table 15: Villanueva I & III Solar Plant CKD issuance details**

| **ICKD issuance for Villanueva I & III Solar Plant** | **Use of proceeds:** Road infrastructure, telecommunications, and renewable energy | |
|---|---|---|
| **Instrument:** CKD | **Volume:** MXN 19 billion (~ USD 1 billion) | **Return rate:** 12% - 17% |
| **Issuance type:** Public issuance | **Rating:** - | **Tenor:** 50 years |

[48] Database of sustainable bonds, Environmental Finance

[49] Interview with national stakeholder

[50] Stock exchange code for the CKD issuance

## Case study: FIBRA E issuance – INFRAEX

In June 2018, PROMEDEX, a Mexican infrastructure promoter and developer, sponsored the fifth FIBRA E certificate issuance since the creation of these instruments in 2016 (Grupo BMV, 2018). The issuance of MXN 6,135 million (around USD 312 million[51]) has to this day acquired equity shares in three brownfield infrastructure concessions:

- Penitentiary Infrastructure of Michoacán – "Michoacan" (PRODEMEX, 2014a)
- Correctional Facility n°14 – Durango (CEFERESO NO.14) – "Durango" (PRODEMEX, 2014b)
- Road infrastructure "Vialidad las Torres", Estado de Mexico – "Vialidad" (PRODEMEX, 2010)

This was an issuance of more than 331 million "B series" *certificados bursátiles fiduciarios de inversión en energía e infraestructura* (CBFEs), publicly traded securities in the form of "trust bonds".

The INFRAEX case is an example of how to tap into capital markets through a public issuance to raise capital for social infrastructure projects. The fact that a FIBRA E, from the FIBRA instrument family, which also exists in Peru, financed such infrastructure projects represents a significant precedent for social infrastructure projects. In addition, although the social benefits of these infrastructure projects are clear, the compliance with sustainability criteria is not explicitly disclosed and its social aspect not explicitly marketed. In 2018, an international example of the strong appetite among investors for socially labeled investments is the four-time oversubscription of Bancóldex's Social Bond in Colombia.

**Table 16: INFRAEX FIBRA E issuance details**

| INFRAEX | **Use of proceeds:** Two social infrastructure projects and one road infrastructure project | |
|---|---|---|
| **Instrument:** FIBRA E | **Volume:** MXN 6,135 million (USD 312 million) | **Return rate:** 11.26% (with a minimum trimestral distribution of 2.08%) |
| **Issuance type:** Public issuance | **Rating:** - | **Issuance date:** June 2018 |

### 3.5.4 Key takeaways

**Table 17: Key takeaways of the Mexican market[52]**

| Key takeaways – Mexico | |
|---|---|
| **Investment instruments** | • Strong growth of investments in FIBRA Es for energy and infrastructure projects since their inception (+1,500%).<br>• CerPIs may provide another significant source of financing for real estate and energy infrastructure projects. |
| **Institutional investors** | • Driven by AFOREs, the capital market share in infrastructure investments has the potential to grow significantly according to CONSAR.<br>• Recent modification to AFOREs' investment regime is likely to stimulate the consideration of ESG criteria in their investment criteria. |
| **Sustainability** | • *Principios de Bonos Verdes MX* may incentivize bond issuers to finance or refinance through green bonds.<br>• A switch in the investment selection process of commercial banks and AFOREs would force project developers to adapt to new sustainability norms.<br>• BMV is developing the equivalent of Green Bond Principles for structured instruments such as CKDs and FIBRAs (~ 2019). |

[51] Own elaboration

[52] Exchange rate MXN/USD as of December 2018: 19.7

### 3.5.5 Main recommendations considering the local context

| Recommendations – Mexico |
| --- |
| • Develop green, social, and sustainable labels for infrastructure-prone investment instruments such as CerPIs and FIBRA E<br>• Adapt AFORE regulation to standardize reporting and disclosure on sustainability criteria embedded in their investment decisions |

## 3.7 Peru

**Key findings**

Peru's infrastructure financing still relies mostly on public investments. Recent regulatory innovations, such as the introduction of new financial instruments, aim to promote the capital market's relevance, with no focus on sustainability. In 2015, the banking sector regulator established minimum requirements for social and environmental risk management in large-scale project finance. However, the are no specific regulation or incentives regarding investments in sustainable projects or assets.

Peru has a significant infrastructure gap of approximately USD 159 Billion for 2016-2025.[53] Private investments in infrastructure for 2018-2019 are expected to reach USD 4 billion, representing approximately 14% of Peru's investment in infrastructure, which is still largely concentrated in the public sector. From 2006-2016, private investments in infrastructure were mainly financed by loans (42%), bonds (25%), equity (25%), and multilateral institutions, development banks, and the government (8%).

The capital market has a low contribution to finance infrastructure and there are no publicly traded capital market instruments targeting a wide range of infrastructure projects. There are specific instruments for real estate investments and instruments with broad sectoral reach, such as bonds and trust funds.

### 3.7.1 Regulatory framework overview

### 3.7.1.1 Capital market

Due to a series of political and economic crises, Peru's capital market was slow to emerge and develop. Banks and the government financed most of the productive activity during the 1970s and 1980s. The next decade saw the passing of new regulations based on free-market principles that enabled the emergence of a capital market in line with international standards and best practices.

The Peruvian capital market has since grown based on this political and economic approach but still underperforms, with banks controlling almost 90% of financing activity. Several laws and decrees have updated the Law of Capital Markets since its inception and have been consolidated in Decree 861. The last modifications in this law included the simplification and reduction of the submission period for registration, the creation of a special public offer for SMEs, and a strengthening of the Peruvian Securities Commission's capacity (Law 30,050/2013). The consolidation of the capital market, especially related to investment funds, intermediation agents, trading platforms, and other instruments of non-massive issuance (Law 30,708/2017). While these updates aim to promote and strengthen the capital markets, they do not specifically consider sustainability criteria or encourage infrastructure finance.

The main challenges for the development of the Peruvian capital markets are, on the supply side, (i) relatively rigid regulations,

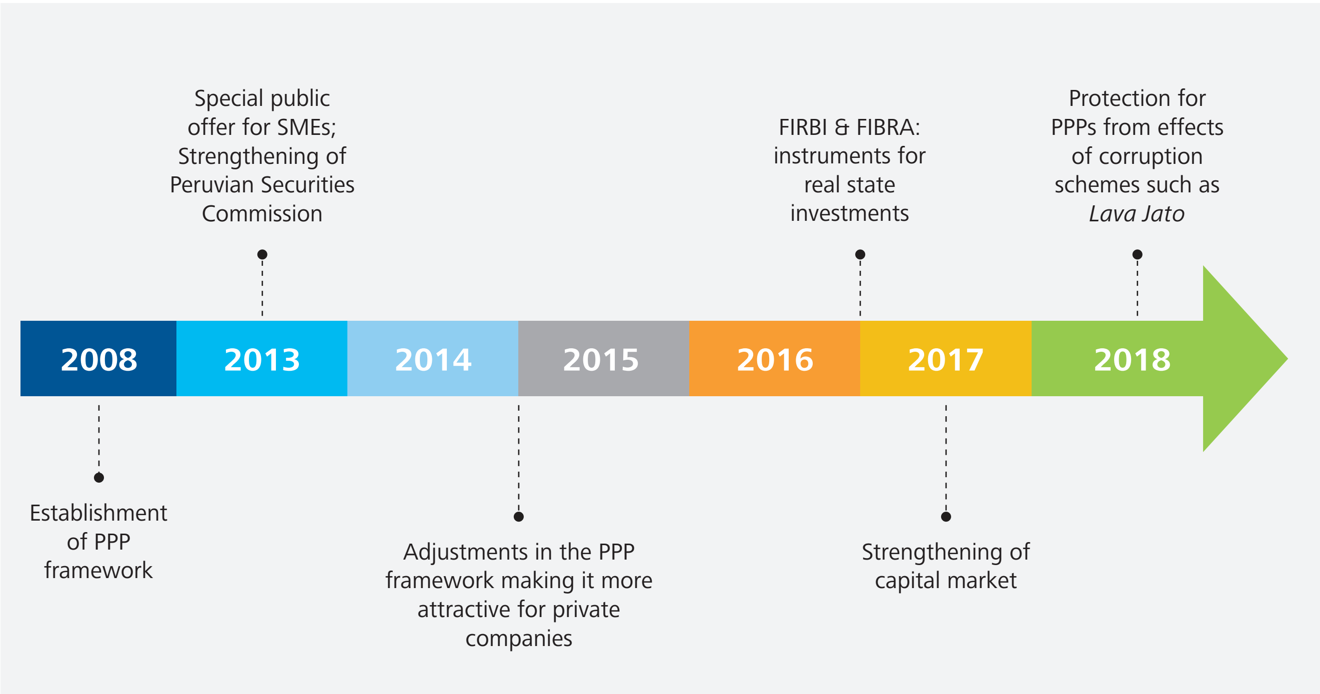


**Figure 15: Peru's regulatory evolution impacting the sustainable infrastructure investment market[54]**

[53] Estimated by AFIN (Association for Promotion of National Infrastructure) and Universidad del Pacífico, and also recognized by the Ministry of Economy

[54] Own elaboration

(ii) a culture of bank financing, and (iii) the low level of financial sophistication of Peruvian companies; and, on the demand side, a (iv) lack of financial sophistication among the population; (v) the tendency of high net worth individuals to invest in international markets for diversification and protection; (vi) an unbalanced tax system where bank instruments are tax-exempt and capital market instruments are taxed at 30% on income and 5% on capital gains if they trade on the Lima Stock Exchange (BVL by its Spanish acronym); and (vii) a lack of demand diversity due to low liquidity and a lack of depth in most listed equities and fixed-income market.[55]

#### 3.7.1.2 Infrastructure investment

Peru's investments in infrastructure have continuously increased over the last few years, driven by changes in the regulatory framework for infrastructure projects (PPPs) that led to an increase in the participation of international investors. In 2017, however, there was a decrease in infrastructure investments due to the *Lava Jato* anti-corruption Brazilian operation that reached Peru (Banco Central de Reserva del Perú, 2017). Another issue is that the latest Basel Accords demand higher capital and liquidity requirements for banks active in infrastructure. The growth trend presented by the Ministry of Economy points to a recovery of the level of investments by 2021.

In the 1990s, the Peruvian government established Legislative Decree (LD) 839, which promoted private investment in infrastructure and public services for the first time. The government approved the framework law for PPPs LD-1012 in 2008, followed by some adjustments in 2014 and 2015, making it more attractive for private companies to invest in Peru. Regarding the PPP law, it includes three mechanisms complementing PPPs: (i) self-financed private initiatives, (ii) co-financed private initiatives (requires co-financing from the government or guarantees, and (iii) a tax break for public contracting.

Improvements in the regulatory framework also included the creation of new organisms in charge of project planning and supervision, such as PROINVERSION (Peruvian Private Investment Promotion Agency, by its Spanish acronym), which promotes the country's investment in infrastructure, executes the process of concessions, and designs and adjusts the contracts. In terms of supervision, there are several organisms participating depending on the sector (infrastructure and transport, energy and mining, telecommunications, and sanitation).

The evolution of the regulatory framework around PPPs and a more organized governmental process has allowed the country to deliver USD 16 billion in projects between 2011 and February 2017 (ProInversión, 2017).

To guarantee that both PPPs and public works are not affected by the *Lava Jato* and "construction cartel" cases, Law No. 30,737/2018 was enacted to restore the operational capacity of construction companies and require the immediate payment of compensation to the state in cases of corruption, ensuring more effective collaboration and the continuity of investment projects. Due to the restrictions applied by financial institutions to lines of financing and sureties to guarantee disbursements made by the state, the payment of suppliers involved in the cases was affected, paralyzing the works. The regulation establishes that construction companies proven guilty of corruption and intending to sell an asset or project shall deposit 50% of the sale price in a state trust. The amount will then be used to pay civil compensation and tax debt due. The sale price guarantees the prior payment of labor and tax obligations by the suppliers and project financiers. Delivery of loans to construction companies involved in corruption cases may be resumed provided that the cash flow allows them to comply with civil reparations and other obligations. The law also defines the criteria for civil compensation in the case of PPP projects, reducing uncertainties regarding the amounts to be disbursed by the companies involved in corruption.

In addition to regulations supporting private investment in infrastructure projects, it is worth mentioning the recent creation of two financial instruments for real estate investments regulated by Law 30,532/2016, *Superintendencia del Mercado de Valores* (SMV) Resolution No. 16/2017, and amendments (Gobierno del Perú, 2017): FIRBI (Real Estate Lease Backed Securities) and FIBRA. Since their creation, a few of these types of funds have been introduced to the market, with five registered FIRBI and four registered FIBRA at SMV as of September 2018.

#### 3.7.1.3 Sustainability regulations impacting infrastructure

The integration of social, environmental, and climate sustainability criteria in infrastructure projects gained significant traction as of 2015 with SMV Resolution No. 33/2015, which requires issuers to present a corporate sustainability and corporate governance report, and *Superintendencia de Banca*, *Seguros y Administradoras de Fondos de Pensiones*, the national banking sector regulator's Resolution No. 1,928/2015, which obliges all commercial and public banks to implement environmental and social management systems for project financing above USD 10 million. Although there were no specific incentives for sustainable projects, an environmental and social report from the borrower is required by the bank to approve credit.

Fiscal incentives are given to conventional financial instruments – those that are not directly related to environmental or social projects, or assets in the capital market – but have the potential to support sustainable infrastructure, such as the FIRBI and the FIBRA.

[55] CFA Institute Research Foundation

In Peru, there is no specific regulation for green bonds applied to the general rules of debt instruments. However, in March 2018, the BVL and the British Embassy launched a "Guide to Green Bonds", presenting guidelines for the process of issuance to promote investment in Green Bonds at the Lima Stock Exchange. Furthermore, BVL has supported the issuance of green bonds through the disclosure of guidance and market data. However, it is still a small market – the first green bond in Peru was publicly issued at BVL in October 2018. Regarding voluntary initiatives, the number of PRI signatories is still low, with only two companies represented: Prima AFP[56] (asset owner) and Macrocapitales (investment manager).

Innovation in the Peruvian capital markets seems to be mainly driven by new regulation inspired by successful experiences from other LAC countries. For example, FIRBI and FIBRA were introduced based on the Mexican framework, given the country's need for new investment vehicles in a growing real estate market. Voluntary initiatives developed in other countries have also encouraged local initiatives fostering sustainable infrastructure investments. This is the case with green bonds, for which voluntary initiatives were adopted first in Brazil, Mexico, and Colombia and debuted last year in Peru as part of the country's strategy to meet the SDGs within the framework of the national plan "Peru towards 2021".

### 3.7.2 Fundamental instruments for sustainable infrastructure investments

**Table 18: Peru's fundamental instruments for sustainable infrastructure investments[57]**

| **Private Investment Fund (FIP)** | *Fondos de Inversión Privada* (FIP) is an investment fund, whose quotas are placed by private offer. | |
|---|---|---|
| **Type:** Fund<br>**Sectors:** All | **Latest regulation:**<br>*Ley de fondos de inversión y sus sociedades administradoras* No. 862/1996 | **Total assets under management (Dec/2017):**<br>USD 4 billion |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>There are no embedded social criteria or incentives for socially and environmentally positive investments. | **Sustainable investment example:**<br>Sigma FI – *Fondo de Inversión en Infraestructura* invests in infrastructure projects, including a climate-aligned project. |
| **Status:**<br>Investors in Private Investment Funds for infrastructure are mainly pension funds and insurance companies. The instrument has a general focus but some of its investments are directed to infrastructure projects. Funds managed by the private pension fund administrators (AFP) have increased infrastructure investment, reaching a total of USD 4 billion in 2016 (47% of total growth since 2011). The most relevant growth in AFP's infrastructure investment in the period was in the transportation (132%) and energy (49%) sectors. | | |

| **Real Estate Investment Trusts (FIBRA)** | The trust fund focus on real estate investments whose participation certificates have been exclusively placed by primary public offering. | |
|---|---|---|
| **Type:** Fund<br>**Sectors:** Real estate | **Latest regulation:**<br>Law No. 30,532/2016<br>SMV Resolution No. 16/2017 | **Total assets under management (2018 estimate):**<br>USD 1.9 billion (FIRBI and FIBRA AUM) |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>Issuers can voluntarily label issuances as green, social, or sustainable. | **Sustainable investment example:**<br>FIBRA Prime – the first FIBRA in Peru and the second to be issued in LAC |
| **Status:**<br>In 2018, the SMV authorized the creation and operation of FIBRA Prime, the first FIBRA in Peru and the second to be issued in LAC. Although both retail and institutional investors can invest in FIBRA, AFP and insurance companies are the main investors. With recent regulatory innovations aimed at promoting FIBRA, this instrument is expected to grow in the next few years. | | |

[56] AFP, *Administradora de Fondo de Pensiones*

[57] Own elaboration

| Real Estate Lease Backed Securities (FIRBI) | Investment fund in real estate that generates income regularly through dividends, whose shares are distributed through an initial public offering to at least 10 investors | |
|---|---|---|
| **Type:** Fund<br>**Sectors:** Real estate | **Latest regulation:**<br>Law No. 30,532/2016<br>SMV Resolution No. 16/2017 | **Total assets under management 2018 estimate:**<br>USD 1.9 billion (FIRBI and FIBRA) |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>Issuers can voluntarily label issuances as green, social, or sustainable. | **Sustainable investment example:**<br>FIBRI Sura Asset Management and FIRBI Metroport |
| **Status:**<br>There are currently six FIRBI registered at SMV. With recent regulatory innovations aimed at promoting FIRBI, this instrument is expected to grow in the next few years. | | |

| Corporate bond | Fixed income securities representing medium- and long-term debt that guarantee holders a right of credit against the issuing company | |
|---|---|---|
| **Type:** Bond<br>**Sectors:** All | **Latest regulation:**<br>Law No. 93/2002 | **Investments (2013-2017):**<br>USD 10.04 billion (issued in PEN or USD)[58] |
| **Sustainable investment:**<br>USD 234 million | **Sustainability criteria:**<br>Issuers can voluntarily label issuances as green, social, or sustainable. | **Sustainable investment example:**<br>Protisa Perú (paper company) and Energia Eolica (wind energy generator) |
| **Status:**<br>When publicly offered, the corporate bond is placed on the BVL and targets the general public. When privately offered, it is targeted at institutional investors. Of the 275 issuers of publicly offered bonds issuing companies, only 10 represent 53% of the total amount (from different sectors). | | |

| Trust fund | Trust fund, in which a company/person (grantor or "*fideicomitente*"), transfers assets to another entity (trustee or "*fiduciario*") for the constitution of the fund | |
|---|---|---|
| **Type:** Fund<br>**Sectors:** All | **Latest regulation:**<br>SBS Resolution No. 1,010/1999 | **Assets of trustees in the private sector (November 2018):**<br>USD 11 billion |
| **Sustainable investment:**<br>Not available | **Sustainability criteria:**<br>There are no embedded social criteria or incentives for socially and environmentally positive investments. | **Sustainable investment example:**<br>Marcona and Tres Hermanas – wind farms |
| **Status:**<br>In the Peruvian market, the guarantee trust is the most common trust fund. This instrument has been applied in all types of businesses (real estate projects, project finance, and guaranteed loans with all types of assets, among others) and across all economic sectors (including real estate, construction, energy, agroindustry, retail, telecommunications, mining, and fishing). It cheapens the credit cost for investments in infrastructure projects by reducing associated risks. | | |

[58] Exchange rate PEN/USD as of December 2018: 3.35

### 3.7.3 Analysis of the sustainable infrastructure investment landscape

Infrastructure investments in Peru have been increasing over the years, but in 2017, when the *Lava Jato* anti-corruption operation implicated Peru's public officials and construction companies, several projects were halted. Law No. 30,737 is expected to reduce uncertainties regarding the continuity of public works and investments are estimated to reach 2016's level by 2021. Participation from private firms in infrastructure is still low and institutional investors play a small role in fostering this segment.

Sustainable infrastructure has not yet received specific incentives or guidance by specific regulations. Investments in sustainable segments have been mostly financed by loans or bonds, with less participation of the latter in private investments. Banks have played an important role in requiring ESG reporting from borrowers but further development of the capital market and project risk management are needed to support greater participation of institutional investors in sustainable projects and assets.

Green and social bonds, whose issuances involve soft (guidelines for issuance) and hard regulations (the ones applied to conventional bonds), are still in early development in the country. Only one green bond has been issued to date and a private issuance of a social bond was recently concluded by a commercial bank in Peru, although it is not specifically focused on infrastructure projects or activities.

Nevertheless, in 2014, BVL signed the SSE (Sustainable Stock Exchanges) Commitment Letter to promote sustainability performance and transparency in the capital markets. Subsequently, SMV launched Resolution No. 33/2015, which requires issuers to present a corporate sustainability and good corporate governance report.

A few months earlier in the same year, the national banking sector regulator promulgated a resolution that established minimum requirements for social and environmental risk management in project financing for amounts above USD 10 million (IFC, 2019). The bank is required to categorize and evaluate projects with an environmental and social approach and ask for the respective environmental license and legal documents from the client.

All banks must annually report environmental and social risks associated with the services they provide within the scope of these regulations annually. Considering that infrastructure is mainly financed by loans (56%), this is significant progress regarding incorporating ESG aspects into infrastructure financing and is influential for the further development of ESG criteria in capital markets.

Image source: Pixabay

Image source: Pixabay

SMV does not yet have any specific regulation or incentives regarding investments in sustainable projects or assets. Likewise, PROINVERSION, the technical body of the Ministry of Economy and Finance responsible for promoting private investment in Peru, has contributed little toward the promotion of sustainable infrastructure projects as there is no legal obligation or incentive for project developers to include such criteria (ProInversión, 2019).

## Case study: Trust fund for renewable energy

Combined, the Marcona and Tres Hermanas wind farms represented 60% of Peru's wind power generation in 2017. Located in a region with little power generation capacity, they contribute to the stability of the grid and provide energy for 30,000 families. According to an ACS (*Actividades de Construcción y Servicios*) 2017 industry report, the Marcona wind farm produces 167,992 GWh of power annually, while Tres Hermanas produces 497,606 GWh.

Sigma FI is a closed-end equity fund focused on infrastructure projects. It is one of the largest investment fund managers in Peru. In 2016, it acquired a 49% interest in two wind farms in Grupo Cobra, and in 2018, the fund consolidated its full ownership of the farms. This acquisition was financed with Sigma FI's capital. Simultaneously, through the SPV *Parque Eólico Tres Hermanas* and the SPV *Parque Eólico Marcona*, Sigma FI privately placed a USD 250 million bond under US jurisdiction, registered as an exempted security under the Securities and Exchange Commission, Section 4 (a) (2). Allianz Global Investors was the only investor.

**Table 19: Sigma FI's corporate bond issuance details**

| **Sigma FI Bond for Marcona and Tres Hermanas wind farms** | **Use of proceeds:** Refinancing the outstanding debt of the Tres Hermanas and Marcona wind farms | |
|---|---|---|
| **Instrument:** Corporate bond | **Volume:** USD 250 million | **Return rate:** 5.59% p.a. |
| **Issuance type:** Private placement | **Rating:** BBB- (Fitch Ratings) | **Tenor:** 18 years |

In parallel, Sigma FI structured a new banking trust fund (*fideicomiso bancário*), to which it transferred the bond issuance full proceeds. La Fiduciaria, the leading trust services company in Peru (with over 50% of the market share), was responsible for structuring and managing the *fideicomiso*.

Even though Sigma FI's corporate bond was an international issuance, its associated trust fund is registered under Peruvian jurisdiction. There are two types of trust funds in Peru: a banking trust fund (*fideicomiso bancario*) and a securitization trust fund (*fideicomiso de titulización*).

Trust Funds are mainly used to improve guarantees for banking or non-banking financing. This financial instrument allows for the credit risk of the transferred assets and of the *fideicomitente* company to be done separately, which increases a project's viability and a company's or operation's liquidity. Therefore, it improves the credit rating. An improved credit rating also implies a lower financing cost. For this reason, it has become an important instrument for infrastructure projects, which are usually associated with longer terms and bigger debts.

In this specific case, Sigma FI established a banking trust fund to reduce credit risk, which was a requirement for the feasibility of the refinancing operation. The Trust is responsible for managing the wind farms' cash flow, creation, and control of operational and management accounts for the assets and debt payment (Table 20). Securitization trust funds can also represent an additional funding source for infrastructure projects through debt securities issuance. This is particularly interesting for expansion projects, in which operational assets are transferred into a securitization trust fund that attracts investments through the issuance of debt securities backed by those asset's revenues.

In Peru, trust funds currently have no legal criteria related to sustainability. Even though wind farms are perceived as aligned with the decarbonization of the energy grid, the financing process of these projects did not embed the analysis of environmental and social impacts. The potential for green labeling was not considered as the bond was privately placed.

This was Allianz Global Investor's first investment in the infrastructure debt market in Peru, with one of the largest bond offerings in the renewable energy sector in the country. The large amount financed was decisive for the bond's financial attractiveness.

Green labeling could attract dedicated institutional investors, increasing the demand for sustainable infrastructure securities and lowering the issuance cost and minimum financed amount necessary.

Law No. 30,532/2016 created FIBRA, which established tax incentives for securitization trust funds, focused on real estate projects (individual investor's income tax lowered from 29.5% to 5%). The Peruvian government could expand the tax incentive to securitization trust funds focused on sustainable infrastructure projects to promote infrastructure projects in sectors beyond real estate and increase the integration of environmental and social criteria into infrastructure project development in the country.

**Table 20: Sigma FI's Trust Fund details**

| **Sigma FI Trust Fund for Marcona and Tres Hermanas wind farms** | **Use of proceeds:** Manage the bond's proceeds to refinance the Tres Hermanas and Marcona wind farms | |
|---|---|---|
| **Instrument:** Banking trust fund | **Volume:** USD 250 million | **Operator:** La Fiduciaria |
| **Issuance type:** Private placement | **Rating:** - | **Tenor:** 18 years |

### 3.5.4 Key takeaways

**Table 21: Key takeaways of the Peruvian market[59]**

| **Key takeaways – Peru** | |
|---|---|
| **Investment instruments** | • Peruvian infrastructure financing relies mostly on public investments. Investments in sustainable infrastructure have been mostly financed by loans or bonds, with less participation of the latter in private investments.<br>• Apart from FIRBI and FIBRA, there are no other instruments focused on the infrastructure sector.<br>• International financial Institutions and COFIDE[60] have supported ESG practices through project finance credit lines that demand strong ESG criteria. |
| **Institutional investors** | • Recent regulatory innovations aimed at increasing the capital market's relevance, without focusing on infrastructure finance or sustainability<br>• Pension funds have invested, on average, 10% of their portfolio in infrastructure in the country, mainly through indirect operations, such as stocks of firms that provide infrastructure services, rather than through the direct financing of infrastructure projects. |
| **Sustainability** | • In 2015, the national banking sector regulator promulgated a resolution that established minimum requirements for social and environmental risk management in project financing for amounts above USD 10 million.<br>• In 2015, the SMV promulgated Resolution SMV No. 33/2015 requiring issuers to present a corporate sustainability and comprehensive corporate governance report.<br>• Sustainable infrastructure has not received any specific incentives or guidance from regulatory innovations to date. |

### 3.5.5 Main recommendations considering the local context

| **Recommendations – Peru** |
|---|
| • Develop green, social, and sustainable labels for trust funds and private investment funds<br>• Adapt PPP regulation to standardize reporting and disclosure on sustainability criteria<br>• Further develop securitization instruments, allowing for packaging projects to access institutional investors |

[59] Own elaboration

[60] COFIDE – Financial Development Corporation

# 4. Sustainable infrastructure investment market status

Sustainable infrastructure investment in the LAC region is still far from being mainstreamed, potentially jeopardizing the achievement of SDGs in the countries. Based on the analysis of the six LAC-6, specific gaps and opportunities were identified that transcend geographic and political borders. A commonly-accepted definition of sustainable infrastructure is crucial to initiate a market shift towards financing sustainable infrastructure. IDB's overarching definition of sustainable infrastructure is a step in the right direction. Clearer guidelines on how to evaluate and report on these criteria must complement this definition.

The following section paints a regional picture of the sustainable infrastructure investment status in LAC, highlighting possible improvement paths.

## 4.1 Private and public sector as drivers of change

### 4.1.1 Market-led initiatives

Although the capital markets of the six LAC-6 are members of the UN-backed SSE Initiative, the degree of sustainable-practice adoption in each market varies significantly. The most common form of implementation of sustainability within capital markets is through sustainability labels, in particular, through the globally-recognized sustainable bond market. By 2018, all LAC-6 had launched sustainable bond-related initiatives. Argentina introduced the new regulation to authorize the labeling of green, social, and sustainable bonds (Gobierno de Argentina, 2018c). Brazil, Chile, and Colombia, through the B3, *Bolsa de Santiago*, and *Bolsa de Valores Colombia*, respectively, have created dedicated primary markets for sustainable bonds, including guidelines on eligible projects and emission process. The Mexican CCFV released the local Green Bond Principles (*Principios de Bonos Verdes*) and is considering labels for other instruments in 2019, in particular, CKDs and CerPIs, while the Lima Stock Exchange also released green bond guidelines.

The popularity of sustainable labeling is due in part to the limited effort required to replicate guidelines, which are mostly inspired by ICMA. Labeling could be a relevant way to give visibility and track sustainable instruments. To ensure an in-depth market shift, the impact of sustainably-labeled infrastructure must be reported transparently. Currently, the impact additionality of green, social, and sustainable bonds is not always evident. The risk of green-washing is strong because definitions on what proceeds the bonds can finance vary across countries. Strict certifications such as that of the CBI can help avoid or mitigate those risks.

With the release of international climate risk and opportunities guidelines from the TCFD, there have been growing efforts to disclose climate risk. In early 2019, FEBRABAN released a roadmap to assist the Brazilian banking sector in the implementation of the TCFD recommendations.

Complementing the above-mentioned efforts, capital market investors in the LAC-6 have shown the potential role they can play in stimulating the shift towards sustainable infrastructure investments. Indeed, there are signatories of the PRI in all of the LAC-6. With only two signatories in Argentina and four in Chile, none of the largest actors of these two markets, capable of influencing the local market, have yet adhered to the principles. Although there are only three signatories in Colombia, Bancolombia, the largest bank in the country, is one of them. Similarly, in Mexico, two of the largest banks and the largest CKD issuer in the market have signed the PRI. In Peru, there are two signatories including a major pension fund. Brazil is by far the most developed market in this regard, with 50 institutions adhering to the PRI, of which 52% are investment managers, 30% are asset owners, and 18% are service providers. However, the overall lack of widespread acceptance of these principles in LAC showcases the early-stage nature of sustainable investing.

In parallel to the PRI, several financial market initiatives have emerged over the past eight years. In Brazil, nine institutional investors, with USD 1.8 trillion in assets under management, have signed the Green Bonds Investor Declaration. Colombia's Green Protocol was launched in 2012 by the government and financial sector (without regulators) to unify sustainability commitments and best practices. This led to three financial institutions launching "green credit lines" following the launch. Institutional investor groups, through their industry associations, have also launched initiatives dedicated to the development of sustainable investment in their practice, in particular insurance companies and pension funds. The Mexican CCFV was officially launched in 2016 by the BMV and all major actors of the Mexican financial sector. In 2019, a letter signed by CCFV members (which hold 60% of Mexican investments in the capital market) encouraged all legal entities in the capital market to report on ESG criteria in 2019. These initiatives demonstrate that financial institutions in the LAC market are increasingly considering sustainability best practices in investment and financing portfolios and are actively participating in the sustainable transition. It is clear from the span of market-led initiatives that voluntary action is strongly leading the financial sector transition.

#### 4.1.2 Government or regulator-led evolution

However, there are governmental initiatives in the region supporting the low-carbon resilient and sustainable transition. The Colombian bank association, Asobancaria, is currently holding talks with the national government to strengthen and legally enforce sustainability investment criteria for all local banks, which represent 50% of infrastructure investments. This could have a strong influence on the switch to sustainability criteria.

Similarly, in Peru, the stock exchange regulator implemented a regulation to enforce capital market issuers to present a corporate sustainability and governance report. In 2015, the Peruvian banking sector regulator established minimum requirements for environmental and social risk management in project financing, aligned with the Equator Principles, for amounts above USD 10 million. These are rare initiatives in the region since sustainability criteria are often voluntary and seldom applied.

In Chile, a pilot evaluation of two infrastructure projects through ENVISION Sustainable Infrastructure Rating System recommended embedding sustainability in investment analysis. The national government will decide whether to take action in 2019. This rating system has also been tested in Colombia and Brazil.

- There is a general lack of governmental regulation on sustainable infrastructure investments.
- Even driven by market-led initiatives, the regulatory support of governments is key to mainstreaming the inclusion of sustainability criteria.
- Furthermore, governments should position themselves to work in close collaboration with these private voluntary initiatives to help steer discussions and prepare potential adaptation at the regulatory level.

### 4.2 Growing the pool of potential investors in sustainable infrastructure

Institutional investors are essential to bridging the sustainable infrastructure gap. In particular, pension funds in the LAC-6 are key capital market players capable of influencing the orientation of investment decisions in these markets (The World Bank, IMF, OECD, 2015). Yet, the opportunity to invest in infrastructure for institutional investors are scarce. Regulations for this investor class are often stringent and can present barriers to stimulating infrastructure investments.

Across the LAC-6, regulatory updates have targeted the investment conditions into the infrastructure of institutional investors. In 2018, an update to the capital market regulation was passed in Argentina to structure project bond offers, bonds that can be issued throughout the infrastructure project implementation process, limited to qualified and institutional investors. This regulation aimed to facilitate project developers' access to the capital market. Colombia, on the other hand, is directly targeting the institutional investors' investment regime to stimulate infrastructure investments. A 2014 regulatory change in their investment regime allowed investment in infrastructure through private equity funds and increased the assets under management of these funds that can be invested in PPP debt securities. Opportunities for further investment by institutional investors are considerable as private equity funds are a key instrument for infrastructure in Colombia. In addition, regulatory changes over the past eight years in PPP regulation tend to stimulate institutional investor involvement. Similarly, Chile included private equity funds into the list of instruments that pension funds can invest in from 2016 onwards (Gobierno de Chile, 2014b).

However, none of these regulations have acted towards embedding more sustainability criteria in the investment regime of institutional investors. There have been initiatives in Mexico and Brazil towards this objective. A 2018 regulatory modification requires AFOREs (Mexican pension funds) to include sustainability criteria in their investment analysis process. It also requires AFOREs to embed natural disaster risk as part of the investment analysis for structured instruments, FIBRAs, and certificates linked to real estate. In Brazil, a 2018 resolution requires EFPCs to consider material, social, and environmental aspects in their risk analysis, and for risk management procedures to be more robust and better disclosed. In addition, the *Superintendencia de Seguros Privados* will propose a regulatory update to the investment policy for insurance companies and open-end private pension entities, requiring disclosure of whether their investment decisions integrate ESG principles. Another proposed change to promote the local green bond market is to provide greater flexibility of concentration per issuer and a longer timeframe to implement changes to concentration limits for investment funds that invest in green bonds.

Although there are efforts to channel institutional investor capital towards sustainable infrastructure projects, they have fallen short. However, the examples from Brazil and Mexico provide possible indications of how the change could be undertaken. Regulatory updates targeting the most influential infrastructure investment market players, aiming to increase the investment potential of these players, would have the most impact on the infrastructure investment market.

- The market size of pension funds and insurance companies in LAC countries make them essential players in the private sector financing segment.
- However, in most countries, there has been limited activity from these investor groups in embedding sustainability criteria.

## 4.3 Adapting and innovating with dedicated investment vehicles

### 4.3.1 Sustainability criteria in PPPs

PPPs are a key element of worldwide infrastructure markets, including in the LAC region. All LAC-6 have used PPPs to stimulate infrastructure investments. The Colombian 4G road infrastructure program is a recent example of a successful government-driven infrastructure plan based solely on PPP-structured projects. Being a lead financing structure for infrastructure projects, sustainable criteria in PPPs can significantly stimulate the market.

Argentina's RenovAr program has stimulated investments in renewable energy infrastructure projects through a new PPP framework allowing for a quicker launch of infrastructure projects. In Colombia, the *Agencia Nacional de Infraestructura* includes resilience to extreme weather as one of the technical specifics that must be disclosed in PPPs and encourages social and environmental sustainability to reduce long-term costs. ANI provides voluntary guidelines for environmental and social impact assessment. In addition, these criteria are particularly relevant for projects seeking international investments (e.g., multilateral development banks). In Mexico, Banobras, the national bank for public infrastructure involved in most PPP projects, is progressively enforcing ESG evaluations from project developers. Although these represent a first step toward the implementation of sustainability criteria on a larger scale in PPP projects, significant improvements remain possible, especially from the government side, which can lead the shift towards a larger share of sustainable infrastructure investments.

### 4.3.2 Replicating successful instruments

The scope of financial instruments for infrastructure investments in the LAC-6 varies significantly. Table 22 shows the scope of capital market instruments for infrastructure in each country.

**Table 22: Main capital market instruments for infrastructure in the PLM[61]**

| Country | Scope of capital market instruments for infrastructure |
|---|---|
| Argentina | • Negotiable obligations (project bonds)<br>• Infrastructure investment funds |
| Brazil | • Infrastructure debentures<br>• Debentures<br>• Investment funds<br>• Securitized bonds |
| Chile | • Securitized bonds<br>• Corporate bonds<br>• Infrastructure investment funds |
| Colombia | • Bonds (corporate or project)<br>• Private equity funds |
| Mexico | • Certificates of Capital Development (CKDs)<br>• Energy and Infrastructure Invest-ment Trusts (FIBRA E)<br>• Fiduciary Security Certificates of Investment Projects (CerPIs)<br>• Infrastructure and corporate bonds |
| Peru | • Corporate bonds<br>• Private investment funds<br>• Real estate investment funds (FIBRA and FIRBI) |

While countries such as Brazil and Mexico have developed specific instruments for infrastructure investments, other countries use more traditional instruments such as bonds and investment funds. The lack of dedicated infrastructure investment instruments makes it more difficult for regulatory changes and policy changes to drive a shift towards sustainable infrastructure investing.

Scaling up capital market instruments for sustainable infrastructure investments in LAC involves incorporating sustainability criteria in existing instruments or labeling and creating incentives towards sustainable project investments and practices. The first step towards this market shift would be a commonly recognized definition of sustainable infrastructure, at the national and regional level, allowing better alignment across the infrastructure investment value chain and clearer guidelines for project developers and investors (financing and refinancing) on what should be considered "sustainable".

[61] Own elaboration

Most of the instruments used to support the development of infrastructure projects do not embed sustainable criteria, although green, social, and sustainable labeling are available through voluntary initiatives for bond-type instruments and have been formalized in regulations in some countries.

In most of the countries analyzed, corporate bonds are an important instrument supporting infrastructure investments, although these are not exclusive to the infrastructure sector. An exception is infrastructure debentures in Brazil, which offer income tax benefits for retail and foreign investors. A new regulation in Argentina also introduced the project bond, a type of negotiable obligation available to institutional investors that can be issued at any time during project development. Securitized bonds – also called infrastructure bonds – have particular importance in infrastructure investment in Chile.

Other available instruments are investment funds focused on infrastructure, such as the infrastructure private equity funds and real estate investment funds in Brazil, trust funds in Peru, and mutual funds in Argentina and Chile. In Colombia, private equity funds and mezzanine funds are infrastructure investments channels.

Sector-specific instruments, such as the FIBRA and recently created FIRBI focus on real estate projects in Peru and Mexico, and real estate and agriculture credit bills and receivables certificates in Brazil, can be further improved to include sustainability criteria.

In Mexico, trust securities such as CKDs and CerPIS are other promising capital market instruments in infrastructure finance as they are particularly attractive to foreign investors.

The previously mentioned instruments have already shown either their role in catalyzing infrastructure investments or their potential for doing so. They can be further improved to incorporate sustainable objectives. Existing initiatives supporting infrastructure investments, such as the inclusion of sustainable infrastructure projects in the national government's list of prioritized projects that obtain fiscal incentives in Brazil, could be replicated in other LAC countries.

### 4.3.3 Stimulating investments through fiscal incentives

There is a general lack of incentives in the LAC-6 for sustainable infrastructure investments. Brazil offers fiscal benefits for investors in infrastructure debentures with no specific differentiation based on sustainability. Colombia also reduced its withholding tax applicable to foreign loans and securities invested in long-term PPP projects from 14% to 5%, but no distinction is given to sustainable infrastructure investments. In Peru, FIRBI and FIBRA have focused on real estate investments and offer an income tax reduction ranging from 29.5% to 5% to individual investors.

### 4.3.4 Rationale for innovative dedicated instruments

Capital market investments into infrastructure are generally made through four types of channels: infrastructure companies (equity or debt), infrastructure projects, infrastructure funds, and municipal or federal bonds (UN-ESCAP, 2017). The situation in LAC tends to mirror this, with most infrastructure investments going through standard investment vehicles. Apart from Mexico and Brazil, there has not been any innovation in the financial instruments for the infrastructure sector.

In Brazil, dedicated infrastructure debentures have become one of the main instruments for infrastructure financing in the country, accumulating USD 14.3 billion of investments between 2012 and October 2018. The fiscal incentives associated with this instrument, dedicated to infrastructure, have made it highly attractive to capital market investors. In addition, this instrument has been used for USD 308 million "green-labeled" bonds, proving its potential for financing sustainable infrastructure projects. In addition, a new financial instrument for infrastructure known as Real Estate Secured Bill (LIG by its Portuguese acronym) was regulated in 2018 and registered at B3. LIG is a mortgage-backed bond that can be issued by banks, savings banks, credit loan or investment societies, mortgage companies, and savings and loan associations. The instrument is exempt from income tax for local and foreign investors and introduced the concept of a covered bond in the market, a well-known feature in international capital markets, and carries possible profitability linked to the exchange rate variation. These new features provide additional security and attractiveness to investors.

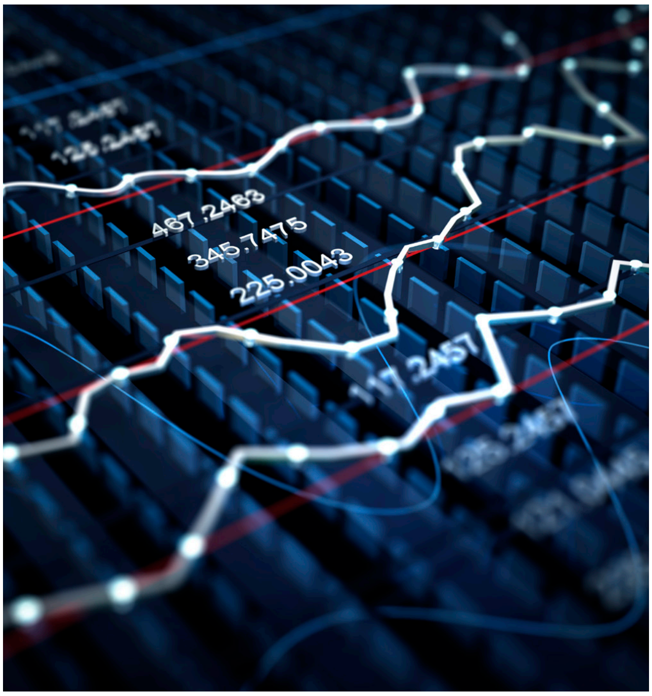


Image source: iStock

The Mexican infrastructure investment market innovated early on with the creation of Certificates of Capital Development (CKDs) – trust securities designated for the sole purpose of financing one, or several projects, or the acquisition of one or several companies. CKDs have become the main investment vehicle for AFOREs (Mexican pension funds) to invest in infrastructure (AFOREs hold 85% of CKDs in the market), with USD 9 billion issued to date. The recent adaptation of the CKD structure – CerPIs – targets institutional investors only and opens up the investment opportunities of AFOREs as the instrument can invest up to 90% of allocated capital internationally. The diversification opportunity has made it highly appealing. Finally, an addition to the FIBRA family was made in 2016 with the emission of the first FIBRA E, an investment trust dedicated to energy and infrastructure investments. Infrastructure investments for USD 3.3 billion have been undertaken through four FIBRA Es, three of them issued in 2018, demonstrating the strong development of the instrument.

Examples from Brazil and Mexico demonstrate how innovating with financial instruments can stimulate infrastructure investments. However, none of these innovations have targeted sustainable infrastructure specifically. Further stimulation of investments into sustainable infrastructure must go through instrument regulations and investors themselves.

- Governments play a lead role in PPP frameworks, which should enable a clear publicly-driven shift towards investing in sustainable infrastructure. As a common denominator across the six LAC-6, PPP regulation could be a driver of the sustainable transition.
- Similarly, the labeling of sustainable investments can significantly stimulate the market, as the strong market demand for sustainable bond issuances has shown.
- Additionally, dedicated infrastructure instruments such as Mexico’s FIBRA E, can facilitate sustainability labeling specifically targeting infrastructure. There is also a case for introducing regulatory changes to these instruments to stimulate sustainable infrastructure investment.
- Governments can improve investment conditions in sustainable projects through incentives such as fiscal and processual benefits for investors to improve the attractiveness of sustainable infrastructure investment.

# 5. Recommendations to stimulate sustainable infrastructure investment

Based on the replication opportunities and examples extracted from the analysis of the six LAC-6, there are significant opportunities, whether regulatory, financial, capacity building or communication, to support the stimulation of sustainable infrastructure investment. Some of the key levers identified were regulatory recommendations, the development of guidelines or standards, and financial instrument innovation to attract certain investor types. The following tables detail the potential actions that can be undertaken at the national or regional level to stimulate the sustainable infrastructure market in LAC.

## 5.1 Market and government-led change

**Table 23: Market and government-led change – recommendations to stimulate sustainable infrastructure investment in LAC[62]**

| **Establish a regionally accepted sustainable infrastructure taxonomy relevant for all stakeholders of the infrastructure ecosystem** | **Implementation:** Medium-term |
|---|---|
| **Recommendations:**<br>• Establish a regionally accepted sustainable infrastructure taxonomy to be adopted by major actors, including the public, financial, industrial, and commercial sectors.<br>• Provide guidance on the reporting/disclosure on sustainable infrastructure projects, including best practice and benefits. | |
| **Example/inspiration:**<br>The "Attributes and Framework of Sustainable Infrastructure" report published by the IDB in 2019 is a significant step toward stimulating the conversation on a common taxonomy. The validation of such a framework at the regional level would benefit the sustainable infrastructure transition.<br><br>In addition, this regional taxonomy could build on the efforts of the European Union's taxonomy for sustainable activities (European Union, 2019) and be adapted to the regional context. | |

| **Align countries in the region with a common framework and reporting requirements for social, green, and sustainable bonds** | **Implementation:** Medium-term |
|---|---|
| **Recommendations:**<br>• Align countries in the region, through stock exchanges (could be through the SSE), with a common framework and reporting requirements, based on the criteria of internationally recognized initiatives, such as CBI<br>• Develop regional capacity for the certification of green, social, and sustainable bonds according to existing initiatives such as the CBI, to adapt the costs of certification to the local context.<br>• Standardize and streamline the labeled bond issuance process to reduce the cost of issuance, including the creation of partnerships or pre-approved reviewers to expedite issuance analysis.<br>• Stimulate the local currency market through currency risk mitigation mechanisms (e.g., *Fondeo en Pesos* in Colombia) and the dissemination of knowledge within the local capital market. | |
| **Example/inspiration:**<br>Specific guidelines exist in the majority of the six countries analyzed in this paper. The alignment of these guidelines, both internally and with internationally recognized frameworks (to which most already are aligned), could stimulate interest from international investors. In addition, the most recent effort to facilitate sustainable finance in the capital market came from Hitachi Consulting, through the launch of their "Sustainable Finance Platform".[63] | |

[62] Own elaboration

[63] "Hitachi Consulting to Lead the Establishment of a Sustainable Finance Platform to Accelerate Investments That Promote Sustainability" (2019)

| Promote the proposition of policies that benefit sustainable infrastructure over regular infrastructure | **Implementation:** Long-term |
|---|---|
| **Recommendations:**<br>• Promote the proposition of policies that benefit sustainable infrastructure over regular infrastructure: tax incentives, long-term infrastructure strategy, regulatory incentives, fast-tracking for capital market issuance registration. | |
| **Example/inspiration:**<br>Brazil's Finance Innovation Lab, supported by IDB, CVM, and ABDE, promote working groups for the discussion and implementation of new sustainable finance instruments and legislation, involving key regulators, private sector representatives, and NGOs. | |

| Research and communicate on the long-term financial benefits of sustainable infrastructure vs. regular infrastructure | **Implementation:** Short-term |
|---|---|
| **Recommendations:**<br>• Develop and communicate the evidence of the better long-term performance of sustainable infrastructure, using both local and international examples.<br>• Research the avoided risks and future reduced cost of sustainable infrastructure that is resilient and aligned with a sustainable transition to demonstrate its superior performance. | |
| **Example/inspiration:**<br>Projects such as the "Evidence – Economic Benefits of Sustainable Transport", co-financed by the European Union and the "Sustainable Infrastructure Partnership", could be expanded or replicated to cover Latin American countries. | |

## 5.2 Stimulating the involvement of institutional investors

**Table 24: Stimulating the involvement of institutional investors – recommendations to stimulate sustainable infrastructure investment in LAC[64]**

| Adapt pension, insurance, and investment fund regulation | **Implementation:** Medium-term |
|---|---|
| **Recommendations:**<br>• Adapt pension, insurance, and investment fund regulation to stimulate opportunities for infrastructure investments and prioritize investments in sustainable infrastructure.<br>• Adapt regulation and incentives based on defined sustainable infrastructure taxonomy to ensure a standard consideration of sustainability criteria. Guidelines on reporting on these criteria could also strengthen the approach. | |
| **Example/inspiration:**<br>In Mexico in 2018, the AFOREs regulation was modified to promote investments into companies that comply with responsible investing (e.g., PRI) criteria. This was achieved by including, in the AFOREs regulation, the obligation to adopt ESG criteria in investment analyses. In addition, the analysis of natural disaster risk is also included as part of the mandatory investment decision analysis. | |

[64] Own elaboration

| Evaluate the investment potential of specific investor types | **Implementation:** Short-term |
|---|---|

**Recommendations:**

- Develop studies on the involvement of key national investor groups (e.g., pension funds, insurance providers, and investment funds) in the infrastructure investment market, aimed in particular at evaluating the interest of said investors and estimating the scale of the opportunity to increase their involvement.

**Example/inspiration:**

The *Comisión Nacional del Sistema de Ahorro para el Retiro* (CONSAR) in Mexico published a report in 2018 on the investment of local pension funds in infrastructure, including the key instruments used and the regulatory restrictions they face (CONSAR, 2018a). Based on these elements, the financing opportunity of pension funds in infrastructure projects was estimated, providing a strong selling point to adapt regulation to enable their involvement. This is even more interesting considering the recent regulatory changes imposing ESG criteria for pension fund investment decisions.

## 5.3 Re-designing and innovating with investment vehicles

**Table 25: Re-designing and innovating with investment vehicles – recommendations to stimulate sustainable infrastructure investment in LAC[65]**

| Impose sustainability criteria in national PPP projects through regulatory adaptation | **Implementation:** Medium-term |
|---|---|

**Recommendations:**

- Add mandatory sustainability criteria within the PPP national frameworks, including clear social, environmental, and climate-aligned criteria on which to report, aligned with the national or regional sustainable infrastructure taxonomy.
- Within the climate-aligned criteria, a clear analysis of the alignment of the nature of the project with a "1.5°C objective" is essential to avoiding mid-to-long-term climate change transition risks.

**Example/inspiration:**

Colombia's ANI includes resilience to extreme weather events as part of the technical specificities that need to be met for PPP projects and encourages the integration of social and environmental sustainability to reduce long-term costs. However, to this day, no clear guidelines on what should be reported within these criteria have been provided.

| Develop green, social, and sustainable labels for other types of instruments than bonds | **Implementation:** Short-term |
|---|---|

**Recommendations:**

- Develop clear, distinguishing labels for other types of instruments that are not bonds (e.g., CKDs, FIBRAs, funds) that embed sustainability criteria into their investment analysis. These labels could be based on similar criteria as the existing bond labels and infrastructure design standards.

**Example/inspiration:**

Mexico's CCFV is currently exploring sustainability labels for other instruments than bonds, in particular CKDs and CerPIs.

[65] Own elaboration

| Define infrastructure as a separate asset class | **Implementation:** Long-term |
| --- | --- |

**Recommendations:**

- Define infrastructure a unique asset class to stimulate the development of dedicated instruments and embed sustainability criteria tailored to infrastructure projects.

**Example/inspiration:**

Based on a 2017 OECD analysis, infrastructure investments have distinct characteristics from other asset types that could justify the creation of a dedicated asset class, including:[68]

- cash flows, capital structure, and leverage;
- business activities or contractual agreements defining the profile of future cash flows; and
- regulatory environment, risk mitigation instruments, macroeconomics.

| Adapt or create new risk mitigation mechanism for sustainable infrastructure | **Implementation:** Medium-term |
| --- | --- |

**Recommendations:**

- Analyze the existing risk mitigation mechanisms and their uptake at the regional and national level.
- Adapt or create new risk mitigation mechanisms for sustainable infrastructure, such as partial credit risk guarantees, political risk guarantees, currency risk mitigation instruments, construction risk mitigation instruments, first-loss provisions, viability gap funds, liquidity facilities, grants, and subordinated debt.

**Example/inspiration:**

The "Credit Enhancement for Sustainable Infrastructure" study by IISD presents three sources of credit enhancement innovation that are welcomed by stakeholders: currency risk, refinancing risk, and legal risk for environmental and social compliance (IISD, 2018).

| Connect infrastructure project developers to financing instruments and incentives dedicated to sustainable infrastructure | **Implementation:** Medium-term |
| --- | --- |

**Recommendations:**

- Promote greater awareness of the financial instruments available to sustainable infrastructure developers through round tables, the creation of a centralized web portal for financial instruments and incentives disclosure with required sustainable projects attributes, and the development of joint initiatives with local infrastructure industry associations and banking and capital market associations.
- In addition, regional trading of best practices, sustainability criteria, and cross-country investments into sustainable infrastructure could stimulate the market. The recommendation would be to engage key actors across the different markets to explore the possibility of cross-country investment activities in sustainable infrastructure.

**Example/inspiration:**

A low awareness of green/social labels and available instruments for sustainable infrastructure financing has been highlighted by international and local studies as a barrier to sustainable financing market development. Existing financial instrument web portals, such as IISD's credit enhancement portal, could be further improved by highlighting the sustainable attributes required by financial institutions.

# 6. Annex I – Catalog of financial instruments

## Table of content for Annex I

## 6.1 Argentina

| Reference name | Type | Official name | Short description |
|---|---|---|---|
| Negotiable obligations | Bond | *Obligaciones Negociables* | Bond, constituting units of a debt contracted by the company for the development of their investment projects or other purposes. |
| Trust Fund | Fund | *Fideicomiso Financiero* | Trust fund, in which a company/person (grantor or fideicomitente), transfers assets to another entity (trustee or fiduciario), for the constitution of the fund. |
| Open-end Investment Funds | Fund | *Fondos Comunes de Inversión Abiertos - FCIA* | Open-end Investment Funds (FCIA) are mutual funds, in which the number of outstanding shares may increase or decrease over the life of the fund. |
| Closed-end Investment Funds | Fund | *Fondos Comunes de Inversión Cerrados - FCIC* | Closed-end Investment Funds (FCIC) are mutual funds constituted with a maximum fixed amount of shares that are issued at the placement stage and whose amount can not increase or decrease. |
| Banco de la Nación Argentina - Loans for Renewable Energy | Loan | *Banco de la Nación Argentina - Proyectos de inversión destinados al uso de fuentes renovables de energía para la producción de energía eléctrica* | Credit line offered by BNA for renewable energy projects. |
| Banco de Inversión y Comercio Exterior S.A. - Loans for Renewable Energy | Loan | *Banco de Inversión y Comercio Exterior S.A. - Inversión en Energías Renovables* | Credit line offered by BICE for renewable energy projects. |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Negotiable obligations | Official name | *Obligaciones negociables* | |
| | Last updated information | Nov 2018 | Norm/regulation that created or regulates the instrument | Law 23,576/1988<br>Law 23,962/1991 (updates 23,576/1988) | |
| General information | Instrument description | ONs (*obligaciones negociables* ) constitute units of a debt contracted by the company for the development of their investment projects or other purposes. The issuer pays the bondholders (their creditors) the stipulated interest and principal in the agreed manner and term. There is also a special type of ON that can be converted into shares of the issuing company, according to the terms and conditions stipulated at the time of issuance. These ONs are known as convertible negotiable obligations. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Private investment bank | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Issuers can be corporations (*sociedades por acciones* – S.A.), cooperatives, and civil organizations. | |
| | Buyer/investor profile | For SMEs issuances as per Decree 1087/1993 – only qualified investors can participate in the offer | | | |
| | Focused/eligible sectors | All | | | |
| | Currency | ARS | USD | Other currencies | |
| | Investments through this instrument to date (in mentioned currency) | 88.6 | ARS billion | (USD 2.35 billion) (issuance) | Jan-Nov/2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | USD 130 million | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Banco Galicia – green bond | Banco Galicia issued a USD 100 million green bond to expand its program of loans for environmental efficiency projects; this is the first green bond issued by a private financial institution in Argentina. It was totally subscribed by the International Finance Corporation. The proceeds of the bond will support energy efficiency, renewable energy, and sustainable construction projects, among others. It is expected that these projects will reduce greenhouse gas emissions in Argentina by approximately 157,500 metric tons of CO2 per year. With a term of seven years, the green bond of Banco Galicia will provide a medium- to long-term source of financing for projects of renewable energy, sustainable construction, and energy conversion. | | |
| | | BICE – sustainable bond | In July 2018, BICE signed an agreement with IDB to fully subscribe the issuance of a sustainable bond in the amount of USD 30 million. The proceeds will be used to finance projects with high positive environmental and social impact in the country. | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | ONs have the potential to promote social and environmental benefits, such as:<br><br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers, and passengers safety with reduced impact of accidents in rail versus road); sanitation (reduction of diseases, access to treated water, and sanitation); telecom (access to phone/mobile and internet, internet services access, work efficiency/opportunities, reduced travel time); real estate (access to housing);<br><br>- environmental: energy (energy efficiency, renewable energy); transportation (efficient vehicles, alternative fuels, public transportation); sanitation (reduction of water bodies and soil contamination); telecom (reduced travel time, reduced use of resources); real estate (eco-efficient buildings, energy efficiency); and<br><br>- climate: transportation (efficient vehicles, alternative fuels, public transportation); sanitation (energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grid); telecom (reduced travel time, reduce use of resources); real estate (energy efficiency). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The bond itself has no embedded social or environmental criteria, or incentives for socially and environmentally positive investments. Corporate Bonds do not require certification in order to be operated. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Details on ESG and/or label/certification | Climate Bonds Initiative Certification available. In addition, CNV has established a new regulation on voluntarily green, social, or sustainable bonds labeling. ONs do not require certification in order to be operated. Underlying assets are not required to have sustainable certification either. | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | Not disclosed | | | |
| | Minimum issuance | ARS 2 million (USD 0.05 million) in 2018 | | | |
| | Typical issuance amount | Average of ARS 884 million (USD 23.5 million) in 2017 and ARS 557 million (USD 14.8 million) in 2018 (Jan-Nov) | | | |
| | Typical maturity | 9 to 49 years (Jan-Nov 2018) | | | |
| | Typical yield | Nominal interest rates for deals in ARS, variable rate was 53.7% to 65.1% p.a. as of Nov 2018. Issuances in dollars in fixed rates were around 9% to 12% p.a. in the same period. | | | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Trust fund | Official name | *Fideicomiso financiero* (FF) | |
| | Last updated information | Nov 2018 | Norm/regulation that created or regulates the instrument | Law 24,441/1995<br>Resolution CNV 368/2001 | |
| General information | Instrument description | An FF is a trust fund in which the company that seeks financing ("*fiduciantes*") can separate from its balance sheet a set of illiquid assets, a future cash flow, or a specific investment project and assign them to a financial entity theoretically called a "vehicle" to constitute a separate equity of the company, therefore isolating the company from its bankruptcy risk. This equity will be the backing of the negotiable securities representing debt or equity issued by the vehicle. The beneficiaries are the investors who acquire the negotiable securities. The most common assets transferred are credit card coupons, invoices, consumer loans, future cash flows from different sources, mortgages, pledges, service supply contracts, leasing contracts, and bills of exchange. To differentiate FF from the traditional shares and negotiable obligations (ONs) issued by the companies, the negotiable securities issued by the financial trusts are called trust certificates (*valores de deuda fiduciaria* (VDF)), and share certificates (*certificados de participación* (CP)) as they represent debt or capital. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Private investment bank | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Only financial entities can act as financial trustees and the companies authorized by the CNV (*Comisión Nacional de Valores*) registered in the Registry of Trustees. It will be up to the financial trustee, as the issuer of the negotiable securities, to make the presentations and provide the necessary information to obtain the public offer and quotation authorizations. | |
| | Buyer/investor profile | Not available | | | |
| | Focused/eligible sectors | All | | | |
| | Currency | ARS | USD | Other currencies | |
| | Investments through this instrument to date (in mentioned currency) | 41.5 | ARS billion | ARS 41.5 billion (USD 1.1 billion) (assets) | Jan-Nov/2018 |
| | | 44.5 | ARS billion | ARS 44.5 billion (USD 1.2 billion) (assets) | 2017 |
| | | 42.1 | ARS billion | ARS 42.1 billion (USD 1.12 billion) (assets) | 2016 |
| | | 30.5 | ARS billion | ARS 30.5 billion (USD 810 million) (assets) | 2015 |
| | | 37.7 | ARS billion | ARS 37.7 billion (USD 1 billion) (assets) | 2014 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | FFs have the potential to promote social and environmental benefits, such as:<br><br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road); sanitation (reduction of diseases, access to treated water and sanitation); telecom (access to phone/mobile and internet, internet services access, work efficiency/opportunities, reduced travel time); real estate (access to housing);<br><br>- environmental: energy (energy efficiency, renewable energy); transportation (efficient vehicles, alternative fuels, public transportation); sanitation (reduction of water bodies and soil contamination); telecom (reduced travel time; reduce use of resources); real estate (eco-efficient buildings, energy efficiency); and<br><br>- climate: transportation (efficient vehicles, alternative fuels, public transportation); sanitation (energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grid); telecom (reduced travel time, reduce use of resources); real estate (energy efficiency). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The instrument has no embedded social or environmental criteria, nor incentives for socially and environmentally positive investments. They do not require certification in order to be operated. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Details on ESG and/or label/certification | CNV has established a new regulation on voluntarily green, social or sustainable bonds labelling. FFs do not require certification in order to be operated. Underlying assets are not required to have sustainable certification either. | | | |
| Fund instrument features | Fund type | Hybrid fund | | | |
| | Typical invested term | 10 years (for infrastructure trust funds) | Expected IRR | Weighted average of fixed rate for trust certificates in USD as of 31/Oct/18: 12%<br>Weighted average of short-term for trust certificates in ARS as of 31/Oct/18: 75.3%<br>Most frequent variable rate for trust certificates in USD as of 31/Oct/18: LIBOR 180 days + 5%<br>For trust certificates for infrastructure, a 2017 reference is LIBOR+6% for a six-year term | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Open-end investment funds | Official name | *Fondos Comunes de Inversión Abiertos* (FCIA) | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Law 24,083<br>Decree 174/1993<br>Decree 194/1998<br>CNV 2013 Regulations | |
| General information | Instrument description | *Fondos Comunes de Inversión* (FCI) are mutual funds formed with the contributions made by investors subscribing shares (shareholders). In the development and operation of each FCI, there are two types of independent entities called managing companies (*sociedad gerente*) and depositary companies (*sociedad depositaria*). The managing company administers the assets of the fund and represents the collective interests of the shareholders. The assets that are part of the fund are maintained in custody by the depositary company.<br>The assets of these funds can be composed of transferable securities with public offer (bonds, shares, negotiable obligations, cedears, etc.), precious metals, currencies, futures and options contracts, instruments issued by financial institutions, and money.<br>The FCI can be classified, according to their form, as open-end or closed-end. Its main differences are given by the investment object they develop (Article 1 Law 24,083) and by the inherent procedures in the treatment of subscriptions and redemption of shares (Article 21 Law 24,083). Most of the FCIs that are currently operating are open.<br>The open-end or closed-end investment funds may provide for the issuance of different classes of shares with different rights, a detail that must be clearly specified in their respective "Fund's Rules" (and/or prospectuses of issuance in the case of closed-end investment funds). The Fund's Rules is a contract originally subscribed by the Administrator Agent and by the Custody Agent of the FCI, to which the Investors (shareholders) adhere by subscribing shares of the fund. In this sense, the Fund's Rules regulate the contractual relations between the parties and is constituted by Particular Clauses and General Clauses, established in the CNV (*Comisión Nacional de Valores*).<br>In open-end investment funds (FCIA) the amount of outstanding shares may increase or decrease over the life of the fund, depending on the amount of shares that are issued to meet subscription requests or those that are written off in accordance with the redemption requests that are received by investors. In addition to Law 24,083, Decree 174/93, and the CNV 2013 regulations must be followed. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Asset manager | | | |
| | Eligibility for issuer/borrower | Private only | Detail | The only legal entities authorized by CNV for the professional activity of portfolio management can be administrators of the FCI. | |
| | Buyer/investor profile | The minimum investment amount is most commonly ARS 1,000 | | | |
| | Focused/eligible sectors | All | | | |
| | Currency | ARS | USD | Other currencies | |
| | Investments through this instrument to date (in mentioned currency) | 570 | ARS billion | (USD 15.1 billion) (assets) | Sep/2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | FCIA have the potential to promote social and environmental benefits, such as:<br><br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road); sanitation (reduction of diseases, access to treated water and sanitation); telecom (access to phone/mobile and internet, internet services access, work efficiency/opportunities, reduced travel time); and real estate (access to housing);<br><br>- environmental: energy (energy efficiency, renewable energy); transportation (efficient vehicles, alternative fuels, public transportation); sanitation (reduction of water bodies and soil contamination); telecom (reduced travel time, reduce use of resources); and real estate (eco-efficient buildings, energy efficiency); and<br><br>- climate: transportation (efficient vehicles, alternative fuels, public transportation); sanitation (energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grid); telecom (reduced travel time, reduce use of resources); and real estate (energy efficiency). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The instrument has no embedded social or environmental criteria, or incentives for social and environmental positive investments. They do not require certification to be operated. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Details on ESG and/or label/certification | CNV has established a new regulation on voluntarily green, social, or sustainable bond labeling. FCIs do not require certification in order to be operated. Underlying assets are not required to have sustainable certification either. | | | |
| Fund instrument features | Fund type | Hybrid fund | | | |
| | Typical invested term | Redemption varies from 24 hours to 1 week | Expected IRR | Vary according to the type of fund. Funds in ARS: interest rates vary from 35% (short-term) to 45% p.a. (long-term). Funds in USD: interest rates vary from 2% (short-term) to 10% p.a. (long-term). Equity funds in ARS had negative results in 2018: -3% to -5% p.a. | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Closed-end investment funds | Official name | *Fondos Comunes de Inversión Cerrados* (FCIC) | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Law 24,083<br>Decree 174/1993<br>Decree 194/1998<br>CNV Rules | |
| General information | Instrument description | *Fondos Comunes de Inversión* (FCI) are mutual funds formed with investors subscribing shares (shareholders). In the development and operation of each FCI, there are two types of independent entities called managing companies (*sociedad gerente*) and depositary companies (*sociedad depositaria*). The managing company administers the assets of the fund and represents the collective interests of the shareholders. The assets that are part of the fund are maintained in custody by the depositary company.<br>The assets of these funds can be composed of transferable securities with public offer (bonds, shares, negotiable obligations, cedears, etc.), precious metals, currencies, futures and options contracts, instruments issued by financial institutions, and money.<br>The FCI can be classified, according to their form, as open-end or closed-end funds. Their main differences relate to the investment object they develop (Article 1 Law 24,083) and the inherent procedures in the treatment of subscriptions and redemption of shares (Article 21 Law 24,083). Most of the FCIs currently operating are open.<br>The open-end or closed-end investment funds may provide for the issuance of different classes of shares with different rights, a detail that must be clearly specified in their respective "Fund's Rules" (and/or prospectuses of issuance in the case of closed-end investment funds. The Fund's Rules is a contract originally subscribed by the Administrator Agent and by the Custody Agent of the FCI, to which the investors (shareholders) adhere by subscribing shares of the fund. In this sense, the Fund's Rules regulate the contractual relations between the parties and is constituted by Particular Clauses and General Clauses established in the *Comisión Nacional de Valores* (CNV).<br>FCIC are constituted with a maximum fixed amount of shares that are issued at the placement stage and whose amount can not increase or decrease to the extent that new subscriptions or redemption requests will not be received until the dissolution of the FCIC or until the completion of the investment plan determined in the respective fund rules and/or issuance prospectus. Shares can only be subscribed at the time of the initial offer. After that time and throughout the life of the FCI, the investing public will only be able to acquire or sell shares in institutionalized markets organized and authorized by the CNV. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Asset manager | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Only legal entities authorized by CNV for the professional exercise of portfolio management can be administrators of the FCI. | |
| | Buyer/investor profile | The minimum investment amount is most commonly ARS 1,000 | | | |
| | Focused/eligible sectors | All | | | |
| | Currency | ARS | USD | Other currencies | |
| | Investments through this instrument to date (in mentioned currency) | 1.5 | ARS billion | (USD 40 million) for the financial sector (assets) | Jan-Nov/2018 |
| | | 4.4 | ARS billion | (USD 0.12 billion) – USD 150 million for infrastructure and USD 460 million for real estate investments (launched in USD) (assets) | 2017 |
| | | 0.465 | ARS billion | (USD 12.5 million) for real estate investments (assets) | 2016 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | FCICs have the potential to promote social and environmental benefits, such as:<br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road); sanitation (reduction of diseases, access to treated water and sanitation); telecom (access to phone/mobile and internet, internet services access, work efficiency/opportunities, reduced travel time); and real estate (access to housing);<br>- environmental: energy (energy efficiency, renewable energy); transportation (efficient vehicles, alternative fuels, public transportation); sanitation (reduction of water bodies and soil contamination); telecom (reduced travel time; reduce use of resources); and real estate (eco-efficient buildings, energy efficiency); and<br>- climate: transportation (efficient vehicles, alternative fuels, public transportation); sanitation (energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grids); telecom (reduced travel time, reduced use of resources); and real estate (energy efficiency). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The instrument has no embedded social or environmental criteria, or incentives for socially and environmentally positive investments. They do not require certification to be operated. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on ESG and/or label/certification | CNV has established a new regulation on voluntarily bonds green, social or sustainable labelling. FCIs do not require certification to be operated. Underlying assets are not required to have sustainable certification either. | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | 5 to 7 years (some new funds are up to 10 years) | Expected IRR | 8% to 15% (USD base) | |

| | | | | |
|---|---|---|---|---|
| Instrument | Instrument type | Loan | Instrument group | Credit instrument – specific initiative |
| | Reference instrument name | *Banco de la Nación Argentina* – Loans for Renewable Energy | Official name | *Banco de la Nación Argentina - Proyectos de inversión destinados al uso de fuentes renovables de energía para la producción de energía eléctrica* |
| | Last updated information | Nov 2018 | Norm/regulation that created or regulates the instrument | Law 2,841/1891<br>Law 21.799/1978 amended by Laws 22,602/1982, 25,229/2000 and 26,585/2010 |
| General information | Instrument description | Loans offered by *Banco de la Nación Argentina*, the largest bank in Argentina, include credits for investment projects directed to renewable energy sources for the production of electrical energy. | | |
| | Trading process | None | | |
| | Type of operator | Commercial state-owned bank | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Borrowers can be individuals or companies that are holders of investment projects and/or concessionaires of new works for the production of electricity from renewable energy. |
| | Buyer/investor profile | Not applicable | | |
| | Focused/eligible sectors | Energy | | |
| | Currency | ARS | USD | |
| | Investments through this instrument to date (in mentioned currency) | Not disclosed | | |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | |
| | Sectoral split of sustainable investment | Not available | | |
| | Sustainable investment examples | Not available | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past |
| | Has the instrument been used to finance sustainable sectors of the economy? | This credit line is focused on renewable energy, which can generate benefits such as access to energy, energy safety, and reductions of greenhouse gas emissions. | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | Not disclosed | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No |
| | Detail on ESG and/or label/certification | Not disclosed | | |
| Loan instrument features | Source of funds | *Banco de la Nación Argentina* | | |
| | Typical minimum financed amount | Not available | | |
| | Typical maximum financed amount | USD 6 million or UVA equivalent – up to 80% of the project amount | | |
| | Typical interest rate (p.a.) | Implicit loans rate: 15.56% as of June/2018 | | |
| | Typical maximum term | 10 years (loans in USD) and 15 years (loans in ARS) | | |
| | Typical maximum grace period | 24 months | | |
| | Typical collateral | Determined by the bank | | |

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|---|---|---|---|---|
| Instrument | Instrument type | Loan | Instrument group | Credit instrument – specific initiative |
| | Reference instrument name | *Banco de Inversión y Comercio Exterio*r S.A. – Loans for Renewable Energy | Official name | *Banco de Inversión y Comercio Exterior S.A. – Inversión en Energías Renovables* |
| | Last updated information | Jan 2019 | Norm/regulation that created or regulates the instrument | BICE acts as a participant of the Trust Fund for the Development of Renewable Energies (FODER) and is also financing the projects sponsored by this fund. FODER was created by Law 27,191 to facilitate the financing and guarantees of projects within the framework of the RenovAr Program, which supports renewable energy generation. The RenovAR program is regulated by Resolutions MEyM 71/2016 and 136/2016. |
| General information | Instrument description | Credit line for sustainable energy projects awarded through the rounds of the RenovAR program (governmental program that aims to diversify sources of energy with the goal of reaching 8% of renewable sources in electricity generation) until 2017 and 20% until 2025 | | |
| | Trading process | None | | |
| | Type of operator | National development bank | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Large companies from all economic sectors (agriculture, industry, commerce, tourism, transport, mining, fishing, services, health, etc.) |
| | Buyer/investor profile | Not applicable | | |
| | Focused/eligible sectors | All | | |
| | Currency | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 15 | USD million | 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | |
| | Sectoral split of sustainable investment | Not available | | |
| | Sustainable investment examples | Not available | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past |
| | Has the instrument been used to finance sustainable sectors of the economy? | This instrument has the potential to promote social and environmental benefits, such as:<br><br>- social: energy (access to energy, energy safety);<br>- environmental: energy (energy efficiency, renewable energy); and<br>- climate: energy (renewable energy). | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | There is no additional ESG criteria for the credit approval process than is regularly requested. | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No |
| | Detail on ESG and/or label/certification | Not applicable | | |
| Loan instrument features | Source of funds | BICE | | |
| | Typical minimum financed amount | Not disclosed | | |
| | Typical maximum financed amount | ARS 200 million per project (or in dollar equivalent amount) – financing up to 70% of the operation cost. | | |
| | Typical interest rate (p.a.) | Up to 5 y: L + 5.50%<br>Up to 7 y: L + 6.25%<br>Up to 10 y: L + 6.50%<br>Up to 13 y: L + 7.25%<br>Up to 15 y: L + 7.50%<br>(L = LIBOR 180 days ) | | |
| | Typical maximum term | 15 years | | |
| | Typical maximum grace period | 2 years | | |
| | Typical collateral | Determined by the bank | | |

## 6.2 Brazil

| Reference name | Type | Official name | Short description |
|---|---|---|---|
| Debenture | Bond | *Debênture* | Fixed income instrument representing medium and long term debt that guarantees debenture holders a right of credit against the issuing company. |
| Infrastructure Debenture | Bond | *Debênture de Infraestrutura* | Debenture that offers fiscal incentives only for issuances related to infrastructure projects. |
| Equity Fund | Fund | *Fundo de Investimento em Participações – FIP* | Closed-end investment fund that invests mainly in shares, debentures, subscription warrants and convertible securities. |
| Infrastructure Private Equity Investment Fund | Fund | *Fundo de Investimento em Participações – Infraestrutura - FIP-IE* | Closed-end investment fund in which at least 90% of its equity must be invested in infrastructure sectors. |
| FGTS Investment Fund | Fund | *Fundo de Infraestrutura FGTS - FI-FGTS* | Federal government's infrastructure fund managed by Caixa Econômica Federal (CEF) that can invest in equity or debt instruments for infrastructure projects in various sectors. |
| Real Estate Investment Fund | Fund | *Fundos de Investimento Imobiliário - FII* | Closed-end investment funds focused on real estate investments. |
| Real Estate Receivables Certificate | Bond | *Certificados de Recebíveis Imobiliários - CRI* | Securitization instrument based on real estate credits. |
| Real Estate Credit Bill | Bond | *Letra de Crédito Imobiliário - LCI* | Fixed income securities backed by real estate credits, which are guaranteed by mortgages or by the property's deed of trust. |
| Certificate of Agribusiness Receivables | Bond | *Certificado de Recebíveis do Agronegócio - CRA* | Securitization instrument backed by agribusiness receivables. |

| Reference name | Type | Official name | Short description |
| --- | --- | --- | --- |
| Agribusiness Credit Bill | Bond | *Letra de Crédito do Agronegócio - LCA* | Fixed income securities backed by agribusiness credit rights. |
| Credit Receivables Investment Fund | Fund | *Fundo de Investimento em Direitos Creditórios - FIDC* | Open or closed-end investment funds composed of financial securities backed by loan, lease, or receivables. |
| Credit Receivables Investment Fund - Social Projects | Fund | *FIDC-PIPS (Programa de Incentivo à Implementação de Projetos de Interesse Social)* | FIDC with at least 95% of the fund's total equity backed by financial operations linked to housing and basic public service development projects. |
| Credit Default Swap - CDS | Derivative | *Derivativo de Crédito* | Credit derivative with loan operations, financing or leasing, credit securities, securities, avals, credit derivatives and other instruments and financial or commercial contracts as underlying assets. |
| BNDES FINEM | Loan | BNDES FINEM | Credit line from the Brazilian Development Bank (BNDES) that finances green or brownfleid projects, restructuring and modernization of processes, innovation, and technological development. |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Debenture | Official name | *Debênture* | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | Law 6,404/1976<br>CVM Instruction No. 480 | |
| General information | Instrument description | Fixed income instrument representing medium- and long-term debt that guarantee debenture holders a right of credit against the issuing company. Convertible debentures may be transformed into shares of the issuing company as defined in the indenture (convertibility). The debenture indenture may contain clauses that establish the exchange of debentures for other assets or shares issued by third parties (exchangeability). The debenture indenture may include a repricing mechanism, allowing the issuer to adapt debenture's conditions. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Private investment bank | | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Companies registered as Sociedade Anônima, equivalent to corporations (Inc.) in the US, can issue debentures. | |
| | Buyer/investor profile | When publicly offered, it is targeted at the general public (CVM 400). When publicly offered with restricted efforts, it is targeted at a limited number of qualified investors with a four-month trading lock-up period (CVM 476). When privately offered, it is targeted at a restricted group of investors. Banks are the main investors for debentures, having acquired around 45% of total amount issued in debentures in 2017. From January to September 2018, the main investors of debentures were individuals (2.9%), institutional investors (57.3%), and others (39.8%). | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | BRL | USD | Other currencies | |
| | Investments through this instrument to date (in mentioned currency) | 123 | BRL billion | (USD 31.7 billion) (issued from Jan-Oct 2018) | Oct 2018 |
| | | 97 | BRL billion | (USD 25 billion) (issued in 2017) | 2017 |
| | | 61 | BRL billion | (USD 15.7 billion) (issued in 2016) | 2016 |
| | | 65 | BRL billion | (USD 16.7 billion) (issued in 2015) | 2015 |
| | | 75 | BRL billion | (USD 19.3 billion) (issued in 2014) | 2014 |
| | | 71 | BRL billion | (USD 18.3billion) (issued in 2013) | 2013 |
| | | 90 | BRL billion | (USD 23.2 billion) (issued in 2012) | 2012 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | 200 | BRL million | (USD 51.6 million) (green bonds issuance) | 2018 |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | CPFL Renováveis – wind energy | The company issued BRL 200 million in green debentures in 2016; the proceeds were used to build a wind complex in Brazil. It was Brazil's first climate bond certified green bond. | | |
| | | Gaia Securitizadora/Vivenda – social housing | The first social debenture was privately issued in 2018 in the amount of BRL 5 million (USD 1.29 million) by Gaia Securitizadora for Vivenda, a small company that focuses on construction for low income populations. | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Debenture issuance for infrastructure projects focuses on the energy, transportation, sanitation and telecom sectors. They also promote social and environmental benefits, such as:<br><br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road); sanitation (reduction of diseases, access to treated water and sanitation) and telecom (access to phone/mobile and internet, internet services access, work efficiency/opportunities, reduced travel time);<br>- environmental: energy (energy efficiency, renewable energy); transportation (efficient vehicles, alternative fuels, public transportation); sanitation (reduction of water bodies and soil contamination); telecom (reduced travel time, reduce use of resources); and<br>- climate: reduced greenhouse gas emissions through transportation (reduced fossil fuel demand); sanitation: energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grid); telecom (reduced travel time; reduce use of resources). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on ESG and/or label/certification | CBI Green Bond certification available | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | BRL 832 Billion (USD 214.5 Billion) as of Sep 2018, with BRL 317 Billion (USD 81.7 Billion) in corporate issuances and BRL 486 Billion (USD 125.3 Billion) from leasing companies | | | |
| | Minimum issuance | BRL 1.7 Million (2012-Oct 2018) (USD 0.4 Million) | | | |
| | Typical issuance amount | BRL 338 Million (2012-Oct 2018 average) (USD 87.1 Million) | | | |
| | Typical maturity | 6.2 years (Jan-Set 2018 average) | | | |
| | Typical yield | Possible remuneration terms are (1) fixed interest rates; (2) floating rates, increased or decreased by a fixed percentage (reference rate, long-term Interest rate, basic financial rate, or interbank deposit rate; (3) based on the coefficients of monetary adjustments on government bonds, the foreign exchange variation or the price index increased or decreased by a fixed percentage. The most common remuneration term is the floating rate indexed to the interbank deposits (DI). The average yield for debentures is 105.2% of DI (Jan-Sep 2018). | | | |

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|---|---|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | | |
| | Reference instrument name | Infrastructure debenture | Official name | *Debênture de Infraestrutura* | | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | Law 6,404/1976<br>Law 12,431/11<br>Decree 8874/16<br>CVM Instruction No. 480 | | |
| General information | Instrument description | Fixed income instrument with tax incentives for investors to develop projects that implement, expand, recover, repair, adapt, or modernize infrastructure from the following sectors: logistics and transportation, urban mobility, energy, telecom, radio diffusion, sanitation, and irrigation. Convertible debentures may be transformed into shares of the issuing company as defined in the indenture (convertibility). The debenture indenture may contain clauses that establish the exchange of debentures for other assets or shares issued by third parties (exchangeability). The debenture indenture may include a repricing mechanism, allowing the issuer to adapt debenture's conditions. | | | | |
| | Trading process | Both public and private | | | | |
| | Type of operator | Private investment bank | | | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Companies registered as *Sociedade Anônima*, equivalent to corporations (Inc.) in the United States, can issue debentures. | | |
| | Buyer/investor profile | When publicly offered, it is targeted at the general public (CVM 400). When publicly offered with restricted efforts, it is targeted at a limited number of qualified investors, with a four-month trading lock-up period (CVM 476). When privately offered, it is targeted at a restricted group of investors. From January to September 2018, the main investors of infrastructure debentures were individuals (17%), institutional investors (46.7%), and others (36.3%). | | | | |
| | Focused/eligible sectors | Energy | Water and sanitation | Transport | Telecommunication | Agribusiness and forestry |
| | Issuance currency | BRL | USD | Other currencies | | |
| | Investments through this instrument to date (in mentioned currency) | 22 | BRL billion | (USD 5.6 billion) (issued from Jan-Oct 2018) | | Oct/2018 |
| | | 9 | BRL billion | (USD 2.3 billion) (issued in 2017) | | 2017 |
| | | 5 | BRL billion | (USD 1.2 billion) (issued in 2016) | | 2016 |
| | | 6 | BRL billion | (USD 1.5 billion) (issued in 2015) | | 2015 |
| | | 5 | BRL billion | (USD 1.2 billion) (issued in 2014) | | 2014 |
| | | 6 | BRL billion | (USD 1.5 billion) (issued in 2013) | | 2013 |
| | | 4 | BRL billion | (USD 1 billion) (issued in 2012) | | 2012 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | 1.19 | BRL billion | (USD 308 million) in green bonds | | 2018 |
| | Sectoral split of sustainable investment | Energy (100%) based on green bonds issuances | | | | |
| | Sustainable investment examples | ISA CTEEP – energy transmission | Green bond issuance from ISA CTEEP amounted BRL 621 million (USD 160.1 million) on April 15, 2018 in non-convertible infrastructure debentures. The use of proceeds were directed to transmission infrastructure projects that will contribute to distributing electricity produced by renewable energy sources. The final interest rate was 4.7% + IPCA and tenor of seven years. | | | |
| | | Ômega Energia – wind energy | Green bond issuance from Omega Energia amounted BRL 220 million (USD 56.7 million) on October 15, 2017 in non-convertible infrastructure debentures. The use of proceeds were directed to wind farms. The final interest rate was 7.1096% + IPCA and tenor of 12 years. | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Debenture issuance for infrastructure projects focuses on the energy, transportation, sanitation and telecom sectors. They also promote social and environmental benefits, such as:<br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road, for example); sanitation (reduction of diseases, access to treated water and sanitation) and telecom (access to phone/mobile and internet, internet services access, work efficiency/opportunities, reduced travel time);<br>- environmental: energy (energy efficiency, renewable energy); transportation (efficient vehicles, alternative fuels, public transportation); sanitation (reduction of water bodies and soil contamination); telecom (reduced travel time, reduced use of resources); and<br>- climate: reduced greenhouse gas emissions through transportation (reduced fossil fuel demand); sanitation: energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grid); telecom (reduced travel time; reduced use of resources).<br>Green bonds issued through this instrument totalled BRL 1.193 billion (USD 308 million) by December 2018. | | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | | |
| | Detail on ESG and/or label/certification | CBI Green Bond certification available | | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | BRL 42.9 Billion as of Sep/2018 (USD 11 Billion) | | | | |
| | Minimum issuance | BRL 2.2 Million (2010-Oct/2018) (USD 0.5 Million) | | | | |
| | Typical issuance amount | BRL 309 Million (2010-Oct/2018) (USD 79.6 Million) | | | | |
| | Typical maturity | 9 years (Jan-Sep 2018 average) | | | | |
| | Typical yield | Possible remuneration terms are (1) fixed interest rates; (2) floating rates, increased or decreased by a fixed percentage (reference rate, long-term interest rate, basic financial rate, or interbank deposit rate; and (3) based on the coefficients of monetary adjustments on government bonds, foreign exchange variation or the price index, increased or decreased by a fixed percentage. The most common remuneration term is the price indexed (IPCA) increased of a fixed percentage. The average yield for infrastructure debentures was IPCA + 7% (Jan-Sep 2018). | | | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Equity fund | Official name | *Fundo de Investimento em Participações* (FIP) | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | Law 11,478/2007<br>CMN Resolution No. 2689/00<br>CVM Instruction No. 578/16<br>CVM Instruction No. 391/03 | |
| General information | Instrument description | FIP is a closed-end investment fund. FIP can acquire shares, debentures, subscription warrants, derivatives (for hedging purposes only), and convertible securities to shares issued by publicly or privately held Brazilian companies. The FIP structure is commonly used as a vehicle for private equity, venture capital, and infrastructure investments. In August 2018, Brazil had around 964 FIPs. In 2017, VC/PE fund's (which are mostly FIPs, and therefore, can be used as a proxy) investment focused on the following sectors: infrastructure (21%), education (15%), energy (13%), retail (8%), oil and gas (4%), technology (4%), health (3%), financial Services (3%), logistics and transportation (1%), food and beverage (9%), agribusiness (6%), industrial products and services (3%), and others (10%). | | | |
| | Trading process | Private placement | | | |
| | Type of operator | VC/PE fund manager | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Only legal entities authorized by CVM for the professional exercise of securities portfolio management can be administrators of the FIP. The legal entity must appoint a director or managing partner responsible for the FIP's representation at CVM. | |
| | Buyer/investor profile | Investments can only be made by qualified investors, with a minimum subscription value of BRL 100,000. The main investors in private equity and venture capital vehicles are pension funds and other institutional investors (46%), followed by corporate ventures (14%), fund managers (14%), third-party fund manager (8%), family offices and individual investors (6%), public institutions (4%), and others (9%). | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | BRL | | | |
| | Investments through this instrument to date (in mentioned currency) | 234 | BRL billion | (USD 60.3 billion) (total assets) | Aug/2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | FIP Camargue – agribusiness and forestry | "*Cam Agro Eficiencia Ambiental Fundo De Investimento Em Participacoes*" is a green FIP launched by Camargue Asset Management in June of 2016 with BRL 42 million of committed capital and a five-year term. The FIP invests in Brazilian public or private companies that operate with land and real estate sales, mainly in rural areas, and forest preservation with the objective of offering environmental regulation solutions to its customers, including the sale and/or transfer of land/property rights. | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | FIP has a general focus, but recent investments were directed to infrastructure projects. These projects have potential to promote social and environmental benefits, as follows:<br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road); sanitation (reduction of diseases, access to treated water and sanitation); irrigation (increase food security);<br>- environment: energy (energy efficiency, renewable energy); transportation (efficient vehicles, alternative fuels, public transportation); sanitation (reduction of water bodies and soil contamination); irrigation (promote water efficiency initiatives); and<br>- climate: transportation (reduce fossil fuel demand); sanitation (energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grid). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on ESG and/or label/certification | Not applicable | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | 12-15 years | Expected IRR | Varies significantly depending on the investment strategy. For infrastructure investments, the expected IRR is IPCA+9%. | |

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|---|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | | |
| | Reference instrument name | Infrastructure Private Equity Investment Fund | Official name | *Fundo de Investimento em Participações – Infraestrutura* (FIP-IE) | | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | Law 11,478/07<br>CVM Instruction No. 578/2016<br>CVM Instruction No. 460/2007 | | |
| General information | Instrument description | FIP-IE is a closed-end investment fund. At least 90% of a FIP-IE's equity must be invested in shares, subscription warrants, debentures (convertible or nonconvertible), or other securities issued by special purpose vehicles (SPV) that invest in (1) energy; (2) transportation; (3) water and sanitation; (4) irrigation, and (5) other areas considered priorities by the government. | | | | |
| | Trading process | Private placement | | | | |
| | Type of operator | VC/PE fund manager | | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Only legal entities authorized by CVM for the professional exercise of securities portfolio management can be administrators of the FIP. The legal entity must appoint a director or managing partner responsible for the FIP's representation at CVM. | | |
| | Buyer/investor profile | Investments can only be made by qualified investors, with a minimum subscription value of BRL 100,000. Each FIP-IE must have at least five quota holders and each quota holder cannot hold more than 40% of the quotas issued or obtain a higher portion than 40% of the income of the fund. | | | | |
| | Focused/eligible sectors | Transport | Energy | Water and sanitation | Agribusiness and forestry | |
| | Issuance currency | BRL | | | | |
| | Investments through this instrument to date (in mentioned currency) | 6 | BRL billion | (USD 1.5 Billion) (total assets) | | Aug 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | | |
| | Sectoral split of sustainable investment | Not available | | | | |
| | Sustainable investment examples | FIP IE BB VOTORANTIM ENERG SUSTENT (I, II, and III) – renewable energy | Created in May 2011, FIP IE BB VOTORANTIM ENERG SUSTENT (I, II, and III) are infrastructure private equity funds operated by Votorantim Asset Management focused on renewable energy power generation. Initial equity was BRL 78,855,000 for Fund I, BRL 113,136,000 for Fund II, and BRL 108,085,000 for Fund III. Average annual profitability and remuneration was 8.26% and 97.61% CDI for Fund I, 8.78% and 103.79% CDI for Fund II, and 9.79% and 115.73% CDI for Fund III. The administration fee was 2% a.a. for Funds I and II (10 year funds) and 1% a.a. for Fund III (30 year fund). | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | | |
| | Has the instrument been used to finance sustainable sectors of the economy? | FIP-IE has a focus on infrastructure projects in the energy, transportation, water and sanitation, and irrigation sectors and has the potential to promote the following social and environmental benefits:<br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road); sanitation (reduction of diseases, access to treated water and sanitation); irrigation (increased food security);<br>- environmental: energy (energy efficiency, renewable energy); transportation (efficient vehicles, alternative fuels, public transportation); sanitation (reduction of water bodies and soil contamination); irrigation (promote water efficiency initiatives); and<br>- climate: transportation (reduced fossil fuel demand); sanitation (energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grid). | | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | | |
| | Detail on ESG and/or label/certification | Not applicable | | | | |
| Fund instrument features | Fund type | Equity fund | | | | |
| | Typical invested term | 5 to 30 years | Expected IRR | Average annual return was -0,6% on August/2018, according to ANBIMA. In 2017, the listed FIP-IEs' yield varied from 8.3% p.a. to 9.8% p.a. (equivalent to 98% to 116% of CDI) on average. | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Specific initiative | |
| | Reference instrument name | FGTS Investment Fund | Official name | *Fundo de Infraestrutura FGTS* (FI-FGTS) | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | Law No. 11,491/07<br>CVM Instruction 462 | |
| General information | Instrument description | The federal government's infrastructure fund managed by Caixa Econômica Federal (CEF). Its resources are composed of savings from workers' fund for severance (FGTS). The fund can invest in equity or debt instruments for infrastructure projects in various sectors. Its main financial instruments are non-convertible bonds (mainly debentures) that may receive tax benefits (mainly infrastructure debentures) or acquire fund quotas (mainly FIDC – credit receivables investment fund). CEF is the FI-FGTS manager. CEF is a wholly owned federal bank responsible for executing the government's policies on social housing and sanitation. | | | |
| | Trading process | None | | | |
| | Type of operator | Commercial state-owned bank | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Public or privately-held companies or SPV with infrastructure projects. Maximum participation of capital from third-parties in each project is 80%, of which the maximum FI-FGTS participation is 50% of the financed amount. The minimum shareholder equity in each project is 20%. The minimum credit rating is A+/A1 if it is a corporate issuance and A/A2 if the issuance is carried out by a specific purpose entity (Brazilian rating scale). | |
| | Buyer/investor profile | Not applicable | | | |
| | Focused/eligible sectors | Water and sanitation | Transport | Energy | |
| | Issuance currency | BRL | | | |
| | Investments through this instrument to date (in mentioned currency) | 31.8 | BRL billion | (USD 8.2 billion) (total assets) | 2018 |
| | | 64 | BRL billion | (USD 16.5 billion) (total assets) | 2017 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | FI-FGTS focuses on promoting development through infrastructure projects. Its main potential social and environmental benefits are:<br>- social: job creation, sanitation (reduction of diseases, access to treated water and sanitation); transportation (employers and passengers safety with reduced impact of accidents in rail versus road, for example); energy (access to energy, energy safety);<br>- environmental: sanitation (reduction of water bodies and soil contamination); transportation (efficient vehicles, alternative fuels, public transportation); energy (energy efficiency, renewable energy); and<br>- climate: transportation (efficient vehicles, alternative fuels, public transportation); sanitation (energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grid). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The number of the jobs created is a criteria for project selection. | | | |
| | Mandatory sustainability criteria/standard? | Yes | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on ESG and/or label/certification | No | | | |
| Fund instrument features | Fund type | Hybrid fund | | | |
| | Typical invested term | N/A | Expected IRR | Expected IRR is 6% + taxa referencial (semi-administered rate). FI-FGTS average returns were 6.7% in 2017, 8.3% in 2016, -3.03% in 2015, 7% in 2014, 8.22% in 2013, and 7.22% in 2012. | |

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| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Real Estate Investment Fund | Official name | *Fundos de Investimento Imobiliário* (FII) | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Law 8,668/1993<br>CVM Instruction No. 472 | |
| General information | Instrument description | FII are closed-end investment funds. *Fundos de Investimento Imobiliário* (FII) promote return on capital through the acquisition of real estate already leased or greenfields for development and future lease. In August 2018, there were 350 operating FII. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Commercial private bank | Private investment bank | Asset manager | |
| | Eligibility for issuer/borrower | Private only | Detail | FII can be issued by commercial banks, multiple banks with an investment portfolio or a real estate finance portfolio, investment banks, brokerages or broker-dealers, savings and loans companies, and mortgage companies. | |
| | Buyer/investor profile | When publicly offered, it is targeted at the general public. When publicly offered with restricted efforts, it is targeted at a limited number of qualified investors with open or closed companies, with a specific trading lock-up period. When privately offered, it is targeted at a restricted group of investors. From January to September 2018, the main investors of FII were individuals (62.7%), institutional investors (34.7%), and others (2.7%). FII, which invests more than 50% of its capital in securities, might observe the limits per issuer and financial asset type established by CVM Instruction Nº 555/2014. | | | |
| | Focused/eligible sectors | Real estate | | | |
| | Issuance currency | BRL | | | |
| | Investments through this instrument to date (in mentioned currency) | 79.7 | BRL billion | (USD 20.5 billion) (total of assets under management) | 2018 |
| | | 62.9 | BRL billion | (USD 16.2 billion) (total of assets under management) | 2017 |
| | | 61.6 | BRL billion | (USD 15.9 billion) (total of assets under management) | 2016 |
| | | 59.6 | BRL billion | (USD 15.4 billion) (total of assets under management) | 2015 |
| | | 49 | BRL billion | (USD 12.6 billion) (total of assets under management) | 2014 |
| | | 35.1 | BRL billion | (USD 9 billion) (total of assets under management) | 2013 |
| | | 26.7 | BRL billion | (USD 6.9 billion) (total of assets under management) | 2012 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | FII finances infrastructure projects with social and environmental benefits in the following sectors:<br>- social: logistics (support for products distribution such as warehouses); education (access to education); health care (access to hospitals); residential (housing);<br>- environmental: logistics (employers and passengers safety with reduced impact of accidents in rail versus road); real estate (eco-efficiency – reduced energy and water consumption); and<br>- climate: reduced greenhouse gs emissions through energy-efficient buildings and eco-efficient construction process. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on ESG and/or label/certification | Eco-efficiency certification available for infrastructure projects (LEED, Aqua) | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | 12 years (reference) | Expected IRR | IPCA+ 8.35% | |

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| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Real Estate Receivables Certificate | Official name | *Certificados de Recebíveis Imobiliários* (CRI) | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | Law 9,514/1997<br>CVM Instruction No. 414 | |
| General information | Instrument description | CRI are a securitization instrument based on real estate credits. CRI are usually backed by real estate credit bills (*Cédula de Crédito Imobiliário* (CCI)) and, more rarely, banking credit notes (*Cédula de Crédito Bancário* (CCB)). Receivables are associated with a portfolio of real estate operations. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Securitization firm | | | |
| | Eligibility for issuer/borrower | Private only | Detail | CRI are issued by securitization firms in partnership with real estate companies that have real estate receivables. | |
| | Buyer/investor profile | When publicly offered, it is targeted at the general public (CVM 400). When publicly offered with restricted efforts, it is targeted at a limited number of qualified investors, with a four-month trading lock-up period (CVM 476). When privately offered, it is targeted at a restricted group of investors. From January to August 2018, the main investors of CRI were individuals (42.8%), institutional investors (47.1%), and others (10.1%). | | | |
| | Focused/eligible sectors | Real estate | | | |
| | Issuance currency | BRL | | | |
| | Investments through this instrument to date (in mentioned currency) | 4.5 | BRL billion | (USD 1.1 billion) (issuance) | Oct/2018 |
| | | 5.1 | BRL billion | (USD 1.3 billion) (issuance) | 2017 |
| | | 17.8 | BRL billion | (USD 4.5 billion) (issuance) | 2016 |
| | | 10.0 | BRL billion | (USD 2.5 billion) (issuance) | 2015 |
| | | 16.3 | BRL billion | (USD 4.2 billion) (issuance) | 2014 |
| | | 15.9 | BRL billion | (USD 4 billion) (issuance) | 2013 |
| | | 10.5 | BRL billion | (USD 2.7 billion) (issuance) | 2012 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | CRI are backed by real estate rights based on infrastructure projects that may have social and environmental benefits:<br>- social: create employment opportunity and promote construction process with higher labor safety and access to housing;<br>- environmental: reduce energy and water consumption through eco-efficiency; promote efficient waste management; and<br>- climate: reduced greenhouse gas emissions through energy-efficient buildings and eco-efficient construction processes. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on ESG and/or label/certification | CBI certification available for the financial instrument. Eco-efficiency certification available for infrastructure projects (LEED, Aqua). | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | BRL 78.5 billion as of Dec 31, 2018 (USD 20.0 billion) | | | |
| | Minimum issuance | BRL 0.3 million (for publicly traded CRIs) (USD 0.07 million) | | | |
| | Typical issuance amount | BRL 159.8 million (for publicly traded CRIs) (USD 41.2 million) | | | |
| | Typical maturity | 9 years (average) | | | |
| | Typical yield | Possible remuneration terms are fixed rate, floating (DI, SELIC) TR, TJLP, price index. The expected yield is 100% of the CDI and recent average performance is around 90% CDI. | | | |

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| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Real Estate Credit Bill | Official name | *Letra de Crédito Imobiliário* (LCI) | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | Law 10,931/04<br>BCB Circular No. 3,614/12 | |
| General information | Instrument description | LCI are fixed income securities backed by real estate credits, which are guaranteed by mortgages or by the property's deed of trust. LCIs are offered by financial institutions such as banks and mortgage companies to finance its credit operations directed at the real estate sector. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Commercial private bank | Private investment bank | Commercial state-owned bank | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | LCI are issued by commercial banks, investment banks, multiple service banks with a real estate lending portfolio, real estate credit companies, savings and loan associations, and mortgage companies authorized by the Brazilian Central Bank. | |
| | Buyer/investor profile | The average minimum investment for LCI is BRL 30,000 but some LCIs require a minimum investment as low as BRL 5,000. | | | |
| | Focused/eligible sectors | Real estate | | | |
| | Issuance currency | BRL | | | |
| | Investments through this instrument to date (in mentioned currency) | 123.5 | BRL billion | (USD 31.8 billion) (issued) | 2018 |
| | | 138.5 | BRL billion | (USD 35.7 billion) (issued) | 2017 |
| | | 143.9 | BRL billion | (USD 37.1 billion) (issued) | 2016 |
| | | 178.7 | BRL billion | (USD 46.1 billion) (issued) | 2015 |
| | | 159.7 | BRL billion | (USD 41.2 billion) (issued) | 2014 |
| | | 110.4 | BRL billion | (USD 28.5 billion) (issued) | 2013 |
| | | 83.4 | BRL billion | (USD 21.5 billion) (issued) | 2012 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Through LCI issuance, financial institutions can finance infrastructure projects in the real estate sector. The potential benefits of such projects are mainly:<br>- social: create employment opportunity and promote construction process with high labor safety and access to housing;<br>- environmental: reduced energy and water consumption through eco-efficiency; promote efficient waste management; and<br>- climate: reduced greenhouse gas emissions through energy-efficient buildings and eco-efficient construction processes. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental,or climate criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on ESG and/or label/certification | CBI Green Bond certification available. Eco-efficiency certification available for infrastructure projects (LEED, Aqua) | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | BRL 156.5 billion as of Dec 2018 (USD 40.3 billion) | | | |
| | Minimum issuance | No minimum issuance | | | |
| | Typical issuance amount | Average amount from 2012 to 2018 is approximately BRL 0.2 million (USD 0.05 million) | | | |
| | Typical maturity | Up to 3 years (official data not publicly available) | | | |
| | Typical yield | Possible remuneration terms are fixed rate, floating rate (associated with DI or SELIC), TJLP, TBF, and price index. The average LCI remuneration is around 85% to 100% of the CDI rate. | | | |

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| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Certificate of Agribusiness Receivables | Official name | *Certificado de Recebíveis do Agronegócio* (CRA) | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | Law 11,076/04<br>CVM Instruction No. 600 | |
| General information | Instrument description | CRA is a securitization instrument backed by agribusiness receivables that can only be issued by securitization companies and represent a promise of future payment in cash. CRAs must be backed by commercial papers or certificates of deposit issued by agribusiness companies. The securitization of agribusiness receivables has increased recently and is expected to grow further due to the importance of agribusiness to the economy. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Securitization firm | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Public or privately-held forestry and agribusiness companies, as well as their suppliers and customers, may originate receivables for CRA. | |
| | Buyer/investor profile | When publicly offered, it is targeted at the general public (CVM 400). When publicly offered with restricted efforts, it is targeted at a limited number of qualified investors, with a four-month trading lock-up period (CVM 476). When privately offered, it is targeted at a restricted group of investors. From January to September 2018, the main investors of CRA were individuals (71%), institutional investors (17.8%), and others (11.2%). | | | |
| | Focused/eligible sectors | Agribusiness and forestry | | | |
| | Issuance currency | BRL | Other currencies | | |
| | Investments through this instrument to date (in mentioned currency) | 4.4 | BRL billion | (USD 1.1 billion) (issuance) | Oct/2018 |
| | | 11.9 | BRL billion | (USD 3 billion) (issuance) | 2017 |
| | | 13.1 | BRL billion | (USD 3.4 billion) (issuance) | 2016 |
| | | 4.7 | BRL billion | (USD 1.2 billion) (issuance) | 2015 |
| | | 2.1 | BRL billion | (USD 0.5 billion) (issuance) | 2014 |
| | | 1.1 | BRL billion | (USD 0.3 billion) (issuance) | 2013 |
| | | 0.2 | BRL billion | (USD 0.05 billion) (issuance) | 2012 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | 1 | BRL billion | (USD 0.26 billion) (issuance) | 2018 |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Suzano – Forestry | Suzano issued a BRL 1 billion (USD 0.26 billion) Green CRA on November 25, 2016 for sustainable forestry management with an interest rate of 96% CDI and an eight-year term. The CRA invests in internal forestry and industrial projects with environmental benefits. | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | CRA are backed by agribusiness receivables issued by agribusiness companies to finance its operations or investments (including infrastructure). The main infrastructure investments in the agribusiness sector focus on storage and roads, which have environmental benefit potential, such as mitigating soil contamination risk. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on ESG and/or label/certification | CBI certification available for the financial instrument. Sustainable forest management certifications available for forestry companies include infrastructure criteria (e.g., FSC, Cerflor). | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | BRL 35.9 billion as of December 31, 2018 (USD 9.2 billion) | | | |
| | Minimum issuance | BRL 79 million (for publicly traded CRAs) (USD 20.3 million) | | | |
| | Typical issuance amount | BRL 442 million (for publicly traded CRAs) (USD 113.9 million) | | | |
| | Typical maturity | 5 year (Jan-Sep 2018 average) | | | |
| | Typical yield | Average CRA return was 69% of CDI between January and September 2018. Market participants indicate 101% CDI in 2018 as a typical yield for large companies. Rates vary considerably by issuer. For the IPCA based rate, average yield was IPCA+13.3% in 2018. | | | |

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| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Agribusiness Credit Bill | Official name | *Letra de Crédito do Agronegócio* (LCA) | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | Law 11,076/04<br>BCB No. 4,296/13 | |
| General information | Instrument description | LCA are fixed income securities backed by agribusiness credit rights. LCA are offered by financial institutions such as banks and credit cooperatives in order to finance its credit operations directed at the agribusiness sector. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Commercial private bank | Private investment bank | Commercial state-owned bank | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | LCA are issued by private or public financial institutions with an agribusiness lending portfolio. | |
| | Buyer/investor profile | The average minimum investment for LCA is BRL 30,000 but some LCA require a minimum investment as low as BRL 5,000. | | | |
| | Focused/eligible sectors | Agribusiness and forestry | | | |
| | Issuance currency | BRL | | | |
| | Investments through this instrument to date (in mentioned currency) | 73.9 | BRL billion | (USD 19.1 billion) (issued) | 2018 |
| | | 55.6 | BRL billion | (USD 14.3 billion) (issued) | 2017 |
| | | 54.1 | BRL billion | (USD 14 billion) (issued) | 2016 |
| | | 72.7 | BRL billion | (USD 18.7 billion) (issued) | 2015 |
| | | 89.4 | BRL billion | (USD 23 billion) (issued) | 2014 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Through LCA issuance, financial institutions may finance infrastructure projects in the agribusiness sector. Main infrastructure investments in the sector focus on storage and access roads, which have environmental benefit potential, such as the mitigation of soil contamination risk. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on ESG and/or label/certification | CBI Green Bond certification available | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | BRL 154.24 billion as of Sep 2018 (USD 39.7 billion) | | | |
| | Minimum issuance | No minimum issuance | | | |
| | Typical issuance amount | Average amount from 2012 to 2018 is approximately BRL 0.4 million (USD 0.1 million) | | | |
| | Typical maturity | Up to 3 years (official data not publicly available) | | | |
| | Typical yield | Remuneration can be based on a percentage of the CDI rate, the Selic rate or a fixed rate. The typical LCA remuneration is around 85% to 100% of the CDI rate. | | | |

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| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | | |
| | Reference instrument name | Credit Receivables Investment Fund | Official name | *Fundo de Investimento em Direitos Creditórios* (FIDC) | | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | CVM Instructions No. 356<br>CVM Instructions No. 489<br>CVM Instructions No. 399 | | |
| General information | Instrument description | FIDC can be either open- or closed-end investment funds, with the latter being more common. FIDC are funds composed of financial securities backed by loan, lease, or receivables. Credit rights must represent at least 50% of the fund's equity, while the rest may be invested on fixed income instruments. The types of FIDC structures are funds with a single originator company, funds focused on one type of credit right and funds with a diverse portfolio of credit receivables and originators. FIDC allows the securitization of receivables from transactions in the financial, commercial, industrial, real estate, leasing, service, and other sectors. | | | | |
| | Trading process | Both public and private | | | | |
| | Type of operator | Commercial private bank | Private investment bank | Asset manager | Commercial state-owned bank | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | FIDC can be issued by comercial, investment, multiple banks; and asset managers; the Caixa Econômica Federal; mortgage banks; savings and loans associations; brokerage firms; and securities dealers. | | |
| | Buyer/investor profile | Only qualified investors can invest in FIDC. The minimum initial subscription value is BRL 25,000.<br><br>Main investors are financial institutions related to the issuance of credit rights by the originators (39.3%), companies (40.6%), and investment funds (11.6%). Pension funds do not represent a significant slice of FIDC investors (only 5.3%) as FIDC have complex structures and higher risk exposure than these institutions usually deal with.<br><br>There is a limit of 20% of the FIDC net assets for acquisition of credit receivables and other assets from the same debtor. | | | | |
| | Focused/eligible sectors | All | | | | |
| | Issuance currency | BRL | | | | |
| | Investments through this instrument to date (in mentioned currency) | 7.8 | BRL billion | (USD 2 billion) | | Oct-18 |
| | | 20.3 | BRL billion | (USD 5.2 billion) | | 2017 |
| | | 4.9 | BRL billion | (USD 1.2 billion) | | 2016 |
| | | 6.8 | BRL billion | (USD 1.75 billion) | | 2015 |
| | | 9.8 | BRL billion | (USD 2.5 billion) | | 2014 |
| | | 8.2 | BRL billion | (USD 2.11 billion) | | 2013 |
| | | 7 | BRL billion | (USD 1.8 billion) | | 2012 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | | |
| | Sectoral split of sustainable investment | Not available | | | | |
| | Sustainable investment examples | BNDES – Renewable Energy Fund | On November 30, 2016, the Brazilian Development Bank (BNDES) created the Sustainable Energy Fund, which invests in primary offers and in the secondary market of infrastructure debentures. With BRL 500 million (USD 129 million) in initial assets under management and a 15-year term, the Sustainable Energy Fund is privately managed by Vinci Partners and holds a maximum of 50% of BNDES equity participation. The fund has a partnership with Climate Bond Initiative (CBI) and has a preference to buy labelled green bonds. | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | | |
| | Has the instrument been used to finance sustainable sectors of the economy? | FIDC does not have a sectorial focus but it may have a portfolio based on financial securities backed by credit rights issued by companies in the infrastructure segment or issued to finance infrastructure projects. These infrastructure projects may focus on areas with social and environmental benefits, such as:<br>- social: access to public services (potable water, electricity, sanitation); and<br>- environmental and climate: renewable energy, energy efficiency, and public transportation. | | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | | |
| | Detail on ESG and/or label/certification | CBI Green Bond certification available | | | | |
| Fund instrument features | Fund type | Debt fund | | | | |
| | Typical invested term | 8 years (average) | Expected IRR | IPCA + 5.5% p.a. (senior quotas), IPCA + 8.0% p.a. (mezzanine) and IPCA + 9.5% p.a. (subordinated) (reference: Fundo de Investimento em Direitos Creditórios BB Votorantim Highland Infraestrutura) | | |

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| Instrument | Instrument type | Fund | Instrument group | Capital market instrument |
| | Reference instrument name | Credit Receivables Investment Fund (FIDC) – Social Projects | Official name | FIDC PIPS (*Programa de Incentivo à Implementação de Projetos de Interesse Social*) |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | CVM Instructions No. 399<br>Law 10,735/2003 |
| General information | Instrument description | FIDC can be issued by companies to raise capital to finance operations or investments (such as infrastructure) by securitizing receivables through asset-backed securities. FIDC can be either open- or closed-end investment funds. FIDCs are composed of financial securities backed by loan, lease, or receivables. In the specific case of FIDC-PIPS, at least 95% of the fund's total equity must be backed by financial operations linked to housing and basic public service development projects (such as electricity, drinking water, sanitation) approved by the government. As of Dec 2018, no FIDC-PIPS has been issued. | | |
| | Trading process | Both public and private | | |
| | Type of operator | Commercial private bank | Private investment bank | Asset manager |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | FIDC can be issued by comercial, investment and multiple banks; asset managers; the Caixa Econômica Federal; mortgage banks; savings and loans associations; brokerage firms; and securities dealers. |
| | Buyer/investor profile | Qualified investors only | | |
| | Focused/eligible sectors | Real estate | Social infrastructure | Water and sanitation |
| | Issuance currency | BRL | | |
| | Investments through this instrument to date (in mentioned currency) | Not available | | |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | |
| | Sectoral split of sustainable investment | Not available | | |
| | Sustainable investment examples | Not available | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past |
| | Has the instrument been used to finance sustainable sectors of the economy? | FIDC-PIPS focus on receivables backed by development projects focused on housing and basic public services (such as electricity, drinking water, sanitation) and approved by the government. Potential benefits include:<br>- social: increased access to housing, electricity, and potable water;<br>- environmental: eco-efficiency, reducing energy and water consumption; and<br>- climate: reduced greenhouse gas emissions through energy-efficient buildings and eco-efficient construction processes. | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | Underlying credit operations should be focused on housing and basic public services | | |
| | Mandatory sustainability criteria/standard? | Yes | Voluntary sustainability guidelines/criteria/standard? | Yes |
| | Detail on ESG and/or label/certification | Climate Bonds Initiative certification | | |
| Fund instrument features | Fund type | Debt fund | | |
| | Typical invested term | No FIDC PIPS has been issued to date | Expected IRR | No FIDC PIPS has been issued to date |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Derivative | Instrument group | Capital market instrument | |
| | Reference instrument name | Credit default swap (CDS) | Official name | *Derivativo de Crédito* | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | Central Bank of Brazil's Resolution 2933 of February 28, 2002<br>Central Bank of Brazil's Circular 3106 of April 10, 2002 | |
| General information | Instrument description | Formalized by the Brazil Central Bank by Resolution 2933/2002, credit swaps are contracts where the parties negotiate the credit risk of operations, without entailing, at the time of contracting, the transfer of the underlying asset to the operations. The underlying asset can be credits from loan operations, financing or leasing, credit securities, securities, avals, credit derivatives and other instruments and financial or commercial contracts, subject to credit risk, and traded and practiced in the domestic market.<br>The risk-transferring counterparty is the party acquiring, through a credit derivative contract, the right of protection against a certain credit risk, upon payment of agreed remuneration; the risk-receiving counterparty is the party that assumes, by means of a contract of credit derivative, the credit risk referring to a certain underlying asset and committing itself to reimburse the transferring counterparty when specified credit events materialize. The amount of the risk transfer is limited to the value of the underlying asset, but can be negotiated in total or in part. The transfer, directly or indirectly, of any underlying assets during the term of the credit derivative contract referenced is prohibited. | | | |
| | Trading process | Private placement | | | |
| | Type of operator | Commercial private bank | Private investment bank | Finance company | Commercial state-owned bank |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Acting as receptor of risk (protection seller) is restricted to multiple banks, Caixa Econômica Federal, commercial banks, investment banks, credit, financing and investment companies, real estate, and leasing companies (these may only operate if underlying asset refers to leasing operations). | |
| | Buyer/investor profile | The institution transferring credit risk (protection buyer) can reduce up to 50% of regulatory capital risk, even if it transfers all credit risk. International investors can participate in the market, but in practice, there is no participation from them. | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | BRL | | | |
| | Investments through this instrument to date (in mentioned currency) | 416 | BRL million | (USD 107 Million) (last data of stock available at CETIP – May 17, 2010) | May/2010 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Not available | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on ESG and/or label/certification | Not applicable | | | |
| Derivative instrument features | Type | Credit default swap | | | |
| | Underlying asset | Credits from lending operations, financing or leasing, credit securities, securities, avals, credit derivatives and other instruments, and financial or commercial contracts, subject to credit risk and traded and practiced on the domestic market. | | | |
| | "Strike" value(s) | Not available | | | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Loan | Instrument group | Credit instrument – specific initiative | |
| | Reference instrument name | BNDES FINEM | Official name | BNDES FINEM | |
| | Last updated information | Oct 2018 | Norm/regulation that created or regulates the instrument | BNDES - Funding Request Roadmaps (*Roteiros de pedido de financiamento)* | |
| General information | Instrument description | The Brazilian Development Bank (BNDES) Finem provides loans with a minimum amount of BRL 10 million to finance investments such as development of new plants, expansion of existing ones, restructuring and modernization of processes, innovation, and technological development. Projects are not fully funded by the BNDES – there is a limit of 80% of BNDES participation in any project. The source of funds managed by BNDES includes around 82% of government funding, 10% of external funding, and 8% of internal funding. Infrastructure projects represented around 65% of Finem loans in 2017, of which 71.7% is focused on energy projects, 13.3% on transportation, 5.9% on railways, 3.3% on telecom, 3% on real estate, and 2.9% on utilities. | | | |
| | Trading process | None | | | |
| | Type of operator | National development bank | | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Public and private non-financial companies can take loans to finance projects in the following areas: sanitation and waste management, urban mobility, energy generation, distribution and transmission, logistics (highways, railways, waterways, ports, airports and terminals logistics operators), transport, and the distribution of gas, biofuels and oil, telecommunications, education, health, culture, and public safety. | |
| | Buyer/investor profile | Not applicable | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | BRL | | | |
| | Investments through this instrument to date (in mentioned currency) | 30.4 | BRL billion | (USD 7.8 billion) | 2018 |
| | | 26.8 | BRL billion | (USD 6.9 billion) | 2017 |
| | | 25.9 | BRL billion | (USD 6.7 billion) | 2016 |
| | | 54.9 | BRL billion | (USD 14.2 billion) | 2015 |
| | | 69 | BRL billion | (USD 17.8 billion) | 2014 |
| | | 62.2 | BRL billion | (USD 16.0 billion) | 2013 |
| | | 52.9 | BRL billion | (USD 13.6 billion) | 2012 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Companies from the following sectors with relevant social and environmental additionality have lower costs on BNDES Finem loans:<br>- social: transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road); sanitation (reduction of diseases; access to treated water and sanitation); energy (access to energy; energy safety); telecom (access to phone/mobile and internet, internet services access, work efficiency/opportunities, reduced travel time); health (access to hospitals)<br>- environmental: sanitation, energy, transportation and telecom. Its main environmental benefit is the protection of water bodies and reduced greenhouse gas emissions.<br>- climate: transportation (efficient vehicles, alternative fuels, public transportation); sanitation (energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grid); telecom (reduced travel time and reduced use of resources). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | A social and environmental screening is done for every project analyzed, based on an exclusion list that restricts credit access to companies not in compliance with environmental and labor legislation (e.g., holding all environmental licenses, not having environmental penalties, and not promoting slave labor). For projects above BRL 20 million, an additional ESG evaluation is executed; the client shall provide information in an E&S Form, while the bank staff provides an E&S risk categorization for each project and can define some E&S requirements besides the compliance with law according to the E&S potential impact. These requirements are defined on a case-by-case basis rather than the E&S Policy. For each FINEM loan, the project benefits must be presented in order to receive credit approval. | | | |
| | Mandatory sustainability criteria/standard? | Yes | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on ESG and/or label/certification | – | | | |
| Loan instrument features | Source of funds | BNDES | | | |
| | Typical minimum financed amount | 10 | | | |
| | Typical maximum financed amount | There is no maximum amount, but the largest FINEM loan by BNDES has reached BRL 548.6 million in 2018. | | | |
| | Typical interest rate (p.a.) | TLP + spread (0.9% p.a. to 1.3% p.a.) + credit risk | | | |
| | Typical maximum term | 4.5 years (average); 34 years (maximum) | | | |
| | Typical maximum grace period | 6 months | | | |
| | Typical collateral | For loans directly contracted with BNDES, the national development bank accepts real collaterals (mortgages, pledges, fiduciary property, receivables, etc.) or personal guarantees (such as pledges or avals), defined by BNDES during the analysis of the operation. For loans contracted at accredited financing institutions, potential borrowers negotiate collaterals directly with each institution. | | | |

## 6.3 Chile

| Reference name | Type | Official name | Short description |
|---|---|---|---|
| Securitized Bonds | Bond | *Bonos Securitizados* | Tradable debt instruments issued by the private sector (S.A.) with the purpose of anticipating predictable future incomes of the assets of a company or financial institution. |
| Corporate bonds "Bonds" | Bond | *Bonos corporativos "Bonos"* | Debt instruments issued by corporations, and other types of public entities with the aim of obtaining resources directly from the securities markets. |
| Investment Funds | Fund | *Fondos de Inversión* | Funds that invest in securities and assets of companies, firms, and other legal entities, administered by a registered S.A. for the sake and at the risk of its investors. |
| Mutual Funds | Fund | *Fondos Mutuos* | Investment vehicles that pool together capital from both natural and legal bodies, for the purpose of investing in publicly-traded securities such as equity shares, bonds, mortgage notes, investment funds, etc. |
| Public Infrastructure Fund | Fund | *Fondo de Infraestructura Pública (Foinsa)* | Public infrastructure equity fund created by the Ministro de Obras Públicas (MOP) as a separate entity to facilitate the involvement of the public sector in developing economic activities and investing in public infrastructure projects. |
| CAT Bonds | Bond | *Bonos Catastróficos* | Insurance-linked securities to transfer risk to capital market investors |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Securitized bonds | Official name | *Bonos Securitizados* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Ley de Mercado de Valores* – TÍTULO XVIII<br>*Norma de Carácter General* N°303 | |
| General information | Instrument description | Securitized bonds are tradable debt instruments issued by the private sector with the purpose of anticipating predictable future incomes of the assets of a company or financial institution. The future incomes (e.g., infrastructure: tolls, electricity sales, subsidies) are transfered by the originator of those assets to a securitizing company that issues the bonds.<br><br>Infrastructure bonds, a specific type of securitized bonds, are often subject to concession contracts with the public sector and involve public guarantees on the future incomes and currency risk, as well as potential subsidies from the state.<br>The main advantage of this structure is to isolate the infrastructure project from the risk of the project owner and increase the liquidity of the investment. | | | |
| | Trading process | Publicly traded | | | |
| | Type of operator | Securitization firm | Private investment bank | Public investment bank | |
| | Eligibility for issuer/borrower | Private only | Detail | Owner of an asset with a predictable future income stream. | |
| | Buyer/investor profile | All entities trading on the national stock exchange, including institutional investors | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | CLP | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 24.7 | CLP billion | (~ USD 38 million) yearly issued amount | 2018 |
| | | 106.1 | CLP billion | (~ USD 162 million) yearly issued amount | 2017 |
| | | 226.9 | CLP billion | (~ USD 346 million) yearly issued amount | 2016 |
| | | 170.8 | CLP billion | (~ USD 260 million) yearly issued amount | 2015 |
| | | 24.5 | CLP billion | (~ USD 37 million) yearly issued amount | 2014 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not applicable | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The instrument has been used to finance projects in the transport and energy sectors. However, there are no indications of whether these projects have positive social, environmental, or climate impacts. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | There are no indication of securitizing firms or the CMF considering sustainability criteria in the process of issuance. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | CLP 1.4 trillion (~ USD 2.1 billion) | | | |
| | Minimum issuance | CLP 2.5 million (~ USD 3800 – no legal minimum) | | | |
| | Typical issuance amount | CLP 2.5 billion (~ USD 3.8 million) | | | |
| | Typical maturity | 14 years | | | |
| | Typical yield | 7.8% | | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Corporate bonds | Official name | *Bonos corporativos* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Ley de Mercado de Valores*<br>*Norma de Carácter General* N°30 | |
| General information | Instrument description | Corporate bonds are debt instruments issued by corporations, and other types of public entities with the aim of obtaining resources directly from the securities market. These instruments are issued to finance long-term investment projects or meet the issuer's financial commitments, such as refinancing liabilities. The issuing entity can adapt the characteristics of their bonds to their needs, defining the amount, term, and coupon payments. The nominal value of the bonds may be expressed in pesos, in foreign currency, or in any unit of account authorized by the Central Bank of Chile, such as the *Unidad de Fomento*.<br><br>There are three possible structures for bonds in Chile:<br>- standard structure: the issuer of the bond determines the risk classification of the bond;<br>- bonds with insurance guarantees: the issuer pays a premium to a bond insurer that will cover the bond payments in case the issuer is not able to. This improves the risk classification of the bond; and<br>- securitization: transforming bonds into securities to make the assets more liquid and split the bonds into risk tranches to match the appetite of different type of investors (securitized bonds). | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Private Investment Bank | Commercial Private Bank | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | All financial or non-financial institution with the SA status, as well as public entities are authorized to issue bonds. | |
| | Buyer/investor profile | Depending on the type of issuance, private or public, bonds will attract different types of investors. Private issuances are mostly invested in by international financial institutions such as the International Financial Corporation (IFC), multilateral or national development banks, or commercial/private investment banks. On the other hand, public issuances are accessible to all investors with access to the public stock exchange. | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | CLP | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 8.7 | CLP trillion | (~ USD 29 billion) yearly issued amount | 2018 |
| | | 157.6 | CLP trillion | (~ USD 240 billion) yearly issued amount | 2017 |
| | | 8.6 | CLP trillion | (~ USD 13 billion) yearly issued amount | 2016 |
| | | 201 | CLP trillion | (~ USD 306 billion) yearly issued amount | 2015 |
| | | 8.4 | CLP trillion | (~ USD 13 billion) yearly issued amount | 2014 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | 1 | USD billion | Green and social bonds, USD and CLP issuances, accumulated issuances, four issuances | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | BancoEstado 2018 – social investments | CPL 55 billion (~ USD 83 million) – maturity 4 y – C: 4.25% – no certification – affordable housing, micro-enterprises – listed in the Santiago Stock Exchange | All | |
| | | Aguas Andinas 2018 – water infrastructure | CLP 40,5 billion (~ USD 68 million) – maturity 7 y – C: 1.8% – not certified – sustainable water management – listed in Santiago Stock Exchange | Water and sanitation | |
| | | Empresas CMPC 2017 – forestry, water management, biodiversity, pollution, energy efficiency | USD 500 million maturity 10 y – C: 4.375% – ICMA reviewed – forestry, water management, biodiversity preservation, pollution prevention and control, energy efficiency | All | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Bonds have been used to finance sustainable sectors of the economy, as well as specific projects in companies across all sectors. In particular, some of these projects have been labeled green, social, and sustainable bonds, guaranteeing the use of proceeds for sustainable purposes. Many non-labeled bonds have also financed such projects. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | There is no sustainability criteria within bonds in general; however, the green, social, and sustainable bond labels highlight the sustainability criteria of some of these bonds. To obtain such a label, the bonds must go through the relevant processes to demonstrate that they are, in fact, green, social, or sustainable bonds. This requires the development of a framework detailing the investment thesis of the bond and how the monitoring and verification of the "sustainable" aspect of the bond will be operated. The framework is usually revised by a second-opinion provider before being issued. Green bonds can either be issued privately, where one or several major investors cover the entire bond issuance or publicly through the Chilean bond market. In addition, climate-aligned bonds can seek certification through the Climate Bonds Initiative. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Green and social bond segment of the *Bolsa de Valores de Santiago*.<br>Guidelines: International Capital Market Association Sustainable Bond Principles<br>None of the Chilean bonds were certified with the Climate Bonds Initiative. | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | CLP 458 trillion (~ USD 698 billion) | | | |
| | Minimum issuance | CLP 11 million (~ USD 16 800) | | | |
| | Typical issuance amount | CLP 70 billion (~ USD 107 million) | | | |
| | Typical maturity | 20 years | | | |
| | Typical yield | 6.3% | | | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Investment funds | Official name | *Fondos de Inversión* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Ley de Mercado de Valores*<br>*Ley Única de Fondos* N°20.712 – 2014 | |
| General information | Instrument description | Investment funds in Chile are funds that invest in securities and assets (listed in the "*Ley Única de Fondos*") of companies, firms, and other legal entities, administered by a registered S.A. for the sake and at the risk of its investors. These funds have pre-determined maturities, a limited number of investors and high minimum investment limits. The sectoral focus of the funds can vary significantly from one fund to another, as can the size and maturity of the fund. They are legally forced to share at least 30% of their yearly benefits in dividends to their investors.<br><br>There are two different types of investment funds:<br>- redeemable: funds that allow the complete and permanent redemption of instalments and principal of investors between the first 10 days and six months of the fund; and<br>- non-redeemable: funds that do not allow redemption of instalments and principal before the closure of the fund, or that allow it after six months only.<br><br>There are also private investment funds that have a similar format, with a limited number of investors, but do not issue a public offering. These are regulated mainly by their own internal regulations.<br><br>Infrastructure Investment Funds are investment funds that have the direct or indirect objective of developing or managing infrastructure projects, officialized in its internal regulation. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Private Investment Bank | Asset Manager | VC/PE Fund Manager | |
| | Eligibility for issuer/borrower | Private only | Detail | The fund managers must establish a limited liability company to exclusively manage the third-party capital invested in their fund. These are usually investment banks or financial players specialised in fund management. | |
| | Buyer/investor profile | There is usually no criteria for investing in such funds, although the high minimum investment rules make investments possible only for high net worth individuals and institutional investors. | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | USD | CLP | | |
| | Investments through this instrument to date (in mentioned currency) | 27 | USD billion | Assets under management | 09.2018 |
| | | 25 | USD billion | Assets under management | 2017 |
| | | 18 | USD billion | Assets under management | 2016 |
| | | 12 | USD billion | Assets under management | 2015 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Asset Atlas Renewable Energy Investment Fund – 2016 | USD 7.4 million assets under management (2016) | | Energy |
| | | Investment Fund Lignum Forestry – 2006 | USD 17.6 million assets under management (2016) | | Agribusiness and forestry |
| | | BICE Renewable Energy Investment Fund – 2015 | USD 7.4 million assets under management (2016) | | Energy |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The sectors targeted by investment funds vary considerably across the landscape of funds.<br>There are funds targeting specifically infrastructure projects, targeting sectors such as energy, transport, urban infrastructure and social infrastructure (e.g., Asset Atlas Renewable Energy, *Fondo de Inversion, Fondo de Inversion Forestal Lignum*) | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The sustainability criteria of investment funds are defined in the internal regulations of the fund but are not mandatory. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | | |
| Fund instrument features | Fund type | Hybrid fund | | | |
| | Typical invested term | Investment funds do not have fixed investment terms. | Expected IRR | Not applicable as these funds can invest both equity and fixed-income securities with varying expected returns. From lowest to highest returns: real estate, fixed rate, and private equity. | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Mutual funds | Official name | *Fondos mutuos* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Ley de Mercado de Valores*<br>*Ley Única de Fondos* N°20.712 - 2014 | |
| General information | Instrument description | Mutual funds are investment vehicles that pool capital from both natural and legal bodies, for the purpose of investing in publicly-traded securities such as equity shares, bonds, mortgage notes, investment funds, etc. The funds are managed by a professional asset manager, with the investors of the fund bearing the complete risk. Investors have the right to partially or totally redeem their invested capital at any time subject to the agreed upon conditions. The main difference with investment funds is the delay to redeem invested capital, which is much shorter for mutual funds (~ 10 days vs. six months for investment funds). Mutual funds are variable-income investment vehicles. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Asset manager | Private investment bank | Commercial private bank | |
| | Eligibility for issuer/borrower | Private only | Detail | The issuer must be an asset manager with authorization from SVS and clear internal fund management rules. | |
| | Buyer/investor profile | All investors in the public market can invest through most mutual funds, except for those targeting specifically qualified investors (e.g., institutional investors) | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | CLP | | | |
| | Investments through this instrument to date (in mentioned currency) | 38 | CLP trillion | (~ USD 55 billion) – assets under management | 2018 |
| | | 35 | CLP trillion | (~ USD 54 billion) – assets under management | 2017 |
| | | 31 | CLP trillion | (~ USD 47 billion) – assets under management | 2016 |
| | | 29 | CLP trillion | (~ USD 41 billion) – assets under management | 2015 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The sectors targeted by mutual funds vary considerably across the landscape of funds. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | Mutual funds do not integrate any sustainability criteria. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | | |
| Fund instrument features | Fund type | Hybrid fund | | | |
| | Typical invested term | Mutual funds do not have fixed investment terms. | Expected IRR | 2.3% - 27% (2017 – depending on the category of investment: equity, debt, qualified investors only) | |

| | | | | |
|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Credit instrument – specific initiative |
| | Reference instrument name | Public Infrastructure Fund | Official name | *Fondo de Infraestructura Pública* (Foinsa) |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Law N° 21.082 established the "Fondo de Infraestructura S.A." in March 2018. |
| General information | Instrument description | Foinsa is a public infrastructure equity fund created by the MOP (*Ministro de Obras Públicas*) through law N°21.082 in March 2018, as a separate entity to facilitate the involvement of the public sector in developing economic activities and investing in public infrastructure projects. Its objective is to develop business activities around investments in infrastructure projects. The CLP 6,500 million fund (~ USD 10 million) will regroup the state activities and investment decisions regarding third-party concessions, respecting the same laws for concessions as the ministry previously did, and stimulate a longer-term approach with a five-year infrastructure plan revised on an annual basis. The independent structure of the fund will shield the state from additional indebtment. | | |
| | Trading process | None | | |
| | Type of operator | Federal government | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Not available |
| | Buyer/investor profile | Not applicable | | |
| | Focused/eligible sectors | All | | |
| | Issuance currency | CLP | | |
| | Investments through this instrument to date (in mentioned currency) | 0 | CLP billion | Law issued in March 2018, with an official launch of the fund in March 2019 · 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | |
| | Sectoral split of sustainable investment | Not applicable | | |
| | Sustainable investment examples | Not applicable | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past |
| | Has the instrument been used to finance sustainable sectors of the economy? | The underlying projects are primarily public infrastructure projects, of which most will have a positive social impact, particularly soft infrastructure projects such as schools and hospitals.<br><br>The environmental impact of the infrastructure project is a key topic during the planning and management of the project. | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The public infrastructure fund has no embedded social criteria or incentives for socially positive investments. However, as it invests only in public concessions, the social impact must be taken into account throughout the construction and operation of the project. | | |
| | Mandatory sustainability criteria/standard? | Yes | Voluntary sustainability guidelines/criteria/standard? | No |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | | | |

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|---|---|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | | |
| | Reference instrument name | CAT bonds | Official name | *Bonos catastróficos* | | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Not applicable – depends on where it is registered | | |
| General information | Instrument description | The "*bono catastrófico*", or CAT bond, is a specific type of insurance-linked securities, a financial instrument for corporations, insurers, and reinsurers to transfer their risk to capital market investors, lowering their reinsurance costs and freeing up capital for the company to invest. The sponsor of the bond establishes a special purpose vehicle (SPV) as the issuer of bonds and reinsurance protection. The SPV sells the CAT bonds to investors, with the proceeds invested in a collateral amount. The sponsor pays a premium to the issuer; this and the bond investment proceeds are a source of interest paid to investors. If a specific catastrophic risk is triggered, the funds are withdrawn from the collateral account and paid to the sponsor. Otherwise, at maturity, 100% of the principal is paid to investors.<br><br>The "*Alianza del Pacífico*", through the World Bank, emitted the first CAT bond against the risk of earthquakes, including more than one country (Mexico, Colombia, Chile, and Peru), reaching the highest single issuance of USD 1 billion (Colombia: USD 300 million). This bond is attractive to investors as it diversifies their exposure to natural disasters across four distinct regions. | | | | |
| | Trading process | Private placement | | | | |
| | Type of operator | Insurer | Securitization firm | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Corporation, insurer, and reinsurer of infrastructure | | |
| | Buyer/investor profile | Qualified investors (including pension funds) and insurance-linked securities specialists | | | | |
| | Focused/eligible sectors | All | | | | |
| | Issuance currency | USD | | | | |
| | Investments through this instrument to date (in mentioned currency) | 500 | USD million | Accumulated amount issued | | 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | | |
| | Sectoral split of sustainable investment | Not applicable | | | | |
| | Sustainable investment examples | Not available | | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | | |
| | Has the instrument been used to finance sustainable sectors of the economy? | CAT bonds are evaluated as climate-aligned due to their role in covering climate risk for infrastructure and socially sustainable, as proceeds of CAT bonds are used for reconstruction in the event of a disaster. | | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria. | | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | N/A | N/A | N/A | N/A |
| Bond instrument features | Outstanding amount (in mentioned currency) | USD 500 million | | | | |
| | Minimum issuance | No minimum issuance amount | | | | |
| | Typical issuance amount | Not applicable – only one issuance in Chile | | | | |
| | Typical maturity | 3 years | | | | |
| | Typical yield | 4.8% (depends on USD 3-month LIBOR rate – 0.2% (management fee) + 2.5% (risk premium) as of 2018) | | | | |

## 6.4 Colombia

| Reference name | Type | Official name | Short description |
|---|---|---|---|
| Bonds | Bond | *Bonos ordinarios* | Fixed-income debt securities |
| Private Equity Funds | Fund | *Fondos de capital privado* | Private capital funds that often have a specific predefined investment philosophy |
| Mezzanine Funds | Mezzanine | *Not applicable - only international funds* | Funds that can tailor their financing structures to the transaction and capital structure of the company receiving the financing |
| Debt Funds | Fund | *Fondos de deuda* | Funds providing senior debt financing to companies or specific projects |
| Loan Fund in Pesos | Loan | *Fondeo en Pesos* | Credit line in Colombian Pesos for international investors targeting infrastructure projects in the country |
| Green Credit Lines | Loan | *Lineas Verdes de Credito* | Provide loans to companies and individuals to stimulate certain sectors of the Colombian economy |
| CAT Bonds | Bond | *Bonos Catastróficos* | Insurance-linked securities to transfer risk to capital market investors |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Bonds | Official name | *Bonos ordinarios* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Decreto 2555 de 2010 – Art 6.4.1.1.1 | |
| General information | Instrument description | Bonds are fixed income debt securities issued by public or private entities for the purpose of financing infrastructure or other types of projects. These entities can adapt the characteristics of their bonds to their needs, defining amount, term, and coupon payments. Bonds can be short- to long-term debt instruments and medium- to long-term for infrastructure projects. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Commercial private bank | Commercial state-owned bank | Private investment bank | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | There are no restrictions on what type of entities can issue bonds, apart from the legal restrictions of the entities themselves. | |
| | Buyer/investor profile | All financial entities are eligible to purchase such bonds, including pension funds and employee funds. | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | COP | | | |
| | Investments through this instrument to date (in mentioned currency) | 7.5 | COP trillion | (~ USD 2.4 billion) – yearly allocated issuance | 2018 |
| | | 6.5 | COP trillion | (~ USD 2.1 billion) – yearly allocated issuance | 2017 |
| | | 6 | COP trillion | (~ USD 1.9 billion) – yearly allocated issuance | 2016 |
| | | 3.7 | COP trillion | (~ USD 1.2 billion) – yearly allocated issuance | 2015 |
| | | 6.5 | COP trillion | (~ USD 2.1 billion) – yearly allocated issuance | 2014 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | 1.8 | COP trillion | (~USD 540 million) – acumulated issuances of green and social bonds since 2016 – six issuances | |
| | Sectoral split of sustainable investment | No public information across bonds, however the Bancoldex 2017 green bond investment split is: resource management (35%), sustainable transport (4%), energy efficiency (51%), renewable energy (7%), and sustainable infrastructure (3%) | | | |
| | Sustainable investment examples | Bancoldex Social Bond – SMEs and financial inclusion – 2018 | COP 400 billion (~ USD 122 million) – maturity: 3-5 y – C: 6-7% – International Capital Market Association (ICMA) reviewed | | All |
| | | Bancoldex Green Bond -various sectors, main investments in resource management and energy efficiency - 2017 | COP 200,000 million (~ USD 61 million) – maturity: 5 y – C: 7.1%<br>Status in 2018 of the Bancoldex Green Bond: 176 projects funded with a total amount of COP 328 billion<br>By 2018, the green bond had funded project in resource management (35%), sustainable transport (4%), energy efficiency (51%), renewable energy (7%), and sustainable infrastructure (3%).<br>IDB is involved | | All |
| | | Bancolombia Green Bond – energy efficiency and renewable energy – 2016 | COP 400 billion (~ USD 122 million) – maturity: 3-5 y – C: 6-7% – ICMA reviewed | | All |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The use of proceeds of the regular bonds are not particularly focused on sustainable sectors of the economy. However, the issuance of five green bonds over the past three years have created a new class of bonds dedicated to projects with positive impact on climate change and the environment. In addition, 2018 saw the first social bond issuance in Colombia, with proceeds targeting social infrastructure only. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The green and social bond labels identify the specific use of proceeds for certain type of projects. There are no Colombia-specific guidelines or regulations for these labels – issuing entities follow the ICMA Green and Social Bond Principles. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | N/A | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Voluntary guidelines of the ICMA – Green Bond Principles<br>Climate Bonds Initiative certification | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | Not available | | | |
| | Minimum issuance | COP 2 billion (~ USD 600,000 by Decree 2555 – Art. 6.4.1.1.3: 2000 times the legal minimum monthly salary) | | | |
| | Typical issuance amount | COP 350 billion (~ USD 110 million) | | | |
| | Typical maturity | 7 years (between 2 and 25 years) | | | |
| | Typical yield | 6-8% (can be fixed, or dependent on inflation/interbank rate) | | | |

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|---|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | | |
| | Reference instrument name | Private equity funds | Official name | *Fondos de capital privado* | | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Decreto 2555 de 2010 – Art. 3.1.1.1.1 | | |
| General information | Instrument description | Private equity funds are private capital funds that often have a specific predefined investment philosophy throughout its term. Private equity funds either invest in equity securities, in the form of mezzanine debt or both debt and equity. These funds invest in companies or specific projects that match their investment philosophy through the above mentioned instruments. In Colombia, there are 66 private equity funds recognized under Colombian law as of June 2018, of which 11 are dedicated to infrastructure investments. | | | | |
| | Trading process | Private placement | | | | |
| | Type of operator | VC/PE fund manager | Asset manager | | | |
| | Eligibility for issuer/borrower | Private only | Detail | All asset managers and investment banks that are authorized by the *Bolsa de Valores* to create funds | | |
| | Buyer/investor profile | All investor types – although a majority of investments come from pension funds (64%), insurers (12%), development banks (9%), and corporates (9%) | | | | |
| | Focused/eligible sectors | All | | | | |
| | Issuance currency | COP | USD | | | |
| | Investments through this instrument to date (in mentioned currency) | 11 | USD billion | Acumulated invested amount, of which USD 5.6 billion in infrastructure | 2018 | |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | | |
| | Sectoral split of sustainable investment | Not available for sustainable investments. However, information has shown that 2.5% of investments are in the health sector and more than 35% in energy, although it is unclear if they are renewable or not. | | | | |
| | Sustainable investment examples | MGM Sustainable Energy Fund – energy efficiency and renewable energy | This fund targets the following energy-related projects in the following sectors: commercial, industrial, agro-industrial, public, and residential. | | Energy | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Energy (excluding oil and gas) is the sector with the largest investment from equity funds (~ 30%); however, it is not specified what portion is invested in renewable energy.<br>The health sector has also received ~ 2.4% of investment from equity funds.<br><br>Finally, there are some dedicated funds, such the MGM Sustainable Energy Fund, that focus on sustainable energy investments and will have positive environmental and climate impacts. | | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | 78% of infrastructure equity funds in Colombia implement ESG criterias for their portfolio. | | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Equity funds can voluntarily report on ESG criterias | | | | |
| Fund instrument features | Fund type | Equity fund | | | | |
| | Typical invested term | 15 years (average term by June 2018) | Expected IRR | 16% (Latin America average) | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Mezzanine | Instrument group | Capital market instrument | |
| | Reference instrument name | Mezzanine funds | Official name | Not applicable – only international funds | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Not applicable – depends on where it is registered | |
| General information | Instrument description | Mezzanine Funds are funds managed mostly by private equity firms, with varying structures that can be tailored to the transaction and capital structure of the company receiving the financing. Mezzanine finance is an umbrella term for hybrid forms of finance, which excludes senior debt and common stock. Mezzanine funds can provide financing through hybrid structures including, subordinated debt and preferred equity. These are complex investment structures that require dedicated expertise. | | | |
| | Trading process | Private placement | | | |
| | Type of operator | VC/PE fund manager | Asset manager | Private investment bank | |
| | Eligibility for issuer/borrower | Private only | Detail | Mostly private equity fund managers and asset managers | |
| | Buyer/investor profile | No evident eligibility criteria. Most investors in funds that target infrastructure in developing countries are national and international development banks or development agencies. Institutional investors are eligible but have not invested significantly in such funds. | | | |
| | Focused/eligible sectors | Energy | | | |
| | Issuance currency | USD | | | |
| | Investments through this instrument to date (in mentioned currency) | 280 | USD million | Aggregated value not available – deducted from the information encountered on two funds | 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not applicable | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The focus of the funds are distinct. However, as development banks and development agencies are usually the main funders, the fund must comply with their sustainability criteria. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | All funds have their own privately-defined investment criteria, which in some cases includes sustainability, but there are no systemic guidelines, criteria, or standards specifically for such funds. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | | | | |
| Mezzanine instrument features | Typical minimum financed amount | Not available | | | |
| | Typical maximum financed amount | Not available | | | |
| | Typical interest rate (p.a.) | 12% (average Latin America) | | | |
| | Typical term | 7 years | | | |
| | Typical warrant features | Not available | | | |

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| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Debt funds | Official name | *Fondos de deuda* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Not applicable – depends on where it is registered | |
| General information | Instrument description | Debt funds are financial vehicles created by asset managers that provide senior debt financing to companies or specific projects (e.g. through SPV). There are currently four such funds investing in infrastructure in Colombia, amounting to USD 1.7 billion.<br>The amendments to the pension funds investment regime in 2014 allowed infrastructure debt funds as vehicles for institutional investors to invest in this asset class.<br>These funds focus on long-term road infrastructure projects structures, such as public-private Partnerships (PPP), as recognized by the *Agencia Nacional de Infraestructura* (ANI) under the 4G program. They can finance a maximum of 25% of a specific infrastructure project. | | | |
| | Trading process | Private placement | | | |
| | Type of operator | Private investment bank | Asset manager | Multilateral development bank | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Infrastructure projects must be structured as PPPs and recognized by the ANI | |
| | Buyer/investor profile | Mainly pension funds and insurance companies | | | |
| | Focused/eligible sectors | Transport | | | |
| | Issuance currency | COP | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 4.6 | COP trillion | (~ USD 1.5 billion) – acumulated from five debt funds | 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not applicable | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Infrastructure debt funds in Colombia are invested exclusively in transport infrastructure within the governmental 4G program.<br>This is not a "sustainable" sector per se, although its development will have positive social impacts through linking rural areas to economic and industrial centers. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | All funds have their privately-defined investment criteria, which in some cases includes sustainability, but there are no systemic guidelines, criteria, or standards specifically for such funds. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Although the instrument has no embedded sustainability criteria, social, and environmental studies are mandatory for all concession projects under the governmental 4G program; hence, they are included in the screening criteria. These studies will follow the Environmental and Social Impact Assessment guidelines. | | | |
| Fund instrument features | Fund type | Debt fund | | | |
| | Typical invested term | 20-25 years | Expected IRR | ~ 8% (without operations and maintenance risk)<br>~ 11% (with operations and maintenance risk) | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Loan | Instrument group | Credit instrument – specific initiative | |
| | Reference instrument name | Loan fund in Pesos | Official name | *Fondeo en Pesos* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | FDN and the "*Ministro de Hacienda*" created the "*Fondeo en Pesos*" in May 2017 (regulation unavailable) | |
| General information | Instrument description | The "*Fondeo en Pesos*" of the Financiera Desarollo Nacional (FDN), launched in May 2017, is a credit line in COP for international investors targeting infrastructure projects in the country with flexible terms and conditions. The fund seeks to attract creditworthy and experienced international financial entities such as commercial banks and multilateral entities for infrastructure projects in the country.<br>This fund is of particular interest to projects that are limited in the funding sources in external currencies they can attract due to regulation. The FDN lends funds in COP to these international investors, providing them with local currency to re-invest in Colombian infrastructure projects. The fund automatically protects international investments from currency fluctuations. | | | |
| | Trading process | Private placement | | | |
| | Type of operator | National development bank | | | |
| | Eligibility for issuer/borrower | Private only | Detail | International investors, directly or indirectly, for investments in Colombian infrastructure projects | |
| | Buyer/investor profile | Multilateral development banks through private placements due to peculiar risk nature of the fund | | | |
| | Focused/eligible sectors | Transport | | | |
| | Issuance currency | COP | | | |
| | Investments through this instrument to date (in mentioned currency) | 1.4 | USD billion | Total amount allocated to the fund | 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not applicable | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The Loan Fund in COP has, until now, mainly supported international investments in the infrastructure 4G program, which focuses mainly on transport infrastructure.<br>This is not a "sustainable" sector per se, although its development will have positive social impacts through linking rural areas to economic and industrial centers. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | No sustainability screening criteria within the instrument | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | The Loan Fund in COP lends only to investors in Colombian infrastructure and mainly in the PPP. Social and environmental studies are mandatory for all concession projects under the governmental 4G program, and thus, they are included in the screening criteria. These studies will follow the Environmental and Social Impact Assessment guidelines. | | | |
| Loan instrument features | Source of funds | Multilateral development banks | | | |
| | Typical minimum financed amount | Not available | | | |
| | Typical maximum financed amount | | | | |
| | Typical interest rate (p.a.) | | | | |
| | Typical maximum term | | | | |
| | Typical maximum grace period | | | | |
| | Typical collateral | | | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Loan | Instrument group | Credit instrument | |
| | Reference instrument name | Green credit lines | Official name | *Lineas Verdes de Credito* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | There are no specific regulations or norms for green credit lines. These are voluntary labels that are under the same rules as regular credit lines. | |
| General information | Instrument description | Green credit lines in Colombia, from commercial banks or national development banks, provide loans to companies and individuals to stimulate certain sectors of the Colombian economy. Typical activities covered by such credit lines are renewable energy, energy efficiency, development, improvement and maintenance of sustainable infrastructure, clean mobility, and the modernization of companies. Green credit lines function the same way as regular credit lines, except with a specific set of criteria on the type of projects the proceeds can be used for and requirements to monitor and verify the climate change mitigation impact of the underlying projects. In some cases, preferential rates will be offered through these credit lines.<br><br>The credit lines of international and national development banks are often disbursed through financial intermediaries, such as rediscounting schemes.<br><br>The funds for these credit lines in Colombia either come from the proceeds of green bond issuances (e.g., Bancoldex, recently Bancolombia) or directly from the financial institution's proper funds (e.g., Bancolombia before its recent issuance). | | | |
| | Trading process | None | | | |
| | Type of operator | Commercial private bank | Commercial state-owned bank | Financial cooperative | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | There are no restrictions on the type of financial institution that can set up such credit lines. | |
| | Buyer/investor profile | Not applicable – except in the case of funds coming from the proceeds of green bond issuances, in which case eligible criteria are the same as for green bonds | | | |
| | Focused/eligible sectors | Energy | | | |
| | Issuance currency | COP | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 2.6 | COP trillion | (~ USD 830 million) indicative amount, aggregated information through different sources | 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | 2.6 | COP trillion | (~ USD 830 million) indicative amount, aggregated information through different sources | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Bancoldex – credit line for energy efficiency in hotels, hospitals and clinics – 2019 | COP 20 billion (~ USD 6 million) - maturity 3y/7y – 6-7.5% (DTF e IBR de 12.2018) | | Social infrastructure |
| | | Davivienda – credit line for renewable energy, sustainable construction, cleaner production, and energy efficiency – 2017 | COP 433 billion (~ USD 133 million) | | All |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The sectoral focus of these credit lines, which include renewable energy, energy efficiency, water and sanitation, and social infrastructure, clearly demonstrate their focus on environmental, social, and climate sustainability. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The "green" label of these credit lines is not an official label; however, it does force the lender to monitor and report the impacts of the projects financed through the credit lines. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Green credit lines are voluntary self-proclaimed "green". The *Protocolo Verde*, signed in 2012 by the major financial institutions of Colombia and relevant government institutions, seek to standardize the sustainability criteria of banks and to create dedicated green financial products. In addition, the credit lines financed with the proceeds of green bonds have to respect the green bond guidelines of ICMA. | | | |
| Loan instrument features | Source of funds | Either proper funds or proceeds from the issuance of green bonds | | | |
| | Typical minimum financed amount | Most green credit lines do not have a minimum investment amount<br>Davivienda has minimum amounts of COP 100 million for some sectors (~ USD 30,000) | | | |
| | Typical maximum financed amount | Most green credit lines do not have a maximum investment amount<br>Bancoldex: COP 5 billion (~ USD 1.6 million) per project<br>Bancolombia: COP 10 billion | | | |
| | Typical interest rate (p.a.) | 7-29% (calculated based on the fixed-term deposit rate and a spread decided by the financial institution) | | | |
| | Typical maximum term | 60-144 months (varies even within entities) | | | |
| | Typical maximum grace period | 12-36 months | | | |

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|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument |
| | Reference instrument name | CAT bonds | Official name | *Bonos catastróficos* |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Not applicable – depends on where it is registered |
| General information | Instrument description | The "*Bono catastrófico*", or CAT bond, is a specific type of insurance-linked securities, a financial instrument for corporations, insurers, and reinsurers to transfer their risk to capital market investors, lowering their reinsurance costs and freeing up capital for the company to invest. The sponsor of the bond establishes a special purpose vehicle (SPV) as the issuer of bonds and reinsurance protection. The SPV sells the CAT bonds to investors, with the proceeds invested in a collateral amount. The sponsor pays a premium to the issuer; this and the bond investment proceeds are a source of interest paid to investors. If a specific catastrophic risk is triggered, the funds are withdrawn from the collateral account and paid to the sponsor. Otherwise, at maturity, 100% of the principal is paid to investors.<br><br>The "*Alianza del Pacífico*", through the World Bank, emitted the first CAT bond against the risk of earthquakes, including more than one country (Mexico, Colombia, Chile, and Peru), reaching the highest single issuance of USD 1 billion (Colombia: USD 300 million). This bond is attractive to investors as it diversifies their exposure to natural disasters across four distinct regions. | | |
| | Trading process | Private placement | | |
| | Type of operator | Insurer | Securitization firm | |
| | Eligibility for issuer/borrower | Private only | Detail | Corporation, insurer, and reinsurer of infrastructure |
| | Buyer/investor profile | Qualified investors (including pension funds) and insurance-linked securities specialists | | |
| | Focused/eligible sectors | All | | |
| | Issuance currency | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 400 | USD million | Single issuance 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | |
| | Sectoral split of sustainable investment | Not applicable | | |
| | Sustainable investment examples | Not applicable | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past |
| | Has the instrument been used to finance sustainable sectors of the economy? | CAT Bonds are evaluated as climate-aligned due to their role in covering climate risk for infrastructure and socially sustainable, as proceeds of CAT Bonds are used for reconstruction in the event of a disaster. | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | Not applicable | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | USD 400 million | | |
| | Minimum issuance | No minimum issuance amount | | |
| | Typical issuance amount | Not applicable - only one issuance in Colombia | | |
| | Typical maturity | 3 years | | |
| | Typical yield | 5.3% (depends on USD 3-month LIBOR rate – 0.2% (management fee) + 3% (risk premium) as of 2018) | | |

## 6.5 Mexico

| Reference name | Type | Official name | Short description |
|---|---|---|---|
| Certificates of Capital Development (CKD) | Fund | *Certificados de Capital de Desarrollo (CKD)* | Securities or trust securities issued by the trusteeship that are designated for the sole purpose of financing one, or several projects, or the acquisition of one or several companies |
| Fiduciary Security Certificates of Investment Projects (CerPIs) | Fund | *Certificados Bursátiles Fiduciarios de Proyectos de Inversión (CerPIs)* | Securities whose issuance resources are used to finance projects and invest in stock, business interests or company financing, whether directly or indirectly through one or more investment vehicles |
| Real Estate Investment Trust (FIBRA) | Fund | *Fideicomiso de Inversión en Bienes Raíces (FIBRA)* | Investment trusts dedicated to the acquisition and development of real estate properties in Mexico |
| Energy and Infrastructure Investment Trust (FIBRA E) | Fund | *Fideicomiso de inversión en energía e infraestructura (FIBRA-E)* | Investment trusts that issue publicly traded securities in the form of trust bonds or certificados bursátiles fiduciarios de inversión en energía e infraestructura |
| Special Purpose Acquisition Company (SPACs) | Equity | *SPACs* | A company that is specifically created to pool funds to finance a merger/ acquisition opportunity of which identification is still pending |
| Bonds (corporate and project) | Bond | *Certificados Bursátiles* | Fixed income securities issued by corporates for the purpose of financing infrastructure or other types of projects |
| Mezzanine Funds | Mezzanine | *Not applicable - only international funds* | Funds managed mostly by private equity firms, with varying structures that can be tailored to the transaction and capital structure of the company receiving the financing |
| CAT Bonds | Bond | *Bono Catastrófico* | Insurance-linked securities to transfer risk to capital market investors |
| Financial guarantee for infrastructure and public services | Guarantee | *Garantías de Pago Oportuno (GPO)* | Financial guarantees provided by Banobras for Mexican states and municipalities to guarantee income from infrastructure projects in the form of guarantees of payment to investors in the project |

| Reference name | Type | Official name | Short description |
|---|---|---|---|
| Massive Urban Transport Program (PROTRAM) | Program | *Programa de Apoyo Federal al Transporte Urbano Masivo (PROTRAM)* | Instrument of the National Infrastructure Fund to support the financing of investment projects in mass urban transport |
| Water Infrastructure Modernisation Program | Program | *Programa de Modernización de Organismos Operadores de Agua (PROMAGUA)* | A program that channels support from the National Infrastructure Fund to address gaps in coverage and the quality of drinking water, sewerage, and sanitation services |
| Credit lines for sustainable projects | Loan | *Línea de Crédito para Proyectos Sustentables* | Credit lines extended by the Nacional Financiera (NAFIN) for companies or financial intermediaries to stimulate the sustainable growth of the country |
| Investment Fund China-Mexico | Fund | *Fondo de Inversiones China-Mexico (FICM)* | Venture capital fund created as an alliance between Mexico and China to invest in infrastructure, energy, mining, and cutting-edge technologies, with a high potential impact for Mexico |
| Mexican Venture Capital Corporation or Fund of Funds | Fund | *Fondo de Fondos o Corporación Mexicana de Inversiones de Capital (CMIC)* | Unique equity vehicle of the Federal Government created to promote the venture capital industry in Mexico. |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Certificates of Capital Development (CKD) | Official name | *Certificados de Capital de Desarrollo* (CKD) | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Reglamento Interior de la BMV – Título Cuarto – Valores listados en Bolsa* | |
| General information | Instrument description | CKDs are securities or trust securities issued by the trusteeship that are designated for the sole purpose of financing one, or several projects, or the acquisition of one or several companies. They invest in the equity or debt of companies that develop or operate infrastructure in Mexico. CKDs' performance is linked to their underlying property assets. CKDs were created in 2009 to enable institutional investors to diversify their portfolio through alternative investments, such as companies or projects, which were not legally part of the scope of investments that institutional investors could make before. CKDs also represent an opportunity for institutional investors to access higher returns than from traditional capital market instruments. CKDs have financed renewable energy projects. | | | |
| | Trading process | Publicly traded | | | |
| | Type of operator | Private investment bank | Commercial private bank | Asset manager | |
| | Eligibility for issuer/borrower | Private only | Detail | Private companies, funds, and equity firms | |
| | Buyer/investor profile | All institutional and retail investors, both national and international, are eligible to buy CKDs; however, 70-80% of them are held by AFOREs (pension funds). | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | MXN | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 7.5 | MXN billion | (~ USD 380 million) yearly issued amount – 14 issuances | 2018 |
| | | 11 | MXN billion | (~ USD 560 million) yearly issued amount – 16 issuances | 2017 |
| | | 8.5 | MXN billion | (~ USD 430 million) yearly issued amount – 13 issuances | 2016 |
| | | 17.8 | MXN billion | (~ USD 900 million) yearly issued amount – 22 issuances | 2015 |
| | | 5.7 | MXN billion | (~ USD 290 million) yearly issued amount – seven issuances | 2014 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | INRFRACK – CKD *Infraestructura* Mexico – solar energy | MXN 19 billion (~ USD 1 billion) – invests in renewable energy, telecommunication, and road infrastructure – first issuance in 2015 | | Energy |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The instrument has been used to finance infrastructure projects, including energy (not specified if renewable or not), as well as forestry projects, which have potential impacts on the environment and climate change.<br>In the INFRACK example, social criteria are considered and benefits to the local communities are part of project development. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | A recent update in January 2018 changed the investment regime of AFORE promoting the integration of ESG criteria in their investment analysis. As a major funder of CKDs, this may stimulate the transition towards ESG-aligned investments of this instrument. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | 10-40 years | Expected IRR | 8% in USD and 12% in MXN | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Fiduciary Security Certificates of Investment Projects (CerPIs) | Official name | *Certificados Bursátiles Fiduciarios de Proyectos de Inversión* (CerPIs) | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Reglamento Interior de la BMV – Título Cuarto – Valores listados en Bolsa* *Ley General de Títulos y Operaciones de Crédito – Título Segundo*, *De de las Operaciones de Crédito*, *capítulo V*, *sección primera*, *Del Fideicomiso* | |
| General information | Instrument description | Fiduciary Investment Project Securitization Certificates (CerPIs) are certificates whose issuance resources are used to finance projects and invest in stock, business interests, or company financing, whether directly or indirectly through one or more investment vehicles. CerPIs function similarly to CKDs, with the particularity that the issuer conserves full decision rights for deciding on the investment of the resources, matching international standards for such instruments. In addition, CerPIs are issued through a restricted offering targeting exclusively institutional investors, and target mostly real estate, energy, infrastructure, and private equity. The legal capacity of CerPIs to invest up to 90% of allocated capital internationally has made the instrument attractive to international investors as well as AFOREs, for which it is the unique vehicle to invest internationally. | | | |
| | Trading process | Private placement | | | |
| | Type of operator | Commercial private bank | Private investment bank | Asset manager | |
| | Eligibility for issuer/borrower | Private only | Detail | Mexican companies, banks, privately or publicly owned companies. However, managers must now participate with 2% or more of the value of investments. | |
| | Buyer/investor profile | Only institutional investors can participate in a restricted offering with AFOREs allowed to purchase up to 100% of the instrument. | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | MXN | | | |
| | Investments through this instrument to date (in mentioned currency) | 11.9 | MXN billion | (~ USD 600 million) yearly issued amount – 18 issuances | 2018 |
| | | 0 | MXN billion | (~ USD 0) yearly issued amount | 2017 |
| | | 0.8 | MXN billion | (~ USD 41 million) yearly issued amount – one issuance | 2016 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | CerPIs will target mostly the real estate and energy sectors; hence, there is no significant evidence of its sector-wise sustainability criteria. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | A recent update in January 2018 changed the investment regime of AFORE, promoting the integration of ESG criteria in their investment analysis. As a major funder of CerPIs, this may stimulate the transition towards ESG-aligned investments of this instrument. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | 50 years | Expected IRR | Not available | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Real Estate Investment Trust (FIBRA) | Official name | *Fideicomiso de Inversión en Bienes Raíces* (FIBRA) | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Reglamento Interior de la BMV – Título Cuarto – Valores listados en Bolsa*<br>*Ley General de Títulos y Operaciones de Crédito – Título Segundo, De de las Operaciones de Crédito, capítulo V, sección primera, Del Fideicomiso* | |
| General information | Instrument description | FIBRAs are investment trusts dedicated to the acquisition and development of real estate properties in Mexico, designed with the sole purpose of the acquisition and/or construction of real estate projects that are leased and receive rents from these leases. The return from these instruments can come from two sources, rents and property value appreciation, that is redistributed to investors. | | | |
| | Trading process | Publicly traded | | | |
| | Type of operator | Commercial private bank | Private investment bank | | |
| | Eligibility for issuer/borrower | Private only | Detail | Private companies and banks who can fulfill requirements set forth by legislation | |
| | Buyer/investor profile | Institutional investors, pension funds, and individual investors | | | |
| | Focused/eligible sectors | Real estate | | | |
| | Issuance currency | MXN | | | |
| | Investments through this instrument to date (in mentioned currency) | 10.3 | MXN billion | (~ USD 524 million) yearly issued amount – three issuances | 2018 |
| | | 25.7 | MXN billion | (~ USD 1.3 billion) yearly issued amount – five issuances | 2017 |
| | | 1.6 | MXN billion | (~ USD 80 million) yearly issued amount – one issuance | 2016 |
| | | 1.5 | MXN billion | (~ USD 76 million) yearly issued amount – one issuance | 2015 |
| | | 62.4 | MXN billion | (~ USD 3.2 billion) yearly issued amount – six issuances | 2014 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | FIBRAs are used solely for the purpose of financing commercial, private or office real estate properties. A portion of the assets that have been invested in through FIBRAs are certified sustainable (e.g., LEED certificate), and thus, they have finance environmentally sustainable and climate-aligned assets. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | There is no criteria for the instrument itself. However, most FIBRAs do incorporate ESG criteria within their investment decisions. FIBRAs are legally not allowed to be part of the Mexican sustainability index (currently being discussed); however, they have been part of sustainability indexes of foreign capital markets. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not mandatory; however, some FIBRAs do incorporate ESG criteria<br>There are label/certifications (e.g., LEED) for the underlying real estate assets. | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | 0-5 years | Expected IRR | 4-9% (achieved on average between 2011-2016) but overall range is 0-20% | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Energy and Infrastructure Investment Trust (FIBRA E) | Official name | *Fideicomiso de inversión en energía e infraestructura* (FIBRA-E) | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Reglamento Interior de la BMV - Título Cuarto - Valores listados en Bolsa* | |
| General information | Instrument description | FIBRA E is a trust created in accordance with the laws of Mexico with a Mexican banking institution acting as trustee, that issues publicly-traded securities in the form of trust bonds or CBFEs, registered with the National Securities Registry (*Registro Nacional de Valores* (RNV)) and listed in the Mexican Stock Exchange (*Bolsa Mexicana de Valores* (BMV)). As provided in the Securities Law, the CBFEs shall grant its holders a pro rata property right with respect to trust assets. | | | |
| | Trading process | Publicly traded | | | |
| | Type of operator | Commercial private bank | | | |
| | Eligibility for issuer/borrower | Private only | Detail | A FIBRA E must be a trust created according to Mexican legal guidelines. A Mexican tax resident banking institution or an authorized brokerage house must act as trustee.<br>All shareholders of a promoted company (companies invested in by the FIBRA E) must be legal entities that reside in Mexico for tax purposes. This requirement should be met before a FIBRA E acquires shares of a promoted company.<br>75% of assets within a FIBRA E must have been operational for at least 12 months. | |
| | Buyer/investor profile | Publicly traded accessible only to institutional investors | | | |
| | Focused/eligible sectors | Energy | | | |
| | Issuance currency | MXN | | | |
| | Investments through this instrument to date (in mentioned currency) | 52.5 | MXN billion | (~ USD 2.7 billion) yearly issued amount – three issuances | 2018 |
| | | 0 | MXN billion | (~ USD 0) yearly issued amount | 2017 |
| | | 11.8 | MXN billion | (~ USD 600 million) yearly issued amount – one issuance | 2016 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | INFRAEX – PRODEMEX – social infrastructure | MXN 6.1 billion (~ USD 331 million) – invests in social infrastructure and road infrastructure – issued in 2018 | | Social infrastructure |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | FIBRA E must be used to finance energy and infrastructure projects; therefore, there is the potential that it is/can be used for sustainable projects.<br>However, none of the four issued FIBRA E targeted sustainable sectors of the economy. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | There is no embedded mandatory sustainability criteria for the instrument itself. Sustainability screening of investments is at the discretion of the sponsor. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | Do not have a pre-established investment and divestment calendar | Expected IRR | 11.26% (INFRAEX example – implicit dividend yield) | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Equity | Instrument group | Capital market instrument | |
| | Reference instrument name | Special purpose acquisition company (SPAC) | Official name | SPAC | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | No specific regulation for SPACs – *Reglamento Interior de la BMV* applies for the shares and warrants | |
| General information | Instrument description | A SPAC is a company specifically created to pool funds to finance a merger/acquisition opportunity of which identification is still pending. It is a company, incorporated as a stock exchange corporation (SAB), that collects funds through an initial public offering with the objective of acquiring a company with growth potential. The SPAC usually has two years to find the acquisition opportunity, otherwise the funds will be returned to investors. | | | |
| | Trading process | Publicly traded | | | |
| | Type of operator | Private investment bank | Commercial private bank | | |
| | Eligibility for issuer/borrower | Private only | Detail | Pension funds, private equities, or banks large enough to go through the process and procedures. | |
| | Buyer/investor profile | All investors | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | MXN | Other currencies | | |
| | Investments through this instrument to date (in mentioned currency) | 5.3 | MXN billion | (~ USD 270 million) yearly issued amount – one issuance | 2018 |
| | | 11.7 | MXN billion | (~ USD 580 million) yearly issued amount – one issuance | 2017 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | None of the two SPACs have directly targeted sustainable sectors of the economy. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Bonds (corporate and project) | Official name | *Certificados Bursátiles* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Reglamento Interior de la BMV – Título Cuarto – Valores listados en Bolsa* | |
| General information | Instrument description | Bonds are fixed income securities issued by legal entities for the purpose of financing infrastructure or other types of projects. Issuers of bonds can adapt the characteristics of their bonds to their needs, defining amount, term, and coupon payments. They can be short to long term debt instruments, medium to long term for infrastructure projects. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Commercial private bank | Private investment bank | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | All legal entities are eligible to issue bonds | |
| | Buyer/investor profile | All investors | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | MXN | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 265.3 | MXN billion | (~ USD 13.5 billion) yearly issued amount – 133 issuances (only publicly issued medium to long-term placements considered) | 2018 |
| | | 296.3 | MXN billion | (~ USD 15.1 billion) yearly issued amount – 175 issuances (only publicly issued medium to long-term placements considered) | 2017 |
| | | 158.4 | MXN billion | (~ USD 8.1 billion) yearly issued amount – 110 issuances (only publicly issued medium to long-term placements considered) | 2016 |
| | | 268.7 | MXN billion | (~ USD 13.6 billion) yearly issued amount – 168 issuances (only publicly issued medium to long-term placements considered) | 2015 |
| | | 268.6 | MXN billion | (~ USD 13.7 billion) yearly issued amount – 134 issuances (only publicly issued medium to long-term placements considered) | 2014 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | 7.7 | USD billion | Green, social, and sustainable bonds – USD and MXN issuances – cumulative issuances – 12 issuances | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | NAFIN 2015 – wind energy | USD 500 million – invests 100% in wind farms – maturity: 5y – coupon: 3.375% – CBI certified | | Energy |
| | | Mexico City 2016 – urban sustainability | MXN 1 billion (~ USD 51 million) - invests in clean transportation, energy efficiency, sustainable water management – maturity 5y – coupon: 6.02% – ICMA reviewed – issued on the Mexico stock exchange | | All |
| | | FIRA 2018 – agriculture water management | MXN 2.5 billion (~ USD 127 million) – invests in sustainable water management in agriculture – maturity 5y – coupon: TIIE + 0.15 – not certified – issued on the Mexico Stock Exchange | | Agribusiness and forestry |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Bonds have been used to finance sustainable sectors of the economy, as well as specific projects in companies across all sectors. In particular, some of these projects have been labeled green, social, and sustainable bonds, guaranteeing the use of proceeds for sustainable purposes. Many non-labeled bonds have also financed such projects. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | There is no sustainability criteria within bonds in general; however, the green, social and sustainable bond labels highlight the sustainability criterias of some of these bonds. To obtain such a label, the bonds must go through the relevant processes to demonstrate that they are, in fact, green, social, or sustainable bonds. This requires the development of a framework detailing the investment thesis of the bond and how the monitoring and verification of the "sustainable" aspect of the bond will be operated. The framework is usually revised by a second-opinion provider before being issued. Green bonds can either be issued privately, where one or several major investors cover the entire bond issuance or publicly through the Mexican bond market. In addition, climate-aligned bonds can seek certification through the Climate Bonds Initiative. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | *Principios de Bonos Verdes*<br>Green and Social Bond Principles and the Sustainability Bond Guidelines of the ICMA<br>Climate Bond Principles – certification for climate-aligned bonds | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | Not available | | | |
| | Minimum issuance | No legal minimum | | | |
| | Typical issuance amount | Not available | | | |
| | Typical maturity | 1-2 years for short-term bonds<br>5-10 years for long-term bonds | | | |
| | Typical yield | 3.5% for issuances in USD<br>5.5% for issuances in "*Valor Unidades de Inversión*" (adapted for inflation)<br>8-10% for issuances in MXN | | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Mezzanine | Instrument group | Capital market instrument | |
| | Reference instrument name | Mezzanine funds | Official name | Not applicable – only international funds | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Not applicable – depends on where it is registered | |
| General information | Instrument description | Mezzanine funds are primarily managed by private equity firms with varying structures that can be tailored to the transaction and capital structure of the company receiving the financing. Mezzanine finance is an umbrella term for hybrid forms of finance, which excludes senior debt and common stock. Mezzanine funds can provide financing through hybrid structures including, subordinated debt, and preferred equity. These are complex investment structures that require dedicated expertise. Mezzanine funds in Mexico have invested in industrial and IT companies, general infrastructure, and socially and environmentally-focused SMEs. | | | |
| | Trading process | Private placement | | | |
| | Type of operator | VC/PE fund manager | Asset manager | Private investment bank | |
| | Eligibility for issuer/borrower | Private only | Detail | Mostly private equity fund managers and asset managers | |
| | Buyer/investor profile | No evident eligibility criteria. Most investors in funds that target infrastructure in developing countries are national and international development banks or development agencies. Institutional investors are eligible but have not invested significantly in such funds. | | | |
| | Focused/eligible sectors | Energy | | | |
| | Issuance currency | USD | | | |
| | Investments through this instrument to date (in mentioned currency) | 340 | USD million | Aggregated value not available – deducted from the information encountered on four funds | 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | 62.5 | USD million | Sociallyand environmentally-focused SMEs – two mezzanine funds | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Adobe Social Mezzanine Fund | USD 22.5 million – invests in socially-focused SMEs | | All |
| | | Adobe Mezzanine Fund II | USD 40 million – invests in socially and environmentally-focused SMEs | | All |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The focus of the funds are distinct. The Mexico-focused Adobe Mezzanine Fund II, for example, is focused entirely on entities with positive social and environmental impacts. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | All funds have their own privately-defined investment criteria, which in some cases includes sustainability, but there are no guidelines, criteria, or standards specifically for such funds. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | The sustainability criteria of funds are defined on a voluntary basis by the fund manager. | | | |
| Mezzanine instrument features | Typical minimum financed amount | Not available | | | |
| | Typical maximum financed amount | Not available | | | |
| | Typical interest rate (p.a.) | 12% (Latin America – average of debt instruments within mezzanine funds – data from 2014) | | | |
| | Typical term | 84 (Latin America – average of debt instruments within mezzanine funds – data from 2014) | | | |
| | Typical warrant features | Not available | | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | CAT bonds | Official name | *Bono catastrófico* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Not applicable – depends on where it is registered | |
| General information | Instrument description | The "*bono catastrófico*", or CAT bond, is a specific type of insurance-linked security that enables insurers and reinsurers to transfer their risk to capital market investors, lowering their reinsurance costs and freeing up capital for the company to invest. Similar to the case of a regular bond, investors receive fixed-interests at predefined intervals until the repayment of the full principal at maturity. The main difference is that if a catastrophe occurs, investors lose the principal and pending interest payments. | | | |
| | Trading process | Private placement | | | |
| | Type of operator | Insurer | Securitization firm | | |
| | Eligibility for issuer/borrower | Private only | Detail | Corporation, insurer and reinsurer of infrastructure | |
| | Buyer/investor profile | Qualified investors (including pension funds) and insurance-linked securities specialists. | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | USD | | | |
| | Investments through this instrument to date (in mentioned currency) | 1.8 | USD billion | Five issuances, two since 2017 | 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sector split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Rarely: the instrument has rarely financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | CAT bonds are evaluated as climate-aligned due to their role in covering climate risk for infrastructure and socially sustainable, as proceeds of CAT bonds are used for reconstruction in the event of a disaster. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | This instrument has no embedded social, environmental, or climate criteria. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | USD 620 million | | | |
| | Minimum issuance | Not available | | | |
| | Typical issuance amount | USD 200-400 million | | | |
| | Typical maturity (year) | 3 years | | | |
| | Typical yield | 4-10% (depends on USD 3-month LIBOR rate – 0.2% (management fee) + 2.5-8% (risk premium) as of 2018) | | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Guarantee | Instrument group | Credit instrument – specific initiative | |
| | Reference instrument name | Financial guarantee for infrastructure and public services | Official name | *Garantías de Pago Oportuno* (GPO) | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Banobras – internal regulation | |
| General information | Instrument description | The GPOs are financial guarantees provided by Banobras for Mexican states and municipalities to guarantee income from infrastructure projects in the form of guarantees of payment to investors in the project. GPOs aim to mitigate the risk that the revenue streams or debt payments of such projects are not met to facilitate the access of project developers to the capital market and commercial banks.<br><br>The structure applying for the guarantee must be a trust with predictable sources of revenue, must have a "Reserve Fund" that would be used before the guarantee, and must be rated at least BBB without the guarantee. | | | |
| | Trading process | None | | | |
| | Type of operator | National development bank | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Investors or project developers involved in an infrastructure or public service project | |
| | Buyer/investor profile | Not applicable | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | MXN | | | |
| | Investments through this instrument to date (in mentioned currency) | 0 | MXN billion | (~ USD 0) – funds granted yearly | 2018 |
| | | 5.8 | MXN billion | (~ USD 300 million) – funds granted yearly | 2017 |
| | | 18.7 | MXN billion | (~ USD 980 million) – funds granted yearly | 2016 |
| | | 30.7 | MXN billion | (~ USD 1.6 billion) – funds granted yearly | 2015 |
| | | 24.8 | MXN billion | (~ USD 1.3 billion) – funds granted yearly | 2014 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument has rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Not available | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The guarantee instrument will target projects in line with Banobras' investment strategy, which involves sustainable development aspects. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Program | Instrument group | Credit instrument – specific initiative | |
| | Reference instrument name | Massive Urban Transport Program (PROTRAM) | Official name | *Programa de Apoyo Federal al Transporte Urbano Masivo* (PROTRAM) | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Segunda Sesión Ordinaria de 2008 del Fondo Nacional de Infraestructura* | |
| General information | Instrument description | PROTRAM is one of the instruments of the National Infrastructure Fund to support the financing of investment projects in mass urban transport, as well as to promote the institutional strengthening of planning, regulation, and administration of urban public transport systems.<br><br>The support of PROTRAM to urban infrastructure projects can take several forms:<br>- grants for urban studies;<br>- subsidies;<br>- concessional loans; and<br>- guarantees. | | | |
| | Trading process | None | | | |
| | Type of operator | National development bank | | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Local governments, municipalities, and private concessionaires | |
| | Buyer/investor profile | Not applicable | | | |
| | Focused/eligible sectors | Transport | | | |
| | Issuance currency | MXN | | | |
| | Investments through this instrument to date (in mentioned currency) | 14.4 | MXN billion | (~ USD 750 million) – accumulated funds disbursed | 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sectoral split of sustainable investment | Transport 100% | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | PROTRAM finances massive urban transport infrastructure projects and has mainly supported public transport projects, which have positive social, environmental, and climate impacts. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | All projects must submit their social and environmental analyses according to standards set by the INE and MASTU. | | | |
| | Mandatory sustainability criteria/standard? | Yes | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | The investment targets of PROTRAM focus on public transport projects with social, environmental and climate impacts. | | | |
| Loan instrument features | Source of funds | Not available – the support of the program can take several forms, from grants to loans and equity. The conditions differ for each project and depending on which instrument is used. | | | |
| | Typical minimum financed amount | | | | |
| | Typical maximum financed amount | | | | |
| | Typical interest rate (p.a.) | | | | |
| | Typical maximum term | | | | |
| | Typical maximum grace period | | | | |
| | Typical collateral | | | | |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Program | Instrument group | Credit instrument – specific initiative | |
| | Reference instrument name | Water Infrastructure Modernisation Program | Official name | *Programa de Modernización de Organismos Operadores de Agua* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Acuerdo CT/1A ORD/12-MAYO-2008/III – integrates PROMAGUA as part of the *Fondo Nacional de Infraestructura's* strategy related to water and sanitation | |
| General information | Instrument description | PROMAGUA is a program that channels support from the National Infrastructure Fund to address gaps in coverage and the quality of drinking water, sewerage, and sanitation services. At the same time, it creates incentives for the participation of private capital in these types of projects. These tend to be concessionary loans or grants. | | | |
| | Trading process | None | | | |
| | Type of operator | National development bank | | | |
| | Eligibility for issuer/borrower | State-owned only | Detail | Governmental entities and municipalities (mostly of more than 50,000 people) | |
| | Buyer/investor profile | Not applicable | | | |
| | Focused/eligible sectors | Water and sanitation | | | |
| | Issuance currency | MXN | | | |
| | Investments through this instrument to date (in mentioned currency) | 10.4 | MXN billion | (~ USD 540 million) – accumulated funds disbursed | 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | | |
| | Sector split of sustainable investment | Water and sanitation 100% | | | |
| | Sustainable investment examples | Not available | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | PROMAGUA only finances projects in the water and sanitation sector ensuring the positive social impact of its investments. The projects also integrate an environmental aspect in their development. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The screening criteria is sectoral, focusing only on projects in water and sanitation. The social and environmental sustainability of the projects have to be reported by the developer. | | | |
| | Mandatory sustainability criteria/standard? | Yes | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | | |
| Loan instrument features | Source of funds | Not available – the support of the program can take several forms, from grants to loans and equity. The conditions differ for each project and depending on which instrument is used. | | | |
| | Typical minimum financed amount | | | | |
| | Typical maximum financed amount | | | | |
| | Typical interest rate (p.a.) | | | | |
| | Typical maximum term | | | | |
| | Typical maximum grace period | | | | |
| | Typical collateral | | | | |

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|---|---|---|---|---|
| Instrument | Instrument type | Loan | Instrument group | Credit instrument |
| | Reference instrument name | Credit lines for sustainable projects | Official name | *Línea de Crédito para Proyectos Sustentables* |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Ley General de Transparencia y Acceso a la Información* |
| General information | Instrument description | Credit lines extended by the Nacional Financiera (NAFIN) for companies or financial intermediaries to stimulate the sustainable growth of the country. These could be for specific projects (e.g., SPV renewable energy) or financing "green" credit lines of commercial financing institutions. The support of NAFIN can take different forms:<br>- financing of construction or operation and maintenance phase of a project;<br>- financing the value-added tax derived from investments in the construction phase of these projects; and<br>- providing local currency capital to international financial institutions that invest in these projects. | | |
| | Trading process | None | | |
| | Type of operator | National development bank | | |
| | Eligibility for issuer/borrower | Private only | Detail | Medium or large Mexican companies focused on the development of energy projects |
| | Buyer/investor profile | Not applicable | | |
| | Focused/eligible sectors | All | | |
| | Issuance currency | MXN | | |
| | Investments through this instrument to date (in mentioned currency) | Not available | | |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | |
| | Sectoral split of sustainable investment | Not available | | |
| | Sustainable investment examples | Not available | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past |
| | Has the instrument been used to finance sustainable sectors of the economy? | These credit lines are designed to be used to finance sustainable sectors. | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | These credit lines can only finance projects or companies that fit the sustainability criteria defined by NAFIN. | | |
| | Mandatory sustainability criteria/standard? | Yes | Voluntary sustainability guidelines/criteria/standard? | No |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | These credit lines invest solely in sustainable infrastructure. | | |
| Loan instrument features | Source of funds | National development bank | | |
| | Typical minimum financed amount | For the sustainable projects credit line of NAFIN, projects need to be in excess of 500 million pesos or other currency equivalent. | | |
| | Typical maximum financed amount | Not available | | |
| | Typical interest rate (p.a.) | Determined on a case to case basis but calculated from: (LIBOR or TIEE) + applicable margin | | |
| | Typical maximum term | 240 months | | |
| | Typical maximum grace period | Not available | | |
| | Typical collateral | Not available | | |

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|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Credit instrument – specific initiative |
| | Reference instrument name | Investment Fund China-Mexico | Official name | *Fondo de Inversiones China-Mexico* (FICM) |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Not applicable |
| General information | Instrument description | The FICM is a venture capital fund created by a partnership between Mexico and China to invest in infrastructure, energy, mining, and cutting-edge technologies, with a high potential impact for Mexico. The fund will finance Mexican companies in these sectors by financing up to 20% of their project through equity, quasi-equity, and mezzanine financing. The fund is administered by the International Finance Corporation's (IFC) Asset Management Company.<br><br>Created with an initial capital of USD 1.2 billion from different holders including: China Investment Corporation, China Development Bank International Holdings Limited, National Infrastructure Fund (FONADIN), BANOBRAS, and NAFIN. | | |
| | Trading process | None | | |
| | Type of operator | National development bank | | |
| | Eligibility for issuer/borrower | Private only | Detail | Mexican companies with projects in Mexico in the sectors targeted by the fund |
| | Buyer/investor profile | Not applicable | | |
| | Focused/eligible sectors | All | | |
| | Issuance currency | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 320 | USD million | Amount invested out of the USD 1,200 million allocated to the fund. 2018 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | |
| | Sectoral split of sustainable investment | Not applicable | | |
| | Sustainable investment examples | Not available | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument has rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past |
| | Has the instrument been used to finance sustainable sectors of the economy? | The fund has financed two companies in the oil and gas and telecommunication sectors; hence, the focus is not on sustainability. | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The fund will comply with IFC's Policy and Performance standards on social and environmental sustainability. | | |
| | Mandatory sustainability criteria/standard? | Yes | Voluntary sustainability guidelines/criteria/standard? | No |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | IFC Policy and Performance standards on social and environmental sustainability | | |
| Fund instrument features | Fund type | Equity fund | | |
| | Typical invested term | 12 years | Expected IRR | 12-15% |

| | | | | |
|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Credit instrument – specific initiative |
| | Reference instrument name | Mexican venture capital corporation or fund of funds | Official name | *Fondo de Fondos o Corporación Mexicana de Inversiones de Capital* (CMIC) |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Not applicable |
| General information | Instrument description | CMIC is the unique equity vehicle of the government created to promote the venture capital industry in Mexico, with contributed capital from NAFIN, BANCOMEXT, BANOBRAS, and FOCIR. CMIC supports the development of small and medium-sized companies, as well as the energy and infrastructure sectors of Mexico. Its objective is to attract long-term national and international investment into these sectors.<br>The CMIC channels investments into three private equity vehicles (CMIC Portfolio, Mexico I Funds Fund, and Mexico II Funds Fund), four venture capital or capital venture vehicles (Mexico Ventures I, Mexico Ventures II, Mexico Ventures Direct, and Mexico Ventures Annex), a mezzanine debt vehicle and a vehicle focused on the energy sector. | | |
| | Trading process | None | | |
| | Type of operator | National development bank | Federal government | |
| | Eligibility for issuer/borrower | Private only | Detail | Medium or large Mexican companies focused on the development of energy projects.<br>Financial institutions (national or foreign) and multilateral financial organizations that provide financing to energy projects |
| | Buyer/investor profile | Not applicable | | |
| | Focused/eligible sectors | All | | |
| | Issuance currency | USD | | |
| | Investments through this instrument to date (in mentioned currency) | Not available | | |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not applicable | | |
| | Sectoral split of sustainable investment | Not applicable | | |
| | Sustainable investment examples | Not available | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned |
| | Classification | Rarely: the instrument has rarely financed socially sustainable infrastructure in the past | Rarely: the instrument has rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past |
| | Has the instrument been used to finance sustainable sectors of the economy? | Not available | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | Not available | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No |
| | Detail on mandatory/voluntary sustainability guideline/criteria/standard | Not applicable | | |
| Fund instrument features | Fund type | Equity fund | | |
| | Typical invested term | 12 years | Expected IRR | Not available |

### 6.6 Peru

| Reference name | Type | Official name | Short description |
|---|---|---|---|
| Private Investment Fund | Fund | *Fondos de Inversión Privada - FIP* | *Fondos de Inversión Privada* or FIP is an investment fund, whose quotas are placed by private offer. |
| Real Estate Investment Fund | Fund | *Fondo de Inversión en Renta de Bienes Inmuebles – FIRBI* | FIRBI is an investment fund in real estate that generates income regularly through dividends, whose shares are placed by initial public offer (IPO) to at least 10 investors. |
| Real Estate Investment Trusts | Fund | *Fideicomisos de titulización para inversión en renta de bienes inmuebles – FIBRA* | The trust fund focused on real estate investments whose participation certificates have been exclusively placed by primary public offering. |
| Corporate Bond | Bond | *Bono corporativo* | Fixed income securities representing medium and long term debt that guarantee holders a right of credit against the issuing company. |
| Trust funds | Fund | *Fideicomisos* | Trust fund, in which a company/person (grantor or fideicomitente), transfers assets to another entity (trustee or fiduciario), for the constitution of a the fund. |
| Project Finance COFIDE | Loan | *Financiamiento de Infraestructura COFIDE* | Credit line offered by COFIDE for infrastructure projects |
| CAT Bonds | Bond | *Bono Catastrófico* | Insurance-linked securities to transfer risk to capital market investors |
| Financial guarantee for infrastructure and public services | Guarantee | *Garantías de Pago Oportuno (GPO)* | Financial guarantees provided by Banobras for Mexican states and municipalities to guarantee income from infrastructure projects in the form of guarantees of payment to investors in the project |

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|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Private investment fund | Official name | *Fondos de Inversión Privada* (FIP) | |
| | Last updated information | Nov 2018 | Norm/regulation that created or regulates the instrument | *Ley de fondos de inversión y sus sociedades administradoras*<br>N° 00862-1996 | |
| General information | Instrument description | FIP is an investment fund, whose quotas are placed by private offer. They also have some specific characteristics according to Peruvian law: (1) the investment funds must be privately held and the number of quotas must be fixed; (2) the fund must have an internal regulation; (3) investments may be held in securities, fixed-term deposits, real estate or infrastructure projects, and lease and derivative instruments, as established in the internal regulation of participation; (4) the fund must have a general assembly of quotaholders; and (5) it must be managed by a SAFI (*sociedad administradora de fondos de inversión* – specific asset manager). In 2017, SAFIs (27 operating in the Peruvian market) were already managing around USD 4 billion. | | | |
| | Trading process | Private placement | | | |
| | Type of operator | VC/PE Fund Manager | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Only SAFIs registered in the CONASEV (*Comisión Nacional Supervisora de Empresas y Valores*) and authorized by the SVM (*Superintendencia de Mercado de Valores*) can be administrators of FIP (*Fondos de inversión privada*). | |
| | Buyer/investor profile | The minimum subscription value for FIP is USD 0.1 million. Investors in private investment funds for infrastructure are pension funds and insurance companies.The portfolio managed by private pension fund administrators (AFP) that is invested in infrastructure has grown in recent years, reaching a total of USD 4 billion in 2016 (47% growth since 2011). The investment in infrastructure made by the AFPs has seen a greater growth in the transportation (132%) and energy (49%) sectors since 2011. | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | PEN | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 4 | USD billion | (total assets) | Dec/2017 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | *Fondo de Inversión en Infraestructura* (SIGMA FI) | SIGMA FI has USD 250 million in equity and invests in: transportation; sanitation; energy, including alternative or non-traditional sources of energy; telecommunications; social; among others. Since 2015, it has invested in wind farms. The expected return of the fund is 15-20%. | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | It has a general focus, but some investments were directed to infrastructure projects. These projects have potential to promote social, environmental, and climate benefits, as follows:<br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road); and sanitation (reduction of diseases, access to water and sanitation);<br>- environmental: energy (energy efficiency, renewable energy, energy distribution, smart grid); transportation (efficient vehicles, alternative fuels, public transportation, reduce fossil fuel demand); and sanitation (reduction of water bodies and soil contamination, energy efficiency, anaerobic digestion); and<br>- climate: energy (energy efficiency, renewable energy, energy distribution, smart grid); transportation (efficient vehicles, alternative fuels, public transportation, reduce fossil fuel demand); sanitation (energy efficiency, anaerobic digestion). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | FIP has no embedded social, environmental or climate criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Detail on ESG and/or label/certification | Not applicable | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | 9 years (5-year investment period and 4-year exit period) | Expected IRR | 11% to 16% in local currency (PEN) | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Real estate investment fund | Official name | *Fondo de Inversión en Renta de Bienes Inmuebles* (FIRBI) | |
| | Last updated information | Nov 2018 | Norm/regulation that created or regulates the instrument | Law: Resolution SMV Nº 016-2017 (presents FIRBI)<br>Law N° 30532 (presents tax incentive) | |
| General information | Instrument description | FIRBI is an investment fund in real estate that generates income regularly through dividends, whose shares are placed by initial public offering (IPO) to at least 10 investors.They also have some specific characteristics according to Peruvian law: (1) the fund must have an internal regulation; (2) the purpose of this fund is the investment in the acquisition or construction of real estate assets intended for lease – at least 70% of the investments must be made in real estate (buildings, industrial plants, offices, shopping malls, and hotels, among others); (3) the fund must have a general assembly of quotaholders; (4) it must be managed by a SAFI; and (5) FIRBI must distribute at least 95% of the profits obtained in the year among their participants. | | | |
| | Trading process | Publicly traded | | | |
| | Type of operator | VC/PE fund manager | Asset manager | | |
| | Eligibility for issuer/borrower | Private only | Detail | Only SAFIs registered in the CONASEV (*Comisión Nacional Supervisora de Empresas y Valores*) and authorized by the SVM (*Superintendencia de Mercado de Valores*) can be administrators of FIRBI (*Fondo de Inversión en Renta de Bienes Inmuebles*). | |
| | Buyer/investor profile | The subscription value for FIRBIs varies depending on the SAFI and the SMV approval.<br>Shares are placed by IPO to at least 10 investors, who can be retail or institutional investors. According to Peruvian law, institutional investors are banks and financial and insurance institutions, financial intermediaries, private pension fund administrators (AFPs), SAFIs, mutual fund management companies, as well as foreign entities that carry out similar activities like the ones mentioned above. | | | |
| | Focused/eligible sectors | Real Estate | | | |
| | Issuance currency | PEN | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 1.91 | USD billion | (FIRBI and FIBRA assets) | 2018 Estimate |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Firbi Sura Asset Management | Firbi Sura Asset Management will exceed USD 70 million dollars in equity managed in investments in office buildings, 100% rented by 22 tenants with an average rental contract term of approximately 4.47 years | | |
| | | FIRBI Metroport | W Capital SAFI SA and Hunter Capital SAC joined to create the FIRBI Metroport with an equity of USD 185.35 million in April 2018. The fund was directed only to institutional investors. | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The instrument has a specific focus on real estate projects. These projects have the potential to promote social, environmental, and climate benefits, as follows:<br>- social: logistics, regarding support for product distribution (warehouses) and residential (access to housing);<br>- environmental: eco-efficiency (energy savings, water efficiency) for offices, retail, residential; and<br>- climate: energy efficient buildings and eco-efficient construction processes. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | FIRBI has no embedded social criteria, or incentives for socially and environmentally positive investments. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on ESG and/or label/certification | Eco-efficiency certification available for real estate projects such as LEED, EDGE, and BREEAM. | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | Not applicable | Expected IRR | Average annual return range: 6-9% in local currency (PEN). | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Real estate investment trusts | Official name | *Fideicomisos de titulización para inversión en renta de bienes inmuebles* (FIBRA) | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | Law: Resolution SMV Nº 016-2017 (Presents FIBRA)<br>Law N° 30532 (Presents tax incentives) | |
| General information | Instrument description | The trust fund shall include the denomination "FIBRA" when its participation certificates have been exclusively placed by primary public offering and the purpose of the trust equity is the acquisition or construction of real estate that is destined to its lease or other form of cession, and provided that it is also fulfilled with the following requirements: (a) 70% of equity invested in own assets; (b) minimum of four years for transference of assets; (c) participation certificates must be placed, by IPO (initial public offering), to at least 10 investors who are not linked to each other; and (d) the trust company must appoint a management commission for investment decisions made up of at least three natural persons with adequate academic and professional training. | | | |
| | Trading process | Publicly traded | | | |
| | Type of operator | Trust company | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Only trust companies registered in the CONASEV (*Comisión Nacional Supervisora de Empresas y Valores*) and authorized by the SVM (*Superintendencia de Mercado de Valores*) can be administrators of FIBRA (*fideicomisos de titulización para inversión en renta de bienes inmuebles*). | |
| | Buyer/investor profile | The subscription value for FIBRA varies, depending on the securitization firm and the SMV approval.<br>Shares are placed by IPO to at least 10 investors, who can be retail or institutional investors. According to Peruvian law, institutional investors are banks, financial and insurance institutions, financial intermediaries, private pension fund administrators (AFPs), investment fund management companies (SAFIs), mutual fund management companies, as well as foreign entities that carry out similar activities to the ones mentioned above. AFPs and insurance companies are the main investors. | | | |
| | Focused/eligible sectors | Real estate | | | |
| | Issuance currency | PEN | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 1.91 | USD billion | (FIRBI and FIBRA assets) | 2018 estimate |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | FIBRA Prime | FIBRA Prime, the only FIBRA available in the market, invests in residential and social projects, such as school buildings. So far, they have not invested in LEED certified buildings, since certification is more common for commercial buildings, which has not been their focus. The fund´s assets under management are expected to reach USD 100-120 million by the end of 2019. New issuance is expected in the amount of USD 25 million every three months. | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | The instrument has a specific focus on real estate projects. These projects have the potential to promote social, environmental, and climate benefits, as follows:<br>- social: logistics, regarding support for products distribution (warehouses) and residential (access to housing);<br>- environmental: eco-efficiency (energy savings, water efficiency) for offices, retail and residential buildings; and<br>- climate: energy-efficient buildings and eco-efficient construction processes. | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | FIBRA has no embedded social criteria or incentives for socially and environmentally positive investments | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on ESG and/or label/certification | Eco-efficiency certification available for real estate projects such as LEED, EDGE, and BREEAM. | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | 8.5 year (average); 10 year (typical); 7 year (minimum) | Expected IRR | 9.86% p.a (nominal) | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Bond | Instrument group | Capital market instrument | |
| | Reference instrument name | Corporate bond | Official name | *Bono corporativo* | |
| | Last updated information | Dec 2018 | Norm/regulation that created or regulates the instrument | *Ley de Mercado de Valores* N° 0093-2002 | |
| General information | Instrument description | Fixed income securities representing medium- and long-term debt that guarantee holders a right of credit against the issuing company. About 33% of the infrastructure projects in Peru are financed through corporate bonds. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Private investment bank | | | |
| | Eligibility for issuer/borrower | Private only | Detail | Companies registered as Sociedade Anónima, Sociedad Anónima Abierta y Sociedad Anónima Cerrada (S.A, S.A.A and S.A.C), equivalent to corporations (Inc.) in the United States, can issue bonds in the Peruvian capital market through the BVL (*Bolsa de Valores de Lima* – Lima Stock Exchange). | |
| | Buyer/investor profile | All public offers take place in the BVL. When publicly offered, it is targeted at the general public. When privately offered, it is targeted at institutional investors: banks, pension funds administrators (AFPs), insurance companies, and mutual funds are the main investors for privately offered bonds. Of the 275 issuing companies in the BVL, 10 of them (from different sectors) represent 53% of the amount of initial public offerings (IPOs) in debt instruments. | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | PEN | USD | | |
| | Investments through this instrument to date (in mentioned currency) | 1.55 | USD billion | USD 0.15 billion and PEN 4.93 billion (USD 1.4 billion) (issued) | 2017 |
| | | 2.58 | USD billion | USD 0.08 billion and PEN 8.38 billion (USD 2.5 billion) (issued) | 2016 |
| | | 2.23 | USD billion | USD 0.23 billion and PEN 6.89 billion (USD 2 billion) (issued) | 2015 |
| | | 2.25 | USD billion | USD 0.65 billion and PEN 5.35 billion (USD 1.6 billion) (issued) | 2014 |
| | | 1.43 | USD billion | USD 0.29 billion and PEN 3.83 billion (USD 1.14 billion) (issued) | 2013 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | 234 | USD million | (Green bond issuances) | 2018 |
| | Sectoral split of sustainable investment | Not applicable | | | |
| | Sustainable investment examples | Protisa Perú – Paper company | Protisa Perú issued a PEN 100 million (USD 30 million) green bond on Oct 1, 2018 for energy efficiency, pollution prevention and control, and sustainable water management. The interest rate was 6.625%. | | |
| | | Energia Eolica – Wind energy | Energia Eolica issued a project bond of USD 204 million green bond in December 2014 to finance wind energy farms. The bond was priced with a 6% coupon and 20 year tenor. | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | Bond issuance for infrastructure projects focuses mainly on the energy and transportation sectors, which may promote social benefits, such as:<br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road);<br>- environmental: energy (energy efficiency, renewable energy); transportation (efficient vehicles, alternative fuels, public transportation); and<br>- climate: energy (renewable energy, dedicated transmission and distribution, smart grid); transportation (reduction of fossil fuel demand). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The bond itself has no embedded social criteria, nor incentives for socially and environmentally positive investments. Corporate Bonds do not require certification in order to be operated. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | Yes | |
| | Detail on ESG and/or label/certification | Climate Bonds Initiative Certification | | | |
| Bond instrument features | Outstanding amount (in mentioned currency) | USD 6 billion as of December 2017 | | | |
| | Minimum issuance | USD 3 million or PEN 12 million (USD 3.6 million) (from 2013 to 2017) | | | |
| | Typical issuance amount | USD 12 million and PEN 100 million (USD 29.8 million) (issuance average as of December 2017) | | | |
| | Typical maturity | 8 years (December 2018 weighted average) | | | |
| | Typical yield | 5.66% p.a. (December 2018 average issuances in PEN); ranges from 3.09% to 7.09% p.a. (issuances in PEN) | | | |

| | | | | | |
|---|---|---|---|---|---|
| Instrument | Instrument type | Fund | Instrument group | Capital market instrument | |
| | Reference instrument name | Trust funds | Official name | *Fideicomisos* | |
| | Last updated information | January 2019 | Norm/regulation that created or regulates the instrument | Regulation of trust funds and trust services companies – SBS Resolution Nº 1010-99 | |
| General information | Instrument description | A *fideicomiso* is a legal relationship in which a company/person (grantor or "*fideicomitente*"), transfers assets to another entity (trustee or "*fiduciario*"), for the constitution of a trust fund. The trustee keeps control of the trust to achieve a specific purpose for a third party or for the grantor itself. | | | |
| | Trading process | Both public and private | | | |
| | Type of operator | Trust company | | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Only the following entities can act as financial trustees in the Peruvian market: trust companies, insurers, reinsurers and the National Development Bank. | |
| | Buyer/investor profile | - | | | |
| | Focused/eligible sectors | All | | | |
| | Issuance currency | PEN | USD | Other currencies | |
| | Investments through this instrument to date (in mentioned currency) | 38 | PEN billion | (USD 11 billion) (assets of trustees in the private sector) | November 2018 |
| | | 35 | PEN billion | (USD 10.4 billion) (assets of trustees in the private sector) | December 2017 |
| | | 32.6 | PEN billion | (USD 10.4 billion) (assets of trustees in the private sector) | December 2016 |
| | | 24 | PEN billion | (USD 10.4 billion) (assets of trustees in the private sector) | December 2015 |
| | | 17.7 | PEN billion | (USD 10.4 billion) (assets of trustees in the private sector) | December 2014 |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | |
| | Sectoral split of sustainable investment | Not available | | | |
| | Sustainable investment examples | Marcona and Tres Hermanas – wind farms | Sigma FI, a closed-end equity fund focused on infrastructure projects structured a banking trust fund (*fideicomiso bancário*) with La Fiduciaria linked to the issuance of a corporate bond in the amount of USD 250 million in 2018 to finance these projects. | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | |
| | Classification | Rarely: the instrument rarely financed socially sustainable infrastructure in the past | Rarely: the instrument rarely financed environmentally sustainable infrastructure in the past | Rarely: the instrument rarely financed climate-aligned infrastructure in the past | |
| | Has the instrument been used to finance sustainable sectors of the economy? | It has a general focus but some investments were directed to infrastructure projects. These projects have potential to promote social, environmental, and climate benefits, as follows:<br><br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road); sanitation (reduction of diseases, access to water, and sanitation);<br><br>- environmental: energy (energy efficiency, renewable energy, energy distribution, smart grid); transportation (efficient vehicles, alternative fuels, public transportation, reduced fossil fuel demand); sanitation (reduction of water bodies and soil contamination, energy efficiency, anaerobic digestion); and<br><br>- climate: energy (energy efficiency, renewable energy, energy distribution, smart grid); transportation (efficient vehicles, alternative fuels, public transportation, reduce fossil fuel demand); sanitation (energy efficiency, anaerobic digestion). | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | The instrument has no embedded social criteria or incentives for socially and environmentally positive investments. Corporate Bonds do not require certification to be operated. | | | |
| | Mandatory sustainability criteria/standard? | No | Voluntary sustainability guidelines/criteria/standard? | No | |
| | Voluntary sustainability guidelines/criteria/standard? | Yes | | | |
| | Detail on ESG and/or label/certification | – | | | |
| Fund instrument features | Fund type | Equity fund | | | |
| | Typical invested term | 4 years | Expected IRR | Not disclosed | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Instrument | Instrument type | Loan | Instrument group | Credit instrument – specific initiative | | |
| | Reference instrument name | Project Finance COFIDE | Official name | *Financiamiento de Infraestructura* (COFIDE) | | |
| | Last updated information | Nov 2018 | Norm/regulation that created or regulates the instrument | Resolution SBS N° 1928-2015 | | |
| General information | Instrument description | COFIDE, the national development bank, is mainly dedicated to attracting financial resources from multilateral organizations, and local and foreign banks; those resources are then channeled directly or through financial intermediaries to individuals and institutions looking to finance productive investments and public and private infrastructure projects. The main shareholder is the Peruvian state, which owns 99.2% of the shares. COFIDE only finances up to 50% of the total cost of a project. | | | | |
| | Trading process | None | | | | |
| | Type of operator | National development bank | | | | |
| | Eligibility for issuer/borrower | State-owned and private entities | Detail | Companies from all economic sectors | | |
| | Buyer/investor profile | Not applicable | | | | |
| | Focused/eligible sectors | Energy | Social infrastructure | Transport | Water and sanitation | Telecommunication |
| | Issuance currency | USD | | | | |
| | Investments through this instrument to date (in mentioned currency) | 914 | USD million | 2017 | | |
| | Sustainable investments to date (only when a clear consensus on sustainability exists) | Not available | | | | |
| | Sectoral split of sustainable investment | Not available | | | | |
| | Sustainable investment examples | Not available | | | | |
| Sustainability criteria | Sustainability focus | Socially sustainable | Environmentally sustainable | Climate-aligned | | |
| | Classification | Frequently: the instrument has frequently financed socially sustainable infrastructure in the past | Frequently: the instrument has frequently financed environmentally sustainable infrastructure in the past | Frequently: the instrument has frequently financed climate-aligned infrastructure in the past | | |
| | Has the instrument been used to finance sustainable sectors of the economy? | This instrument has potential to promote social and environmental benefits, such as:<br><br>- social: energy (access to energy, energy safety); transportation (access to public transportation, employers and passengers safety with reduced impact of accidents in rail versus road); sanitation (reduction of diseases, access to treated water and sanitation); telecom (access to phone/mobile and internet, internet services access, work efficiency/opportunities, reduced travel time); real estate (access to housing);<br><br>- environmental: energy (energy efficiency, renewable energy); transportation (efficient vehicles, alternative fuels, public transportation); sanitation (reduction of water bodies and soil contamination); telecom (reduced travel time, reduced use of resources); real estate (eco-efficient buildings, energy efficiency); and<br><br>- climate: transportation (efficient vehicles, alternative fuels, public transportation); sanitation (energy efficiency, anaerobic digestion); energy (renewable energy, dedicated transmission and distribution, smart grid); telecom (reduced travel time; reduce use of resources); real estate (energy efficiency). | | | | |
| | Is there a sustainability screening criteria within the instrument? A taxonomy or certification linked to sustainable infrastructure? | ESG criteria is considered for the credit approval. | | | | |
| | Mandatory sustainability criteria/standard? | Yes | Voluntary sustainability guidelines/criteria/standard? | No | | |
| | Voluntary sustainability guidelines/criteria/standard? | Yes | | | | |
| | Detail on ESG and/or label/certification | COFIDE requires a social and environmental report from the borrower. | | | | |
| Loan instrument features | Source of funds | COFIDE, multilateral and local banks | | | | |
| | Typical minimum financed amount | USD 35 million | | | | |
| | Typical maximum financed amount | USD 100 million (limit for COFIDE is 50% of total project cost) | | | | |
| | Typical interest rate (p.a.) | Not available | | | | |
| | Typical maximum term | 5 to 10 years | | | | |
| | Typical maximum grace period | Varies according to the cash flow of project finance (2 to 5 years) | | | | |
| | Typical collateral | Various | | | | |

# 7. Annex II – Case studies

## 7.1 Argentina – Investment funds

### Closed-end and open-end investment funds

FCI are mutual funds formed with the contributions made by investors subscribing shares (shareholders). In the development and operation of each FCI, there are two types of independent entities: managing companies (*sociedad gerente*) and depositary companies (*sociedad depositaria*). The managing company administers the assets of the fund and represents the collective interests of the shareholders. The assets that are part of the fund are maintained in custody by the depositary company.

The assets of these funds can be composed of transferable securities with public offer (bonds, shares, negotiable obligations, deposit certificates, etc.), precious metals, currencies, futures and options contracts, instruments issued by financial institutions, and cash.

**Organizational structure**

The FCI can be classified, according to their form, as open-end (FCIA) or closed-end (FCIC). Their main differences relate to the investment object they develop (Article 1 Law 24,083) and the inherent procedures in the treatment of subscriptions and redemption of shares (Article 21 Law 24,083). Most of the FCIs that are currently operating are open-end.

All investment funds must be registered at CNV under Securities Law (No. 26,831), whether open or closed-ended. They must develop their "Fund Rules", which is a contract that regulates the contractual relations between the management and custody companies and the investors. The managing company administers the fund's assets and is responsible for acting upon investors' best interests. The depositary company maintains the fund's assets in its custody. Both the management and depositary companies must be authorized by CNV.

The open-end or closed-end investment funds may provide for the issuance of different classes of shares with different rights that are defined in the "Fund's Rules" (and/or prospectuses of issuance in the case of closed-end investment funds).

Open-end investment funds may be publicly distributed or distributed with restrictions, while closed-end investment funds may also be privately placed. Investment funds are structured and managed by the asset manager with the assistance of third-party consultants and financial operators.

For FCIA, the number of outstanding shares may increase or decrease over the life of the fund, depending on the number of shares that are issued to meet subscription requests or those that are written off in accordance with the redemption requests that are received by investors. In addition to Law 24,083, Decree 174/93 and the CNV 2013 regulations must be followed.

FCIC are constituted with a maximum fixed number of shares that are issued at the placement stage and whose amount cannot increase or decrease to the extent that new subscriptions or redemption requests will not be received until the dissolution of the FCIC or until the completion of the investment plan determined in the respective fund rules and/or issuance prospectus. Shares can only be subscribed at the time of the initial offer. After that time and throughout the life of the FCI, the investing public will only be able to acquire or sell shares in institutionalized markets organized and authorized by the CNV.

**Instrument regulatory environment**

The Argentinian capital market is relatively small compared with other major Latin American countries. Due to a history of high inflation and currency depreciation, retail investors have typically invested in real estate or strong currencies rather than domestic capital markets and financial investments have concentrated in fixed-income instruments. The launch of the new Capital Markets Law (No. 27,440/2018) is expected to develop the Argentinian capital market with its regulatory improvements, which include the promotion of investment funds as productive financing vehicles.

Investment funds are regulated by the new Investment Funds Law (No. 24,083/1992), which establishes the requirements for open-end and closed-end investment funds. An investment fund must be a co-ownership structure where investors receive quotas (*cuotapartes*) in exchange for their capital contributions. Open-end funds have no limit to the number of investors and quotas can be issued and redeemed upon the quota holders' request. However, closed-end funds have a limited number of investors and a fixed duration term, after which the quotas are redeemable. Subscription to such funds can only be made during the placement period, but they can be negotiated in the secondary market.

Additionally, investment funds are also regulated by the Securities Law (No. 26,831/2012) and the supplementary Executive Order No. 1,023/2013 and CNV Resolution 622/2013, which enforces and administers the requirements for securities. Among the regulatory innovations established in 2018, there were updates to the Investment Funds Law to promote investment funds as productive financing vehicles in the country.

Closed-end funds are subject to a 35% income tax, while open-end funds are exempt. Investment fund investors are exempt from income tax related to dividends when the fund is publicly offered, but local companies and individual investors are subject to a net income tax for gains derived from the trading of the fund's quotas of 35% and 15%, respectively.

FCIA Desarrollo Argentino II is an open-end investment fund, and therefore, it is registered at the CNV and is subject to its control and supervision. FCIA's development and operation require two types of independent entities called management companies (*sociedad gerente*) and depositary companies (*sociedad depositaria*). The management and depositary companies are subject to supervision from CNV, the national central bank and the superintendence for financial entities, and the monetary exchange market.

## Grupo SBS closed-end investment fund

Grupo SBS is an Argentinian holding specialized in securities trading, portfolio management, asset management, structured finance, and securities placement and issuance. It started its management of investment fund activities in 2007 with the creation of SBS Asset Management SA SGFCI. It was recognized by Standard & Poor's as a "Top Manager" in the Argentinian market every year between 2010 and 2014. It currently has ARS 15,000 million of assets under management among 17 investment funds.

The group has a closed-end infrastructure investment fund, FCIC SBS *Infraestructura y Desarrollo Productivo*, which is focused on fixed-income bonds for finance infrastructure projects. The fund's portfolio consists of eight projects, presented in Table 26. The FCIC will be responsible for financing over a third of the total infrastructure investment costs for those projects.

In its prospectus, Grupo SBS reports on the environmental impact for each project according to a specialized engineering

**Table 26: List of investments of the FCIC**

| Projects | Project description | Total investment (USD million) | Infrastructure investment (USD million) | FCIC's investment on bonds (USD million) |
|---|---|---|---|---|
| Timbués | Development of a port and distribution center | 233.9 | 211.7 | 70 (46.7%) |
| Planta Almendras | Almond production plant | 12.08 | 8.28 | 4 (2.7%) |
| Planta Tapas | Plastic cap integrated production plant | 4.43 | 4.12 | 2 (1.3%) |
| Celda Maní | Peanut storage plant | 16.94 | 8.18 | 4 (2.7%) |
| Acopio Chaco | Grain and oil seed storage plant | 14.02 | 9.26 | 5 (3.3%) |
| Acopio Levalle | Grain and oil seed storage plant | 14.02 | 9.26 | 5 (3.3%) |
| Producción Agro | Agricultural property development | 94.19 | 94.18 | 40 (26.7%) |
| Solar | Development of solar farm | 68.43 | 66.55 | 20 (13.3%) |
| | **Total** | **458.01** | **411.53** | **150 (100%)** |

company's assessment. It evaluates whether the companies tried to minimize negative environmental impacts during the construction phase.

The solar project stands out due to its potential environmental benefits. The SPE Aceitera General Deheza Energía S.A. is responsible for the development of a 50 MW generation capacity solar farm at Jocolí, Mendoza province. The solar farm will use polycrystalline solar panels.

**Table 27: Issuance snapshot – Grupo SBS**

| | |
|---|---|
| **Fund** | SBS *Infraestructura y Desarrollo Productivo FCIC Ley 27,260* |
| **Issuance date** | March 2017 |
| **Instrument** | Closed-end investment funds |
| **Volume** | USD 120 million |
| **Investment term** | 5 years |
| **Use of proceeds** | Investment on infrastructure projects from the company Aceitera General Deheza focused on transport, energy, and productive development |

**Table 28: FCIA Desarrollo Argentino II's main investments (as of February 2019 )**

| Main investments | Sector | % |
|---|---|---|
| ON CGC CLASE X | Oil and gas | 9.9% |
| ON JOHN DEERE CLASE IX | Agribusiness | 9.0% |
| FCI FIMA PREMIUM CLASE B | Financial | 7.0% |
| ON GENNEIA CLASSE XVIII | Utility (including renewable energy) | 5.9% |
| ON RED SURCOS SÉRIE II | Chemical | 5.8% |
| ON YPF CLASE XLIII - YCAAO | Oil and gas | 5.1% |
| ON YPF CLASE XXII | Oil and gas | 5.1% |
| ON CRESUD XVIII | Agribusiness | 4.4% |
| ON PETROAGRO C1 | Agribusiness (including ecological crops) | 4.3% |
| ON TECNOSEEDS SERIE 1 | Agribusiness | 2.7% |

## Compass Group open-end investment fund

Compass Group is an asset manager with more than 20 years of experience and present in nine countries in the Americas. As of December 2018, it had over USD 37 billion in assets under management. Compass Group started operating in Argentina in 1997 through the subsidiary Investis Asset Management, recognized by Standard & Poor's as a "Top Manager" in the Argentinian market in 2009, 2010, and 2011. It offers fixed-income and equity investment funds.

The asset manager has two open-end infrastructure investment funds: FCIA Desarrollo Argentino I and FCIA Desarrollo Argentino II, which are in ARS and USD, respectively. This case study focuses on FCIA II, which has had better return rates recently.

As an infrastructure investment fund, 75% of its proceeds must be invested in regionally productive infrastructure assets, of which two thirds must be invested directly in such projects and the other third may be invested in instruments that indirectly finance such projects. Negotiable obligations represent 57% of its portfolio; cash, 30%; investment funds, 7%; trust funds, 5%; and sovereign debt only 1%. Table 28 below presents the FCIA Desarrollo Argentino II's main investments as of February 2019.

Compass Group became a PRI signatory in November 2018, describing it as a significant step in consolidating its commitment to responsible investing. The asset manager states that its portfolio managers and analysts have long considered ESG issues a key component in the investment decision process and that it aims to encourage robust ESG practices within invested companies.

Its FCIA Desarollo Argentino II assets include negotiable obligations from Genneia, a company focused on energy generation from wind (311 MW), solar (82 MW), and biogas and diesel thermal power (643 MW). It is the leading wind generation company in Argentina with four wind farms (Rawson, Madryn I, Trelew, and Chubut Norte I), all located in the Buenos Aires province. Genneia also has approved the development of projects for wind (433 MW) and biomass (19 MW) generation (GENNEIA, 2019). The company expects to have 58% of its generation capacity linked to renewable sources by 2021.

**Table 29: Issuance snapshot – Compass Group/Investis Asset Management**

| | |
|---|---|
| **Fund** | FCIA Desarrollo Argentino II |
| **Issuance date** | September 2007/ August 2010 (re-launch) |
| **Instrument** | Open-end investment fund |
| **Volume** | ARS 488 million (~ USD 13 million) as of April, 2019 |
| **Return rate** | 55.99% in 2018, 27.54% annual average (2007-2018) |
| **Issuance type** | Public issuance |
| **Rating** | A-bf.ar (Moody's) as of March 2019 |
| **Use of proceeds** | The investment portfolio is composed of fixed-income and equity assets directed at financing regional productive projects and infrastructure in Argentina. |

## Issuance and trading process

Grupo SBS's subsidiary SBS Asset Management S.A. SGFCI is responsible for managing the FCIC SBS I*nfraestructura y Desarrollo Productivo*, while Banco de Valores S.A. is the custodian. Subsidiary SBS Trading S.A. is the main placement agent and Caja de Valores S.A. was the registrar. Although there are no legal restrictions on the assets of closed-end funds' portfolios, SBS's FCIC Fund Rules determine that its investments are focused solely on projects from its sponsor Aceitera General Deheza S.A., an Argentinian agriculture-industrial company that produces edible oil and peanut-based products.

The fund had two types of quotas: Class A, for investors with resources eligible according to Law 27,260 requirements (more details on the next section); and Class B, for investors with any other resources. All of the fund's 114,761,523 quotas are Class A. Management fees are 0.60% + value-added tax (VAT) yearly and custodian fees are 0.125% + VAT yearly. The minimum investment is USD 250,000 for both quota types and a maximum of USD 10 million for Class A.

Regarding the open-end investment fund analyzed, Compass Group took three days to structure its Desarrollo Argentino II fund. Investis Asset Management manages the investment portfolio while Banco de Valores S.A is the custodian. A third-party auditing is undertaken by Brea Solans & Asociados and Paolantonio Legon & Abogados also provides legal consultancy. Management fees are 2.00% yearly and custodian fees are 0.125% + VAT yearly. The minimum investment is ARS 1,000 and there are no additional entry or exit fees. The fund was fully subscribed by institutional investors, mainly insurance companies.

### Key takeaways

The cases show that there is still little participation of green, social, or sustainable infrastructure projects in the investment funds portfolio. Investment funds that are purely composed of these types of projects have yet to be launched. Recent regulation (CNV Resolution 764) on the labeling of these projects may facilitate the diffusion of investment funds focused on sustainable infrastructure.

### Insights for instrument improvement

Argentina has an established market for open-end investment funds, which had around USD 19.5 billion of assets under management by December 2018. However, infrastructure funds represent less than 1% of those assets, with only 10 infrastructure investment funds active at the end of 2018. The remaining assets included money market funds, SMEs funds, fixed-income funds, equity funds, mixed funds, and total return funds.

Law No. 27,260/2016, which aimed to raise tax revenue to reduce the government's outstanding pension debt, offered tax exemptions for taxpayers with unreported foreign and domestic assets that invested in closed-end infrastructure investment funds. Due to the spike in demand for these funds, many have transitioned to open-end funds (Caride, 2018).

In 2012, SSN Resolution No. 37,163 added Subsection K to the General Regulation on the Insurance Activity, which determined that insurance companies had to invest a minimum of 8-18% and a maximum of 20-30% in financing the real economy, depending on the type of insurance. Eligible assets were defined by a public committee and focused on negotiable obligations, issued by the oil and gas company YPF (which concentrated around 80% of insurer's investments), or infrastructure and SME investment funds (open or closed-end). Consequently, most of FCI's portfolios are still highly concentrated in the oil and gas sector.

Insurers' investment in infrastructure rose from 0.16% of their portfolio in 2011 to 15% in 2015 of their portfolio. However, Subsection K was problematic as it forced insurers to invest in infrastructure projects even if they did not have an attractive credit rating. The end of mandatory investment in infrastructure assets by insurance companies came through SSN Resolution 39,645/2016, causing a drastic decrease in demand for such investments. This explains the current limited number of infrastructure investment funds and the expectation that more will be closed in the near future. To promote the use of financial instruments focused on infrastructure projects, there is a need to tackle the insufficient demand for such funds and securities.

The lack of demand is caused by the widespread perception that infrastructure projects carry high risk and low returns; investors prefer the highly liquid sovereign bonds. The current Infrastructure Open-End Investment Fund's portfolio is mainly composed of fixed-income instruments, with public bonds still playing a relevant role (almost 48%).

Capital market actors have indicated the need for greater disclosure on financial and performance data of infrastructure projects in order to make them more attractive (BBVA, 2018). A similar situation can be expected to develop a sustainable infrastructure market, which will also require greater transparency on environmental and social data.

### Adapting to sustainable infrastructure

CNV Resolution 764, implemented in 2018, aims to foster the development of financial instruments that promote social, environmental, and sustainable projects through the capital market, including investment funds (both open- or closed-end). Beyond the traditional regulatory framework, it establishes requirements for regular securities to meet international standards for Social, Green, and Sustainability Bond issuance. Social, Green, or Sustainability Investment Funds should align investment decisions with projects that offer environmental and social benefits.

There are currently no investment funds in Argentina focused exclusively on green or sustainable investments. As this innovation was recently enacted, it is too early to assess its effectiveness. There are currently no economic incentives or tax benefits to promote the issuance of such securities. To minimize the economic constraints, the Argentinian government may consider implementing such incentives to promote the domestic Green, Social, and Sustainability Bond market.

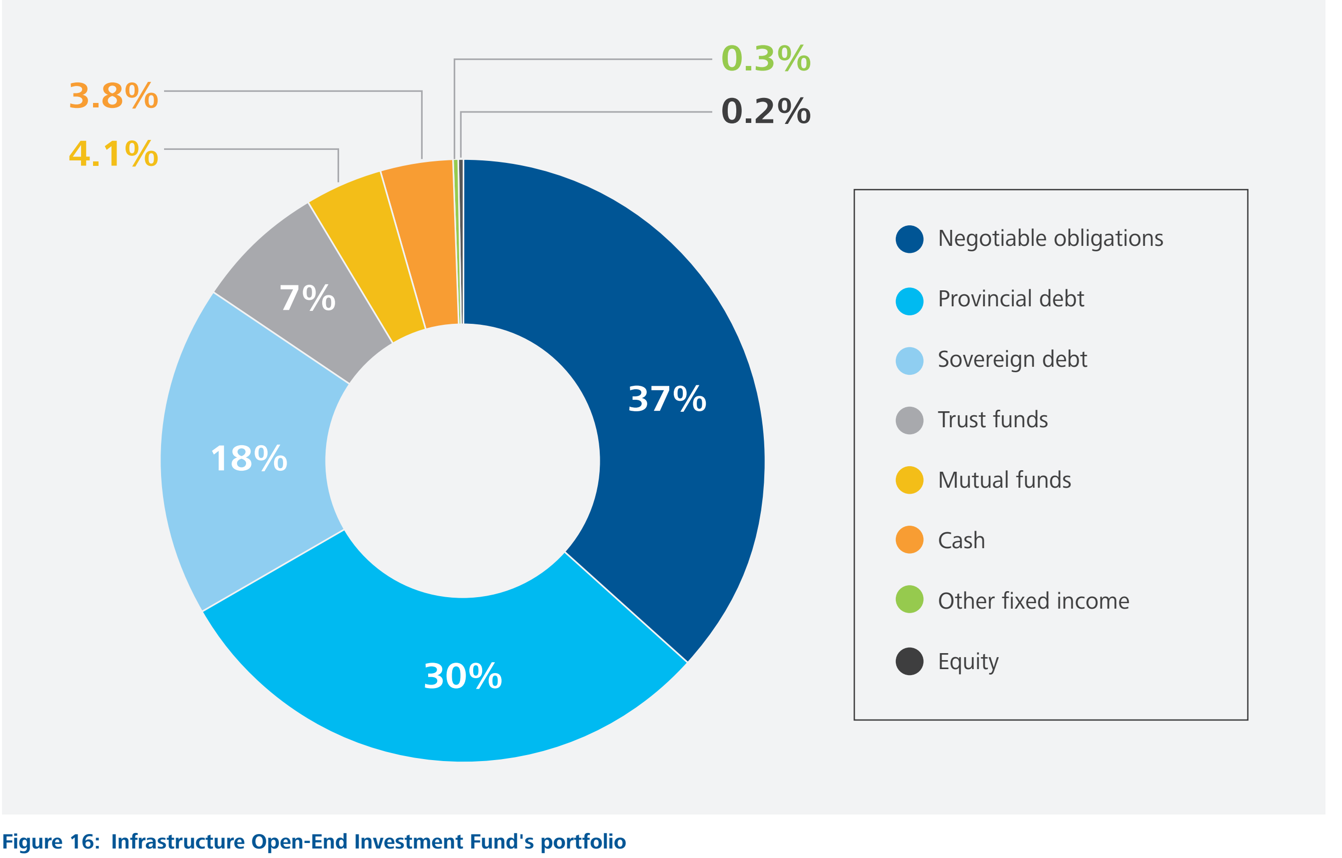


**Figure 16: Infrastructure Open-End Investment Fund's portfolio**

## 7.2 Brazil – Green infrastructure debentures

### Infrastructure debentures

An infrastructure debenture is a fixed income instrument with tax incentives for investors to develop projects that implement, expand, recover, repair, adapt, or modernize infrastructure from the following sectors: logistics and transportation, urban mobility, energy, telecommunications, radio diffusion, sanitation, and irrigation.

**Organizational structure**

As per Law 6,404/1976, debentures are issued by corporations that can only decide on a debenture issuance with approval by their board of directors or through a general shareholders' meeting. In the case of infrastructure debentures, the infrastructure project must be approved by the corresponding Ministry, and thus, it must be aligned with priority areas defined by the Ministry.

The company structures the debenture's indenture with a private investment bank to define issuance characteristics such as the maturity of each series, guarantees, and interest payment flow and amortization. To publicly offer debentures, a company must be registered with the Brazilian Securities and Exchange Commission (CVM). Public offers with restricted efforts and private offers dismiss CVM listing requirements.

Infrastructure debentures are eligible for Green, Social, and Sustainability Bond labeling. The process for the issuance of these bonds are the same as conventional bonds, according to the existing regulation. Assurance and certification can be obtained by a voluntary process, since there are no specific regulations for the issuance of these bonds yet.

**Instrument regulatory environment**

Public offers in the primary and secondary markets are regulated by CVM Instruction 400. Both institutional and retail investors can participate in this instrument's offering through CVM Instruction 400 and there are no minimum limits concerning the volume of investments. Securities can also be offered through restricted efforts, regulated by CVM Instruction 476 that allows for a maximum of 75 qualified investors in the offering and only 50 or fewer investors to subscribe to or acquire the issuance.

In addition to regulation pertaining to the type of issuance, Law 12,431/11 and Decree 8,874/16 regulate the issuances of infrastructure debentures and institute fiscal benefits for this type of instrument. It is worth mentioning that infrastructure debentures are subject to approval from sectoral ministries regarding the eligibility of projects under these regulations. For instance, eligible projects should be categorized in at least one of the following sectors: logistics and transportation, urban mobility, energy, telecommunications, broadcasting, sanitation, and irrigation. The CVM and the Ministry of Economy are responsible for managing and supervising the issuance of infrastructure debentures.

According to the above mentioned Law 12,431/2011, Article 2 establishes an income tax exemption for individual investors and reduces income tax for firms to 15% when investing in infrastructure debentures. This benefit increases the bond's attractiveness for investors, raising the demand for this financial instrument. Regular debentures are not eligible for tax incentives.

### ISA CTEEP – connecting renewable power and increasing grid efficiency through new transmission lines

ISA CTEEP is the largest private-sector electricity transmission company in Brazil. Present in 17 Brazilian states, its lines are part of Brazil's Interconnected National System. It transmits approximately 25% of all electricity in Brazil, 60% of the electricity consumed in the southeast region, and almost 100% of São Paulo's consumption. The company's installed capacity is 65,900 MVA, 18,600 kilometers of transmission lines, 25,800 kilometers of circuits, and 126 substations with a tension up to 550 kV as of December 31, 2018. The company's shares are traded in the Level 1 of B3's Corporate Governance segment (*Novo Mercado*) and it also holds American Depositary traded in Level 1 of the North American over-the-counter markets (ISA CTEEP, 2019).

The bond financed the development of eight transmission line projects (listed below), which are expected to provide environmental benefits regarding the increase of transmission volumes of non-conventional renewable energy such as wind, solar, biomass, and small-hydro power, as well as an increase in the national system's efficiency.

The benefits will be demonstrated by the "Indicator of provision of transmission service to Green Users", which is composed of the following variables:

- number of users of the system generating non-conventional renewable energy (Green Users);
- revenues with renewable energy transmission (BRL), which demonstrates the availability of the system to transmit energy generated by Green Users; and
- increased revenues with new users, which is related to the transmission power made available to new Green Users.

In addition to the indicators mentioned above, each project must demonstrate compliance with environmental and social laws, as requested by the environmental regulator to obtain installation and operational licenses. This is subject to evaluation through second opinion or certification analysis for green bond issuances.

**Table 30: Transmission line projects financed through the issuance**

| Special purpose vehicle | Description | State | Start-up date | Delivery date |
|---|---|---|---|---|
| Interligação Elétrica Itaúnas S.A. | • 79 km transmission line (345 kV)<br>• João Neiva 2 Substation (345/138 kV – 13.8 kV) | Espírito Santo | 02/2017 | 02/2022 |
| Interligação Elétrica Itaquerê S.A | • Three 500 kV synchronous compensators (Araraquara 2 Substation) | São Paulo | 08/2017 | 08/2021 |
| Interligação Elétrica Itapura S.A. | • 440 kV static compensator (Bauru Substation) | São Paulo | 08/2017 | 02/2021 |
| Interligação Elétrica Tibagi S.A. | • 18.2 km transmission line (230 kV)<br>• New yard in Rosana Substation (230 kV)<br>• 3 three-phase-shifting transformers | São Paulo and Paraná | 08/2017 | 082021 |
| Interligação Elétrica Aguapeí S.A. | • Alta Paulista Substation (440/138 kV)<br>• Baguaçu Substation (440/138 kV)<br>• 53 km transmission line (440 kV)<br>• 1 km transmission line (440 kV) | São Paulo | 08/2017 | 08/2021 |
| ERB1 - Elétricas Reunidas do Brasil S.A. | • 173 km transmission line (525 kV),<br>• New yard in Guaíra substation<br>• 260 km transmission line (525 kV)<br>• New yard (525 kV) in Sarandi Substation<br>• 65 km transmission line (525 kV)<br>• 85 km transmission line (230 kV)<br>• Paranavaí Norte Substation (230/138 kV) | Paraná | 08/2017 | 08/2022 |
| Interligação Elétrica Aimorés S.A. | • 208 km transmission line (500 kV) | Minas Gerais | 02/2017 | 02/2022 |
| Interligação Elétrica Paraguaçu S.A. | • 338 km transmission line (500 kV) | Bahia- Minas Gerais | 02/2017 | 02/2022 |

**Table 31: Issuance snapshot – ISA CTEEP**

| | |
|---|---|
| **Issuance date** | 15/04/2018 |
| **Instrument** | Infrastructure debenture |
| **Volume** | BRL 621 million (USD 192 million) |
| **Tenor** | 7 years |
| **Interest rate** | 4.7% p.a. + IPCA (Brazilian consumer price index) |
| **Issuance type** | Public issuance (CVM Instruction 400) |
| **Rating** | AAA(bra) (Fitch Ratings) |
| **Use of proceeds** | New transmission lines to connect renewable power generators and increase efficiency of the national grid |

This infrastructure bond issuance reached over 3,700 investors with seven institutional investors (13.8% of the issuance amount mostly through investment funds) and 3,717 individuals (85.7% of the issuance amount)[66] since it was executed under the CVM Instruction 400 that regulates public issuances. The issuance was not targeted at international investors. Institutional investors with dedicated green portfolios had access to the issuance through investment funds, indirectly allocating resources. The demand reached BRL 1.8 billion (USD 551 million), oversubscribing by 2.87 times with all greenshoe options exercised (original volume on the roadshow was BRL 450 million).

### Issuance and trading process

This issuance was executed under CVM instruction 400 and was the only public issuance of a green bond in Brazil until December 2018.[67] The company was highly motivated to issue a green bond not only for the reputational benefits but also because of the alignment of their projects to the company's strategy of reaching sustainability goals (ISA CTEEP, 2018). Nevertheless, pricing benefits due to green labeling were not evidenced in this issuance.

ISA CTEEP's green bond issuance process took about three months to prepare and attracted local investors with internal norms to invest in green assets. Due to the fact that this issuance was the first green bond in the energy transmission sector, it required additional explanation on the green labeling during the roadshows, especially concerning the number of ISA CTEEP's green clients – 599 renewable energy power operators, equivalent to BRL 4 million (USD 1.2 million) – and the company's publicly disclosed environmental indicators.

Infrastructure debentures are issued by the company with the assistance of third-party consultants and financial operators. They follow the same process as regular debentures. In this particular issuance, the participating agencies were the following:

- **trustee**: Pentágono S.A. Distribuidora de Títulos e Valores Mobiliários;
- **clearing and bookkeeping agent**: Banco Bradesco S.A.;
- **lead manager**: Banco Itaú BBA S.A.;
- **managers**: Banco Santander (Brasil) S.A., Banco Bradesco BBI S.A. and BB - Banco de Investimento S.A.;
- **legal consultants**: Machado, Meyer, Sendacz e Opice Advogados (issuer's lawyer) and Lefosse Advogados (banks' lawyer); and
- **independent auditors**: Grant Thornton Auditores Independentes and Ernst & Young Auditores Independentes S.S.

In addition to regular market participants, second opinion providers, verifiers, certifiers, and green rating agencies may also participate in the issuance process in the case of green, social, or sustainable bonds. That was the case with this issuance: a green bond that had its second opinion provided by SITAWI.

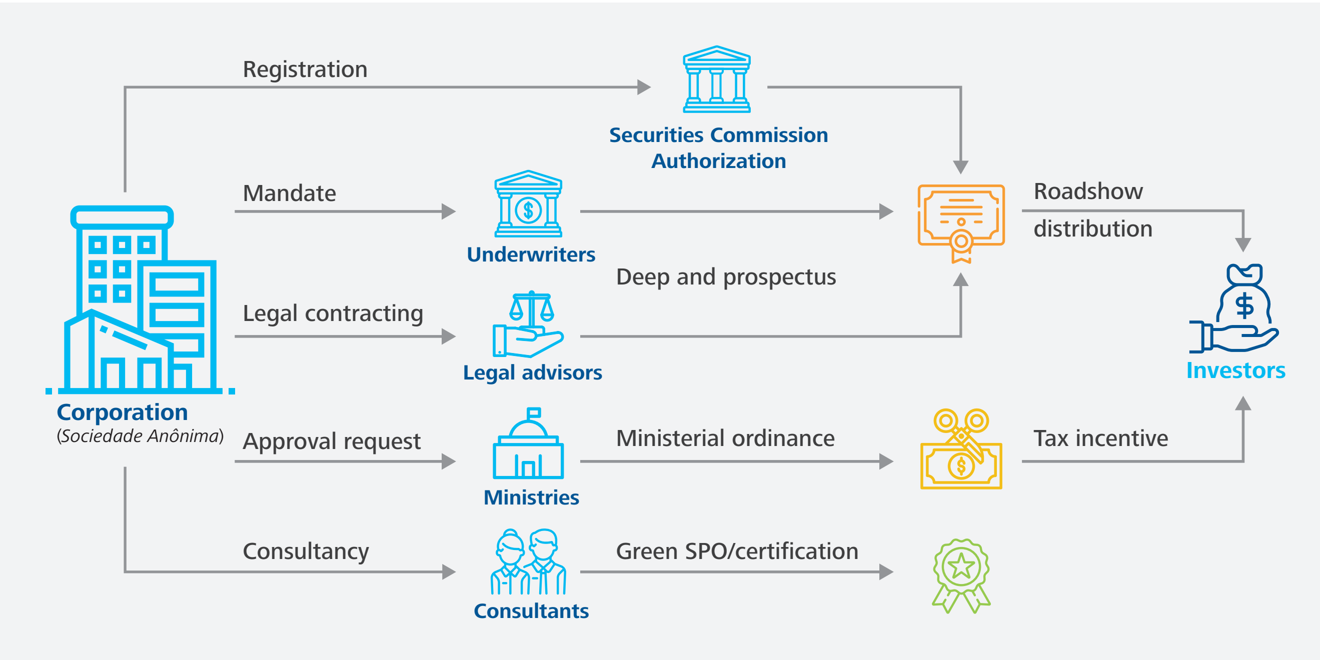


**Figure 17: Issuance process of infrastructure debentures**

[66] In addition, BRL 2.9 million was invested by shareholders, management, employees, and other parties related to the company or consortium.

[67] Other green bonds were issued through ICVM 476 that regulates public offers with restricted efforts.

Infrastructure debentures may be publicly distributed or distributed with restrictions or private placements. In this case, the green infrastructure debenture was publicly placed, following CVM Instructions 400 and 471.

The bond has been traded in the secondary market with an average traded volume of BRL 26.3 million (USD 6.8 million) in 2018, reaching BRL 40.4 million (USD 10.4 million) in negotiations during February 2019.

This infrastructure debenture issuance took place under Brazilian jurisdiction, as the headquarters of the issuer are in São Paulo.

**Key takeaways**

This case is an example of a successful green bond issuance. This issuance is unique in its public reach as it is the first green bond in the Brazilian market distributed to the general public. Replication of this type of issuance could be achieved through the proposed improvement in Decree 8,874/16 that could provide governmental priority to sustainable infrastructure projects.

### Insights on instrument scaling

Infrastructure debentures currently are the preferred instrument for Brazilian green bond issuances. Their role in infrastructure development has grown since its inception from BRL 4 billion (USD 1 billion) in 2012 to BRL 23.8 billion (USD 6.1 billion) in 2018.

One of the suggestions made by ISA CTEEP considers that negotiation platforms could highlight the sustainable features of the green bonds traded in the secondary market, which could attract more investors focused on sustainability assets and projects. This is certainly an evolution on what B3 has developed for issuances of green bonds in the primary market. Starting in 2018, green and/or social bonds issuances can be registered in B3's system with a green or social bond label (including the certifier's name and expiration date of the certification).

On one hand, a recurrent discussion on the improvement of the instrument concerns the harmonization of tax incentives between institutional and retail investors with the intent to foster higher participation of the former type of investor in the market. On the other hand, considering Brazil's recent fiscal crisis, the possibility of conceding tax benefits to institutional investors is significantly lower.

More attractive pricing for issuers due to green or social labeling – although this is still not verified in the Brazilian domestic market – shows investors' appetite for green assets and additional incentive for new green or social bonds issuances. CVM Instruction 555, which currently regulates investment funds, is under review. Under consideration is the flexibility of investment concentration per issuer and lengthening the timeframe for the application of the concentration limits for investment in green bonds. This initiative can promote larger demand for green bonds and potentially attractive pricing for issuers.

### Instrument replication at the local, national, and regional level

With regards to the potential for the replication of this instrument to other Latin American markets, there are similar instruments such as negotiable obligations and corporate bonds that could be given incentives either to the issuer or investor.

The introduction of a specific infrastructure debenture regulation in the Brazilian market with tax incentives provided a significant expansion of capital market financing for infrastructure projects. A further development of existing regulation is the creation of additional incentives for green infrastructure project financing, such as the proposed alteration in Decree 8,874/16 currently under evaluation. Given that, similar proposals could be taken to other Latin American countries.

However, the number of corporate green bonds issued specifically for certain infrastructure projects is quite limited. There have been two companies in Mexico, one in Colombia, and two in Chile engaging in public or private issuances of green bonds for infrastructure projects over the past two years. Hence, replication of the debenture structure may not drastically impact the infrastructure market in each country; however, the implementation of tax incentives in other countries could be a significant driver for infrastructure bond projects. An additional incentive for green bond issuance would also increase the attractiveness of the "green" label.

## 7.3 Colombia – Bancóldex green and social bonds

### Green, social, and sustainable bonds – driving the sustainable transition of the local economy

Bonds are fixed-income debt securities issued by public or private entities for the purpose of financing infrastructure or other types of projects. These entities can adapt the characteristics of their bonds to their needs, defining the amount, term, and coupon payments. Bonds can be short- to long-term debt instruments, medium- to long-term for infrastructure projects. The proceeds of green, social, and sustainable bonds target sustainable projects only and are subject to third-party verification of this use. They typically follow the ICMA Green and Social Bond Guidelines.

**Organizational structure**

For the issuance of a bond in Colombia, an entity must disclose its audited organizational, judicial, and financial information, as well as brief information on the specific debt they wish to issue. The entity must be registered as an issuer in the *Bolsa de Valores de Colombia* (BVC) and must also be registered in the *Registro Nacional de Valores y Emisores*, managed by the *Superintendencia Financiera de Colombia* (SFC). It also must request authorization from the *Superintendencia Financiera* for the specific issuance of the bond. The debt offering will be rated by an official third-party rating agency. The obtained grade will determine the range of returns that investors will be willing to accept. Investment banks and commercial banks are often brought in by the issuer to underwrite the issuance, taking over the risk of finding investors for the bonds against a specific fee.

**Instrument regulatory environment**

The sustainable bonds (including green and social bonds), still considered under Colombian law as regular corporate bonds, are regulated by the SFC's Decree 2555, issued in 2010, which defines and regulates all the instruments and investments in the BVC. Complementing the decree, the Circular Única Bolsa de Valores de Colombia S.A. provides further regulation for the issuance and trading of securities on the BVC. Although the SFC does not differentiate sustainable bonds from regular bonds, the BVC does recognize green, social, and sustainable bonds and makes certain stipulations, such as third-party verification of the sustainability of the bond, as part of the issuance requirements. The BVC's initiative in creating a specific bond category that is not recognized by law shows a strong commitment to improving the recognition of sustainability on the stock market.

### Bancóldex's green and social bonds

Bancóldex is Colombia's public development bank focused on promoting business growth and foreign trade.[68] The main strategic focus of Bancóldex revolves around four pillars (Bancóldex, 2018c):

- promoting the exports of Colombian companies;
- stimulating the growth of small Colombian enterprises;
- financing and structuring projects and investments with positive environmental impacts; and
- supporting entrepreneurs from complex social and economic backgrounds.

The Colombian Ministry of Commerce, Industry and Tourism (92%) and the Ministry of Finance and Public Credit (8%) are the lead shareholders of Bancóldex.

As a public development bank, Bancóldex must promote the growth of all Colombian companies and the Colombian economy as a whole in line with social prosperity and environmental responsibility. Bancóldex's commitment towards promoting environmental sustainability through its investments is demonstrated by its key role in the development of the Green Protocol and the issuance of their first green bond in 2017 (Bancóldex, 2017b).[69] The two issuances in 2018 are aligned with their growing consideration of sustainability in their investment decisions and can potentially drive the market to further channel capital market funds to sustainable investments.

**Bancóldex green bond issuance**

Issued with the support of IDB, the State for Economic Affairs of Switzerland, and the CBI, and aligned with ICMA's Green Bond Principles, Bancóldex's COP 200 billion (approximately USD 60 million) green bond issuance was the first green bond in Colombia to be publicly issued on the BVC.

After one year, COP 330 billion[70] (approximately USD 100 million) had been disbursed, targeting the following sectors (Bancóldex, 2018a):

- **pollution control and efficient resource management:** improved management of liquid and solid waste, pollution capture systems, reforestation, and material changes in production;
- **sustainable transport:** switch to electric vehicles;
- **energy efficiency:** switch to LED lighting, energy monitoring, and measurement systems; modernization of air conditioning, thermic isolation, optimization of combustion processes, optimization of production processes;
- **renewable energy:** solar energy systems for auto-consumption, biomass energy generation, solar water heaters; and
- **sustainable construction:** improvement of natural lighting, thermic isolation, implementation of recycled materials.

[68] For more information: Bancoldex

[69] For more information: green bond issuance presentation, Bancóldex

[70] The disbursed amount is higher than the issued amount due to early reimbursements which enabled Bancóldex to re-invest within the same portfolio – interview with national stakeholder

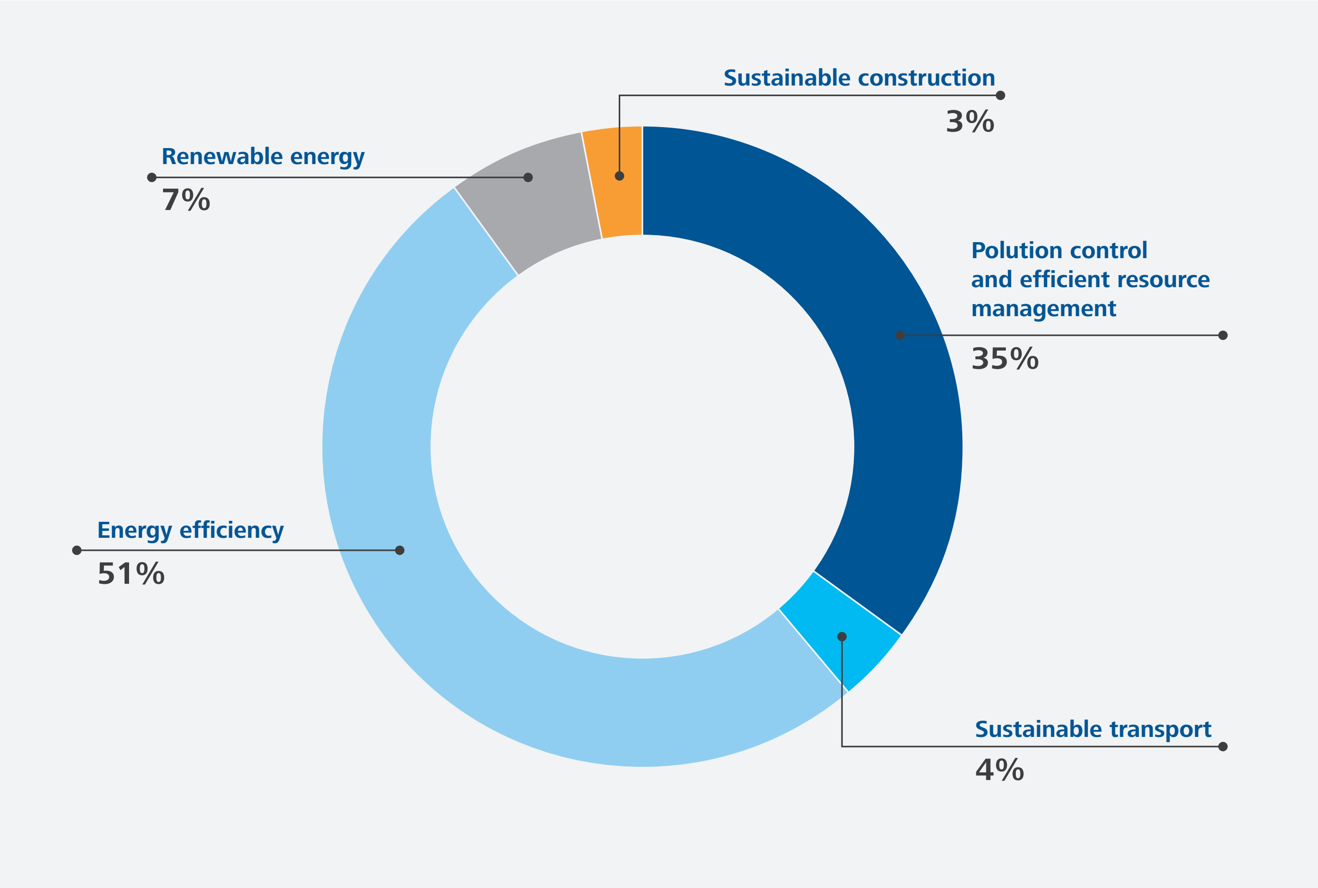


**Figure 18: Sectoral breakdown of the investments of proceeds of the Bancóldex green bond**

A breakdown of the financial distribution is not publicly available, but the sectoral allocation based on the number of projects financed can be found in Figure 18.

The five-year tenor of the bond means it is not adapted to long-term infrastructure investments. However, it was aligned with the global trend in 2018, where green bonds with tenors up to five years were the most common, partly due to increased issuances from commercial banks, which typically issue short tenor bonds, and partly to high market volatility and rising interest rates (Climate Bonds Initiative, 2019).

**Bancóldex social bond issuance**

Further strengthening its sustainability engagement, Bancóldex issued a social bond in 2018 exclusively to finance projects that solve or mitigate issues of the Colombian people and provide positive societal benefits. The COP 400 billion (approximately USD 120 million) bond issuance is aligned with ICMA's Social Bond Principles[71] and will promote the following impacts (Bancóldex, 2018c):

- job creation through SMEs;
- improved access to essential services;
- affordable basic infrastructure needs;
- affordable housing; and
- food security.

The activities financed through this bond will particularly focus on projects with a positive impact on marginalized parts of the population or high-risk population groups. Hence, the bond will directly benefit SMEs, companies in rural areas of Colombia, victims of the armed conflict, and women.

There were two types of bonds issued under this social bond with tenors of three and five years. There is no publicly-available reasoning behind these two tenor types but one could consider this to be an opportunity to attract different types of investors seeking short- to mid-dated bonds.

[71] For more information: "The Social Bond Principles", ICMA

Table 32: Snapshot of Bancóldex's green and social bond issuances

| Bancóldex issuances | Green bond 2017 (Bancóldex, 2017) | Social bond 2018 (Bancóldex, 2018) |
|---|---|---|
| Issuance date | 09/08/2017 | 24/05/2018 |
| Instrument | Green bond | Social bond |
| Volume | COP 200 billion (~ USD 60 million) | COP 400 billion (~ USD 120 million) |
| Tenor | 5 years | 3 years<br>5 years |
| Interest rate (annual) | 7.3 % or 3.2% + IPC (Colombian consumer price index) | 3.3% + IPC (Colombian consumer price index)<br>6.4% or 1.55% + IBR (Colombia interbank rate) |
| Issuance type | Public issuance on the BVC ("Dutch auction") | Public issuance on the BVC ("Dutch auction") |
| Rating | AAA (Colombia) (BRC Investor services SA) | AAA (Colombia) (BRC Investor services SA) |
| Use of proceeds | Pollution control and efficient resource management, sustainable transport, energy efficiency, renewable energy, sustainable construction | Job creation through SMEs, improved access to essential services, affordable basic infrastructure needs, affordable housing, food security |

The investor split of these bonds cannot be disclosed by the bond issuer. However, Bancóldex did indicate an increased interest for both their bond issuances due to their sustainability component.[72] In particular, the demand for the 2018 social bond was more than four times the initial offer of COP 300 billion (approximately USD 90 million). According to Bancóldex, the demand was higher than that for the green bond was, largely due to a stronger marketing effort.

Within sustainable bonds, the differentiation between regular and sustainable infrastructure is defined in their individual frameworks. The frameworks, which require second-opinion verification[73], establish the sectors and types of projects that can be part of the bond portfolio.

The two issuances are aligned with the ICMA Green and Social Bond Principles. However, neither of the two issuances have a certification as robust as the Climate Bond Certificate. There are no particular tax incentives or disincentives that apply to sustainable bonds in Colombia, as was implemented in Brazil with the tax reduction on infrastructure debentures.

Both sustainable bonds were issued and are managed by Bancóldex and the issuances were registered under the jurisdiction of the BVC in Bogota, Colombia.

## Bancóldex's green and social bond issuance and trading process

The issuance processes of the green and social bond respectively lasted six and four months. In both cases, the issuances were public offers through a "Dutch auction", managed by the BVC. In addition to Bancóldex itself, the underwriting entities were:

- Corredores Davivienda S.A.;
- Credicorp Capital Colombia S.A.;
- Ultraserfinco S.A.; and
- Valores Bancolombia S.A.

With a demand more than quadruple the initial offer, the bonds were allocated to the highest bidder for up to COP 400 billion (approximately USD 120 million) of issuance.

As mentioned previously, the sustainable bonds did demonstrate a stronger demand than regular bonds. However, no information

[72] Interview with national stakeholder

[73] An example of Sustainalytics: "Second Opinion of Social Bond Framework"

is available on what additional types of investors were attracted by the sustainability component.

Although they could be traded on the secondary market, Bancóldex's sustainable bonds are rather illiquid. The social and green bonds are seldom traded on the stock exchange, as investors wish to keep them until maturity. This is partly because there are not many bond issuances from Bancóldex on the market and they are viewed as robust by local investors.

**Key takeaways**

The issuance of the green and social bonds of Bancóldex demonstrated the variety of project types and sectors that could benefit from the proceeds of such instruments: pollution control and efficient resource management, sustainable transport, energy efficiency, renewable energy, sustainable construction, and affordable basic infrastructure needs and housing. Although not all of these sectors target infrastructure, there is an opportunity for energy, transport, water and sanitation, and social infrastructure to benefit from the proceeds of such issuances.

In addition, the demand for the bonds reached quadruple the initial offering, demonstrating a strong appetite of capital market investors for labeled sustainable investments.

### Insights on instrument scaling

Colombia has seen the issuance of five green bonds and one social bond, of which there were five complying with the ICMA guidelines from Bancóldex (2), Bancolombia (2), and Davivienda, as well as one green bond from the *Empresa de Energía del Pacífico* (EPSA). The total issued amount is the equivalent of USD 540 million and has mainly channelled investments into energy efficiency, renewable energy, production technologies, sustainable transport and infrastructure, and green buildings. None of these bonds directly targeted infrastructure investments. However, unlike the BVC, government regulation does not recognize this bond categorization, considering them "regular", and no national regulation for such bonds exists at this time.

Despite the lack of specific regulation, the Colombian sustainable bond market has been one of the most prolific in Latin America, with only Brazil and Mexico boasting more issuances. A first step towards stimulating the local sustainable market would be for the SFC to recognize sustainable bonds as a separate instrument type. Recognizing the bond category may also further attract impact investors.

Of the six issuances, five have come from local public and private financial institutions. Issued in late 2018, EPSA was the first "green corporate bond" in Colombia and may pave the way for further similar issuances. Stimulating sustainable bond issuances for corporations may be another direction in which to expand the national market.

### Instrument replication at the local, national, and regional level

With regards to the potential for replication of this instrument in other Latin American markets, sustainable bonds are already part of the financial market scene in all of the LAC-6, with different levels of maturity. Brazil and Mexico, the two largest economies, have established national guidelines for the issuance of sustainable bonds and these are well embedded in their capital markets. In 2018, the local stock exchanges in Peru and Chile released their sustainable bond guidelines. The impact on these markets has yet to be quantified. Most recently, regulations for sustainable bonds have been established in Argentina, where the market is still relatively small with three issuances to date.

There are also significant opportunities for sustainable bonds to be used in sectors that are not typically targeted. In Chile, a corporate sustainable bond (green and social) was issued in 2016 by Aguas Andinas,[74] the country's largest water utility. The proceeds of the bonds financed an increase in the capacity of water treatment plants, the construction of a new water treatment plant, and improvements to water infrastructure resilience. The issuance of a sustainable bond from a utility company could be replicated in other Latin American economies, stimulating efforts from the private sector. In Peru, Protisa, a pulp and paper company and subsidiary of a Chilean-based major producer of tissue paper in Latin America and worldwide (CMPC), issued a PEN 100 million (approximately USD 30 million) green bond[75] to finance sustainable water management, energy efficiency, and pollution reduction within its production cycle. The diversity of opportunities for sustainable bond issuances makes it a highly scalable and replicable instrument across all Latin American markets mentioned. The growing number of issuances is also likely to streamline issuance processes, reducing issuance costs and time. Currently, there are no incentives for corporations to select sustainable bonds over regular bonds. Following the example of Brazil and its tax incentive for infrastructure debentures, a financial incentive could further stimulate the market. The issuance of a sustainable bond dedicated to infrastructure has yet to be issued in the Latin American region, probably due to the risk appetite of bond issuers.

[74] For more information: Aguas Andinas – Emisión de Bonos

[75] For more information: Protisa's Framework and Issuance profile

## 7.4 Mexico – CKD issuance for Villanueva I & III Solar Plant

### CKDs – stimulating infrastructure investment from institutional investors

CKDs are securities or trust securities issued by a trusteeship that are designated for the sole purpose of financing one or several projects, or the acquisition of one or several companies (BMV, 2019a). They invest in the equity or debt of companies that develop or operate infrastructure in Mexico. The performance of CKDs is linked to their underlying property assets. CKDs were created in 2009 to enable institutional investors to diversify their portfolio through alternative investments, such as companies or projects that were not legally part of the scope of investments that institutional investors could previously make (CONSAR, 2018a). CKDs also represent an opportunity for institutional investors to access higher returns than from traditional capital market instruments.

**Operating structure**

The operating structure of CKDs is as follows:

1. the trustee issues and places the CKD in the BMV, whereby the investors (holders) acquire the CKDs and contribute the necessary resources to trust assets to invest in project companies or projects;
2. the trustee makes investments in the project companies or projects, in conformity with the trust's investment scheme, with the previous approval of the technical committee or the holders' meeting;
3. the products and benefits of the underlying projects are redistributed to the investors;
4. upon divestment, the trustee must pay the holders and the trustor the respective amounts in conformity with the distribution rules established in the trust; and
5. on the maturity date, the trustee must distribute trust asset resources.

**Instrument regulatory environment**

In 2008, a modification to the investment regime for pension funds added structured instruments to finance Mexican companies or projects to the authorized list, which included CKDs (CONSAR, 2018b). Subsequently, in 2009, the internal regulation of the BMV was modified to authorize the listing of CKDs on the Mexican stock market. In the 2014 financial reforms, CKDs were included in the "*Ley de Mercado de Valores*", based on existing regulation. In 2015, the provisions for securities issuers were updated; the most relevant change for CKDs was the ability (under certain conditions) to make several public offerings until the minimum initial contribution amount to trust assets is met (CNBV, 2015).

There are no particular tax incentives or disincentives applying to CKDs that target specific sectors of the economy, in contrast to Brazil's tax reduction on infrastructure debentures.

### CKD – Villanueva I & III Solar Plant

In March 2018, the Villanueva Solar Plant was inaugurated in the state of Coahuila in Mexico. The USD 650 million investment made it the largest solar plant in the Americas with a total capacity of 754 MW (SENER, 2018). Enel Green Power (EGP), the renewables branch of the Enel Group, initiated the project under the Mexican government's first long-term power auction, securing a 15-year power purchase agreement and 20-year clean energy certificates (SENER, 2016). The project, split into two sub-projects (Villanueva I & III), was financed by EGP through a mixture of senior debt and equity. The detail of the two investment structures can be found below. This case study will focus primarily on equity and the CKD issuance (ticker symbol: "INFRACK").

**Senior debt**

On the debt side, two senior syndicated loans were attributed for the Villanueva power plant, for a total of USD 428.4 million (coupon rate: LIBOR + 225 bps with step-ups; term: 17 years).[76] The financial institutions participating in these syndicated loans are both national and international commercial lenders and development banks: BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, Caixabank, S.A., MUFG Bank, LTD., Natixis, New York Branch, Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo, European Investment Bank, and Inter-American Investment Corporation.

**Equity**

On the equity side, 80% of the capital was raised through the proceeds of a restricted public issuance of CKDs (an equivalent of close to 50% of the project's total investment). The remaining 20% of the project investment is equity from EGP, which retained control of the operation and maintenance of the solar plant.

There is no publicly available information on the investors in the issued CKDs, but considering Mexican pension funds (AFOREs) hold 80% of CKDs in Mexico (CONSAR, 2018a), it is fair to assume that they make up a majority of the investment group.

[76] Interview with national stakeholder

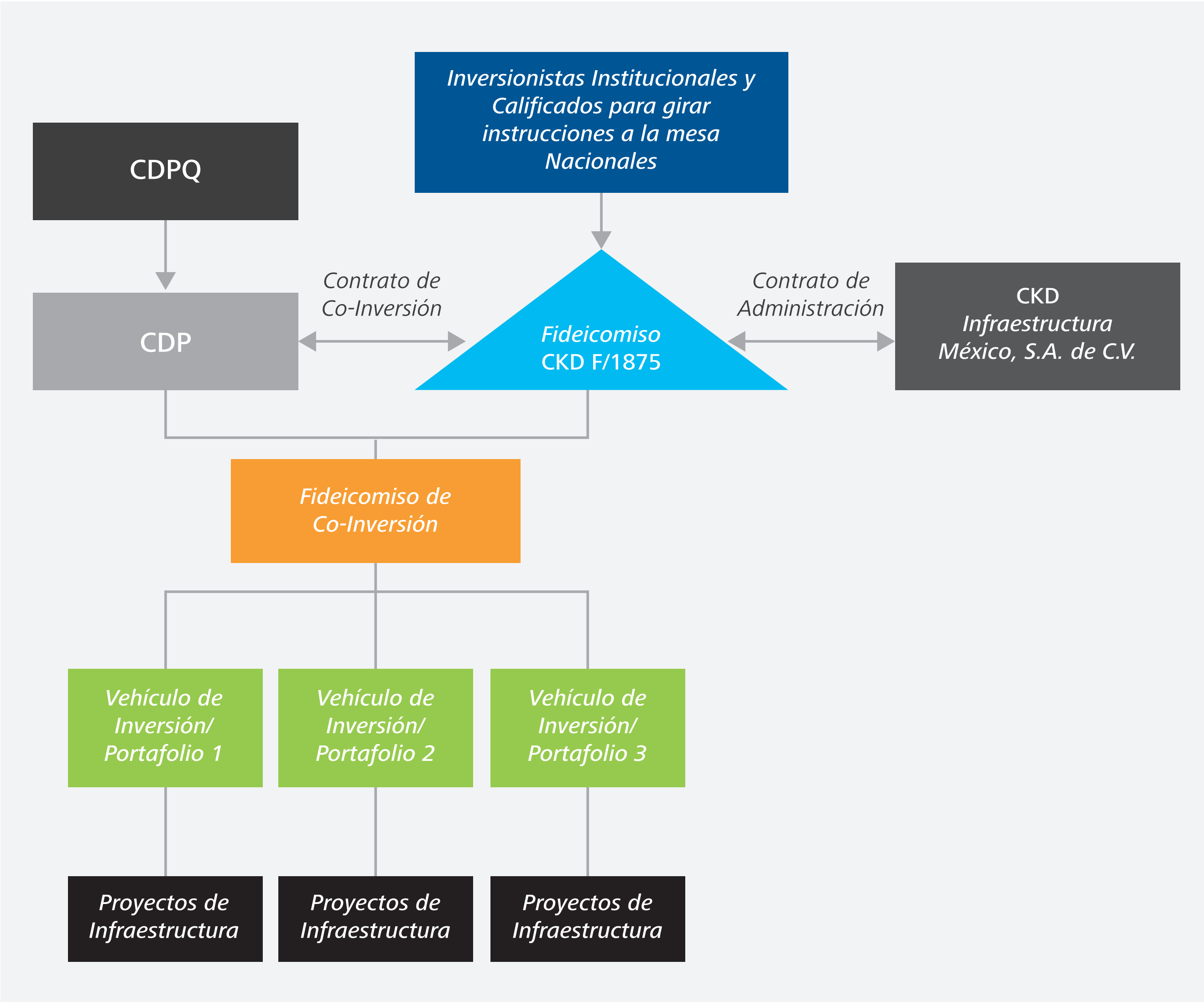


**Figure 19: Co-investment structure of CDPQ and CKDIM (BMV, 2015)**

The CKD was issued with a co-investment agreement between CKD *Infraestructura Mexico* (CKDIM) and the Quebec Deposit and Investment Fund (CDPQ), a public and para-public pension plan and insurance program in Quebec. The co-investment agreement entitles CDPQ to 49% of the shares of the CKD investment, through its subsidiary CDP Infrastructure Groupe Inc. (CDP), while the other 51% will be issued as certificates to institutional or qualified investors through CKDIM's issuance. Figure 19 illustrates the co-investment agreement.

Since 2015, INFRACK has issued certificates with a value close to USD 1 billion, investing in a range of projects including (BANOBRAS, 2018):

- three road concession projects;
- development of the publically shared telecommunications network; and
- joint acquisition with CDPQ of a portfolio of eight renewable energy project in Mexico by EGP with a total capacity of 1,818 MW (solar and wind farm projects).

The INFRACK issuances are restricted public offerings, which attract institutional and qualified investors. No further public information is available on the type of investors.

The following table provides a snapshot of the issuance details of the CKD.

**Table 33: Issuance process – INFRACK**

| | |
|---|---|
| **Issuance date** | First: 10/08/2015<br>Latest: 27/03/2019<br>(four issuance series) |
| **Instrument** | CKD |
| **Volume** | MXN 19 billion (~ USD 1 billion) |
| **Tenor** | 50 years |
| **Internal rate of return** | The rate of return will depend on the revenues of the assets. However, the co-investment agreement between CDPQ and CKD IM states an IRR in the range of 12% and 17%. |
| **Issuance type** | Public issuance |
| **Rating** | The instrument has no credit rating. |
| **Use of proceeds** | Road infrastructure, telecommunications, and renewable energy |

There is no legal differentiation between the issuance of a CKD for sustainable infrastructure and regular infrastructure. As equity investments, the sustainable bond label is not available. In addition, CKDs are currently not authorized to be part of the sustainability index of the BMV, an index composed of companies listed in the BMV that comply and report on ESG criteria following pre-defined guidelines (BMV, n.d.). Presently, only publicly listed companies can be part of this index through their equity shares. The fact that this CKD is financing clear climate-aligned infrastructure projects (renewable energy) and other project types demonstrates the lack of a dedicated sustainable instrument.

## INFRACK issuance and trading process

The issuance process of INFRACK 15 (2015 issuance) cost a total of MXN 93 million (USD 4.7 million), 2.7% of the overall issuance amount in 2015 (BMV, 2015). It was undertaken by CKDIM with the support of third-party legal and fiscal advisors, as well as several underwriters to assist in finding investors. The costs mentioned above include CNBV and BMV studies, issuance intermediaries, legal and fiscal advisors, audit, registration fees RNV and BMV, and structuring fees. Figure 20 illustrates the issuance and investment process for these CKDs.

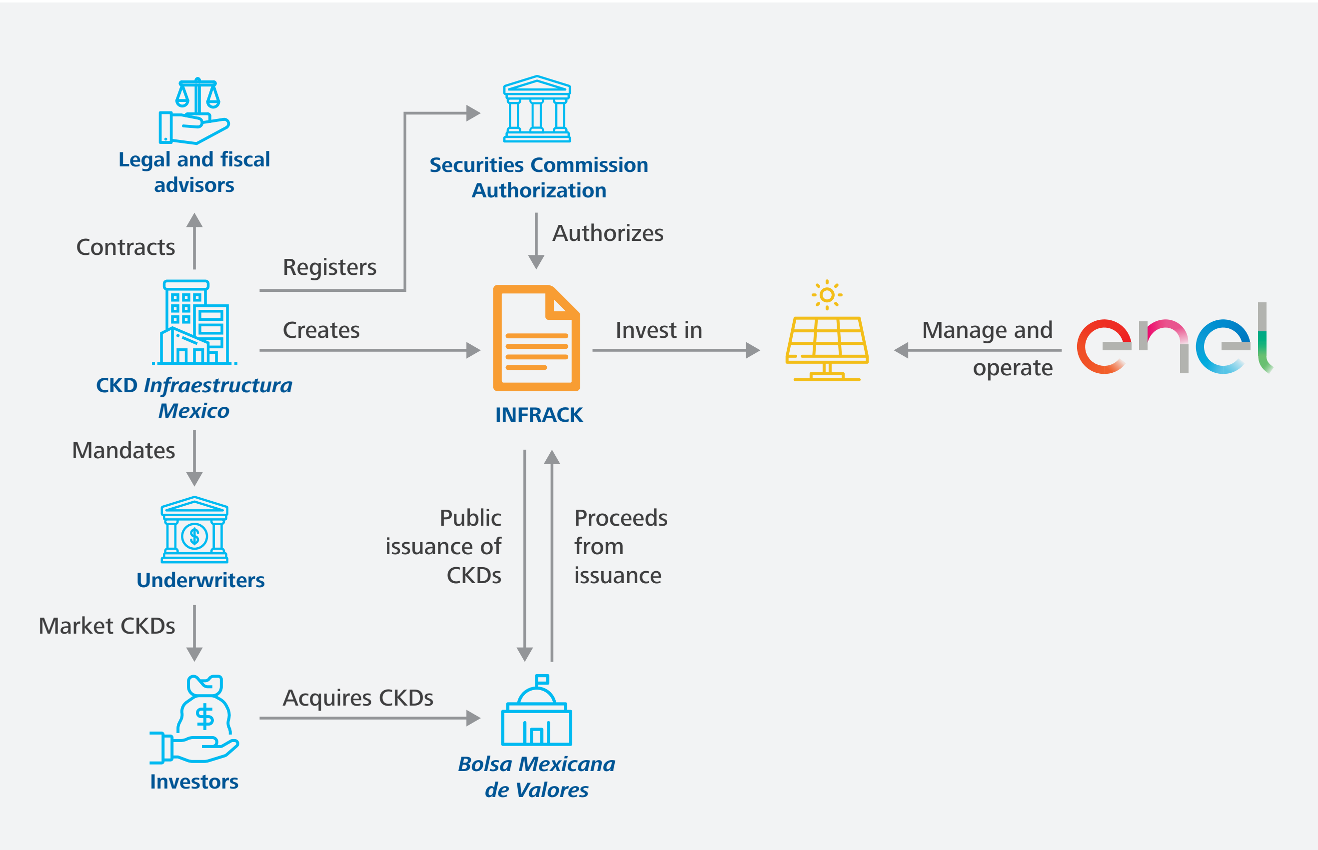


**Figure 20: Issuance process of INFRACK[77]**

[77] Own elaboration

INFRACK has the following structure:

- **trustor**: CKD Infraestructura México, S.A. de C.V; and
- **trustee**: Deutsche Bank México, S.A., Institución de Banca Múltiple, División Fiduciaria.

The issuance is registered under the jurisdiction of the BMV in Mexico City, Mexico.

The entities that participated in this issuance are:

- **common representation**: Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero;
- **fiduciary**: Deutsche Bank México, S.A., Institución de Banca Múltiple, División Fiduciaria;
- **legal advisor**: Creel, García Cuellar, Aiza y Enríquez, S.C.;
- **fiscal advisor**: Creel García Cuéllar Gaiza y Enríquez, S.C.;
- **underwriters**: Barclays Capital Casa de Bolsa, S.A. de C.V., Grupo Financiero Barclays México;
- **legal placement advisors**: Orozco Waters Abogados, S.C.;
- **external auditors**: Galaz, Yamazaki, Ruiz Urquiza S.C.; and
- **registration to**: RNV of the CNBV and the BMV

The issuance was a restricted public offering for institutional and qualified investors, with an investment limit of 40% of the certificates per individual investor. The certificates are publicly traded on the secondary market among institutional and qualified investors. There is no publicly available information on the trading volumes. The investment limit stated above also applies to the secondary market.

As the performance of a CKD is directly dependent on the performance of its underlying assets, they have typically target infrastructure projects with predictable future incomes. In this case, the power purchase agreement signed with the government represents a guarantee of future incomes for a given project and its investors. As projects are not selected prior to issuance, the CKD trustor must demonstrate a strong capacity to develop a pipeline of projects in line with the CKD investment targets.

## Insights for instrument scaling and replication

### Insights on instrument scaling

There have been 89 CKD issuances since their creation in 2009, a total of MXN 114 billion (around USD 5.9 billion) invested (BMV, 2018). Among these issuances, 20.3% targeted infrastructure financing and 13.1% energy infrastructure financing. The remaining 66.6% targeted real estate, private equity, and financial assets. Since the 2015 peak in CKD issuances (22 issuances), there has been a stable issuance of around 15 CKDs per year, for yearly amounts between MXN 7.5 and 11 billion (approximately USD 380 and 560 million).

By the end of 2017, AFOREs owned more than 85% of structured products, which represented close to 5% of their total portfolio (CONSAR, 2018a). Considering that AFOREs can legally invest up to 20% of their total portfolio in structured products, there is an opportunity for such instruments to attract further financing from AFOREs (CONSAR, 2017). The CONSAR estimates the additional investment capacity of AFOREs in structured products to be close to USD 16 billion. Given that the limit to scaling investments in CKDs is not an investment limit from local investors, the focus should be on evaluating the pipeline of CKDs and their attractiveness to achieve growth in the local market.

### Instrument replication at the local, national, and regional level

With regard to the potential for replication of this instrument in other Latin American markets, there are no similar instruments in the other five LAC-6 to date. However, such instruments could enable other capital markets to further tap into local pension funds, adapting the instrument to the sectors that are targeted for development. This would require adapting the local regulatory framework to include such instruments, and potentially, the investment regime for local pension funds. As the trust instrument structure already exists in most countries, the required changes to the regulation would be adapting the current trust regulation to facilitate infrastructure financing or creating a new form of trusts, such as CKDs, dedicated to such projects.

**Key takeaways**

The INFRACK issuance is a concrete example of how CKDs can channel institutional-investor capital to sustainable infrastructure projects like the Villanueva Solar Plant. In their current state, CKDs do not embed any sustainability criteria into their regulatory framework. There is a subsection on environmental performance in INFRACK's emission prospect document but it simply states that as a new entity the trustor does not have an environmental policy. There is no legal differentiation between this investment and non-sustainable ones. This may not be a direct investment barrier but it does not support the development and stimulation of a "sustainable CKD" instrument family.

### Adapting to sustainable infrastructure

As mentioned above, CKDs do not have any sustainability criteria embedded in their regulatory framework. The 2018 modifications to the AFORE investment regime (CONSAR, 2018b) promoted investments in companies and projects that comply with responsible investing (ESG) criteria by requiring ESG principles to be included in investment analyses. As a major investor in CKDs, this regulatory change may mainstream the consideration of ESG criteria in CKD issuances. The solar energy portfolio invested in by INFRACK did produce an Environmental and Social Impact Assessment (EIB, 2019); however, there are no legal obligations for projects financed by CKDs to do so. The impact of this regulatory change should be monitored.

There are several other pathways that could be explored for using such instruments to stimulate investment in sustainable infrastructure, based on national and international experiences, in particular, from other primary LAC markets. An example is a "sustainable" label for CKDs (similar to the Green and Social Bond guidelines or the CBI certification), that could attract other investor types for CKDs dedicated to investments in sustainable infrastructure. In such cases, the CKD would have to embed sustainability criteria in its investment analysis. The infrastructure debenture issued in Brazil and certified as a green bond is a good example of how a "sustainable" label has increased investor appetite for a specific issuance. Additionally, authorizing CKDs as part of the national sustainability index, or creating a specific national sustainable CKD index, could make sustainable CKDs more appealing to certain investors. This would require regulatory changes from the BMV and could be inspired by other international sustainability indices that already accept a variety of instrument types. There are already a few FIBRAs in Mexico that have been part of the FTSE4Good and the Dow Jones Sustainability Index.

Finally, fiscal incentives, such as revenue tax reductions, for CKD investors that abide by certain sustainability criteria in their investment decisions could stimulate a change. An example is Brazil's tax incentive to stimulate investment in infrastructure debentures.

## 7.5 Mexico – FIBRA E issuance for social infrastructure

### Energy and Infrastructure Investment Trust (FIBRA E) – stimulating energy and infrastructure investment from institutional investors

Part of the family of Real Estate Investment Trusts (FIBRA), the FIBRA E is a trust created in accordance with Mexican laws and a domestic banking institution acting as trustee, that issues publicly traded securities in the form of trust bonds or *certificados bursátiles fiduciarios de inversión en energía e infraestructura* (CBFEs), registered with the National Securities Registry and listed on the Mexican Stock Exchange (BMV). As provided in the *Ley General de Títulos y Operaciones de Crédito*, the CBFEs shall grant their holders pro-rata property rights with respect to the assets of the trust.

**Operating structure**

The operating structure of FIBRAs is as follows:

1. a corporate sponsor would form and contribute to the FIBRA E equity interests (in whole or in part) in Mexican resident legal entities (the so-called "promoted companies") that own the assets and perform the "exclusive activities" via a share transfer or contributions in kind; and
2. the sponsor would typically receive in exchange cash and/or CBFEs, and other rights to receive a greater proportion of the FIBRA E incremental cash flow in the future, subject to the payment of a preferred return to the security holders ("incentive distribution rights" or "IDRs").

The ownership of a FIBRA E may be divided into two main groups of security holders: the public and the sponsor. In accordance with the current regulations, the offering documents may provide that the holders of a certain class of CBFEs agree to subordinate the payment of their distributions to the payment of a preferred return to the holders of another class of CBFEs. This type of subordinated CBFEs is typically issued in favor of the sponsor. The sponsor or any other person generally controlled by the sponsor (the "manager"), would manage the assets of the FIBRA E, in accordance with the terms and conditions of the relevant management agreement and subject to the security holders' rights.

**Instrument regulatory environment**

FIBRA Es must be registered with the RNV and listed in the BMV. FIBRA Es, like trust funds, are regulated by the *Ley de Mercado de Valores* and the internal regulation of the BMV. The CBFEs linked to FIBRA Es are publicly traded instruments available only for institutional investors (CONSAR, 2018a). The income of FIBRA Es must come from activities in the electricity, oil, and gas sectors, or concession projects under the *Ley de Asociaciones Público-Privadas*.

A FIBRA E must be a trust created according to Mexican legal guidelines. A Mexican tax resident banking institution or an authorized brokerage house must act as trustee. All shareholders of a promoted company must be legal entities that reside in Mexico for tax purposes. This requirement should be met before a FIBRA E acquires shares of a promoted company. In addition, 75% of assets within a FIBRA E must have been operational for at least 12 months and, as per the legal framework of FIBRA Es defined in the *Ley de Mercado de Valores*, 95% of its annual income must be disbursed to its investors.

Unlike in the case of a FIBRA, the assets invested in by the FIBRA E do not have to be owned by the trust fund (CONSAR, 2018a). However, they must be owned by a legal entity exclusively dedicated to activities linked to the mentioned assets in which the FIBRA E invests. This particular fiscal regime grants fiscal transparency to the promoted companies so that income tax on its activities is paid by FIBRA E investors. For INFRAEX, no additional tax incentives were applied.

### INFRAEX – FIBRA E for social infrastructure

In June 2018, PROMEDEX, a Mexican infrastructure promoter and developer, sponsored the fifth FIBRA E certificate issuance since the creation of these instruments in 2016 (BMV, 2019b). The issuance of MXN 6,135 million (around USD 312 million[78]) has acquired equity shares in three brownfield infrastructure concessions (Grupo BMV, 2018):

- penitentiary infrastructure in Michoacán – "Michoacan" (PRODEMEX, 2014a);
- Correctional Facility n°14 – Durango (CEFERESO NO.14) – "Durango" (PRODEMEX, 2014b); and
- road infrastructure Vialidad las Torres, Estado de Mexico – "Vialidad" (PRODEMEX, 2010).

This was an issuance of more than 331 million "B series" certificates CBFEs, publicly traded securities in the form of "trust bonds". In parallel to the issuance, PROMEDEX, through its infrastructure branch PROINFRA, issued ten "A series" CBFEs that are not part of the FIBRA E issuance. These certificates have subordinate rights to the "B series" with respect to revenue payments; however, they provide full corporate decision-making power to their holders. The decision ownership rights of the three projects are split as shown in Table 34 (Grupo BMV, 2018).

[78] Exchange rate as of 31.12.2018

**Table 34: Decision ownership rights of the three concession projects invested in by INFRAEX**

| Entity | Michoacan | Durango | Vialidad |
|---|---|---|---|
| PRODEMEX | 35% | 60% | 60% |
| PROINFRA | 25% | 30% | 30% |
| Project PPP structure | 40% | 10% | 10% |

Regarding the "B series", PROINFRA has close to 49.4% of the stakeholder rights in each of the projects. The aforementioned INFRAEX issuance represents 50.59% of stakeholder rights to the three projects, with 29.8% of those "B series" CBFEs being offered to PROINVER, a sub-branch of PROINFRA. Figure 21 summarizes the structure of the issuance:

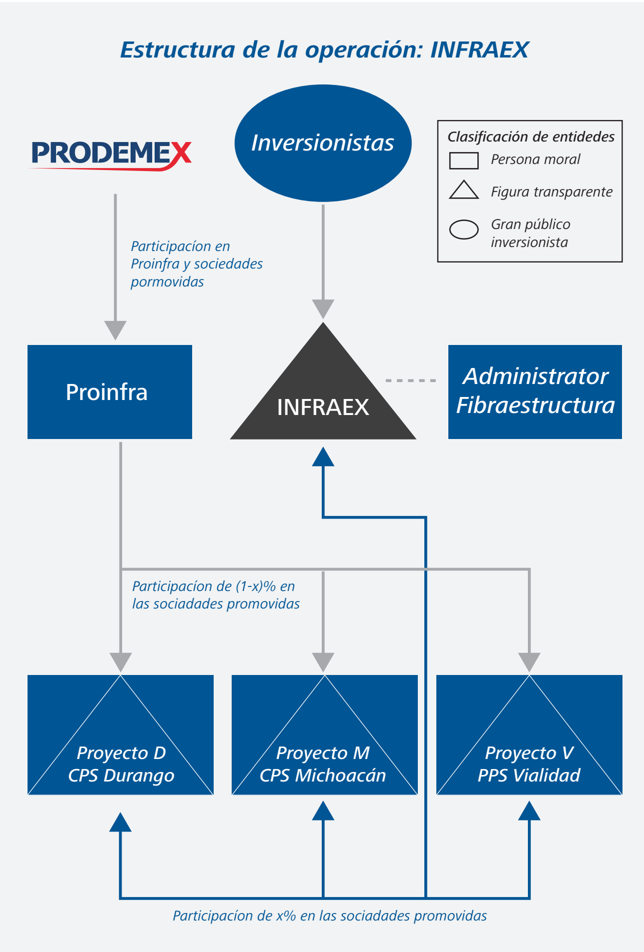


**Figure 21: Structure of the INFRAEX issuance**

The INFRAEX issuance was a public offering open only to institutional investors as per FIBRA E regulation. No further public information is available on the type of investors.

Table 35 provides a snapshot of the issuance details of the FIBRA E (Grupo BMV, 2018).

**Table 35: Issuance snapshot – INFRAEX**

| | |
|---|---|
| **Issuance date** | 13/06/2018 |
| **Instrument** | FIBRA E |
| **Volume** | MXN 6,135 million (USD 312 million) |
| **Tenor** | There is no tenor for a trust fund. |
| **Implicit dividend yield (based on issuance price)** | 11.26% (with a minimum trimestral distribution of 2.08%) |
| **Issuance type** | Public issuance |
| **Rating** | The instrument has no credit rating. |
| **Use of proceeds** | Two social infrastructure projects and one road infrastructure project |

There is no legal differentiation between the issuance of a FIBRA E for sustainable infrastructure and regular infrastructure. As equity investments, the sustainable bond label is not available. At the same time, FIBRAs are currently not authorized to be part of the BMV's sustainability index (for more information, see the last section of this report).

## INFRAEX issuance and trading process

The issuance process of INFRAEX cost a total of MXN 139 million (USD 7 million), 2.2% of the overall issuance amount (Grupo BMV, 2018). It was undertaken by PRODEMEX with the support of third-party legal and fiscal advisors, as well as several underwriters to assist in finding investors. The aforementioned costs include: *Comisión Nacional Bancaria y de Valores* (CNBV) and BMV studies, issuance intermediaries, legal and fiscal advisors, audit, RNV and BMV registration fees, and structuring fees.

INFRAEX has the following structure:

- **trustor and administrator**: Administrador Fibraestructura S.A.P.I. de C.V. (PRODEMEX); and
- **trustees**: Banco Actinver, S.A., Institución de Banca Múltiple, Grupo Financiero Actinver.

The issuance is registered under the jurisdiction of the BMV in Mexico City, Mexico.

The entities participating in the issuance are:

- **representation**: CI Banco, S.A., Institución de Banca Múltiple;
- **fiduciary**: Banco Actinver, S.A., Institución de Banca Múltiple, Grupo Financiero Actinver;
- **legal advisor**: Jones Day México, S.C.;
- **fiscal advisor**: Creel, García-Cuéllar, Aiza y Enríquez, S.C.;
- **global structuring**: Evercore Partners México, S. de R.L.;
- **external auditor**: PricewaterhouseCoopers, S.C.;
- **underwriters**: Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte; Actinver Casa de Bolsa, S.A. de C.V., Grupo Financiero Actinver; Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México;
- **legal placement advisors**: Creel, García-Cuéllar, Aiza y Enríquez, S.C.; and
- **registration to**: RNV of the CNBV and the BMV.

The issuance was public and available only to institutional investors as per the regulation of FIBRA Es. CBFEs are publicly traded on the secondary market among institutional investors. There is no publicly available information on the trading volumes.

Prior to the issuance of a FIBRA E, the projects must already be identified and eligibility criteria reached. In particular, all shareholders of a promoted company must be legal entities that reside in Mexico prior to the issuance of the FIBRA E.

### Key takeaways

The INFRAEX case is an example of how to tap into capital markets through a public issuance to raise capital for social infrastructure projects. The fact that a FIBRA E, from the FIBRA instrument family, which also exists in Peru, financed such infrastructure projects represents a significant precedent for social infrastructure projects. In addition, although the social benefits of these infrastructure projects are clear, there is no differentiation with investments in non-sustainable infrastructure. In 2018, the four-time oversubscription of Bancóldex's Social Bond in Colombia showed that there is an appetite among investors for socially-labeled investments.

## Insights for instrument scaling and replication

### Insights on instrument scaling

There have been three FIBRA E issuances, with the first issuance in 2016 to invest in road infrastructure concessions in Mexico.[79] Within this first FIBRA E issuance, four CBFE issuances were undertaken in 2016, two in 2017, and one early 2019, for a total of MXN 34 billion (~ USD 1.7 billion) issued. The other two FIBRA Es were issued in 2018: INFRAEX and a third issuance from CFE, the main electricity utility company in Mexico, for MXN 16.4 billion (~ USD 830 million) with the primary objective of financing electricity transmission, generation and distribution assets, and other non-defined infrastructure projects.

The recent growth in issuances shows that after a slow start, FIBRA Es are picking up the pace as an instrument for energy and infrastructure concession projects. Their exclusivity for institutional investors positions them ideally to help stimulate investments from Mexican pension funds (AFOREs). Currently, AFOREs own 25% of all FIBRAs on the market. However, considering the current political transition and the overall infrastructure investment market, we may not witness significant growth in the FIBRA E market in 2019 due to the slowing down of infrastructure investments until the release of the National Infrastructure Plan in the first semester of 2019.

Currently, the FIBRA E regulation impedes investments in the early stages of infrastructure projects, due to the 12-month activity requirement. This may limit the opportunities for FIBRA E issuances. Softening this requirement could expand the appeal of FIBRA E as an infrastructure investment instrument.

### Instrument replication at the local, national, and regional level

With regard to the potential for replication of this instrument in other Latin American markets, it is worth noting that the real estate investment trust structure already exists in Peru. To date, close to USD 2 billion has been invested in such instruments in Peru, all in real estate. This means a similar instrument to FIBRA E could be included in Peruvian capital market regulation to focus on energy and concession infrastructure (an established PPP regulation). However, based on the analysis conducted in Peru, pension funds are not as keen on infrastructure investments as they are in Mexico, with regulatory limits imposed on their liquidity risk for example. Without the potential to attract pension fund capital, the added value of an instrument such as FIBRA E may not be sufficient to justify the regulatory changes required.

In other Latin American markets, the real estate investment trust structure is non-existent, which would require more cumbersome regulatory changes for it to be included in the local capital market.

## Adapting to sustainable infrastructure

In their current state, FIBRA Es do not have any sustainability criteria embedded in their regulatory framework. However, in the case of INFRAEX, although the instrument itself does not have a sustainability policy (Grupo BMV, 2018), the three projects it

[79] Further details on the *Proyectos Mexico* website

has invested in have adopted the PROINFRA environmental policy due to their affiliation. This means that they must comply with all dispositions under the Mexican environmental legislation, including, among others, standard environmental impact evaluation and greenhouse gas emissions reporting. Hence, the sustainability criteria for a FIBRA E investment lie with the trustor and their level of sustainability. As mentioned above, although investments such as INFRAEX have been made in social infrastructure in line with environmental and climate sustainability criteria, there is no legal differentiation between these investments and non-sustainable ones.

The 2018 modifications to the AFORE investment regime promote investments into companies and infrastructure projects that comply with responsible investing (ESG) criteria by including in the AFORE regulation the obligation to include ESG principles as part of their investment analysis (CONSAR, 2018b). As mentioned previously, AFOREs represent only 25% of investments in FIBRA structures. The compliance of FIBRA E investment projects with national ESG standards could stimulate the uptake of FIBRA E by AFORE. In turn, the significant capital pool that AFOREs represent could convince FIBRA E issuers to ensure the uptake of ESG criteria in their investment projects.

Several other pathways could be explored for such instruments to stimulate investment in sustainable infrastructure, based on national and international experiences, in particular from other primary LAC markets. One example is a “sustainable” label for FIBRA Es (similar to the Green and Social Bond guidelines or the CBI certification) that could attract other investor types dedicated to investments in sustainable infrastructure. Additionally, authorizing FIBRA instruments as part of the national sustainability index or another specific sustainability index could improve the appeal of sustainable FIBRA Es for certain investors. FIBRA instruments are currently not authorized to be part of the sustainability index of the BMV, an index composed of companies listed in the BMV that comply and report on ESG criteria following pre-defined guidelines (Grupo BMV, 2017b). At present, only publicly listed companies can be part of this index through their equity shares. A few FIBRAs have been part of foreign sustainability indices in the past, such as FTSE4Good and the Dow Jones Sustainability Index. The association of FIBRAs in Mexico is currently trying to change capital market regulation to align it with international benchmarks, which would pave the way for all FIBRA products.

Finally, fiscal incentives, such as revenue tax reductions, for investors in FIBRA Es that abide by certain sustainability criteria in their investment decisions could stimulate a change. An example is Brazil’s tax incentive to stimulate investments in infrastructure debentures.

## 7.6 Peru – trust fund for renewable energy

### Trust funds (fideicomiso)

A *fideicomiso* is a legal relationship in which a company/person (grantor or "*fideicomitente*"), transfers assets to another entity (trustee or "*fiduciario*"), for the constitution of a trust fund. The trustee keeps control of the trust to achieve a specific purpose for a third party or for the grantor itself.

**Organizational structure**

There are two types of trust funds in Peru: a banking trust fund (*fideicomiso bancario*) and a securitization trust fund (*fideicomiso de titulización*).

A banking trust fund is a legal relationship in which a company transfers assets to another entity for it to manage the assets to achieve a specific purpose for a third party or for the company itself. Transferred assets need to be registered in the corresponding public registry and the transfer of asset classes, such as shares and receivables, each need to fulfill particular legal requirements. It is common for the company transferring its assets to issue a security.

In the case of a securitization trust fund, the fiduciary agency is not only responsible for managing the transferred assets but also for issuing a security backed by revenues associated with the trust fund's transferred assets.

**Instrument regulatory environment**

The banking trust fund is regulated by the Law of Capital Markets (Decree 861), national banking sector regulator's Resolution No. 1,010/1999, which determines criteria for trust funds and trust services companies, and Resolution No. 084/2000, responsible for the associated accounting rules. *Superintendencia de Banca, Seguros y AFP* is responsible for supervising compliance. According to the Capital Markets Law, only trust service companies, insurers, reinsurers, and the National Development Bank (COFIDE) can act as financial trustees in the Peruvian market.

Securitization trust funds are regulated by the *Texto Único Ordenado* of the Capital Market Law, (Supreme Decree No. 93/2002), SMV Resolution No. 01/97, which regulates the securitization process of assets, the accounting norms for securitization agents (*sociedades titulizadoras*), and SPVs (SMV Resolution No. 093/1998). The SMV is responsible for overseeing compliance. Securitization trust funds are established to fulfill a specific purpose, as determined by contract. After the established objective has been reached, the assets are transferred back to the *fidecomitente* or the fund's investors.

Trust fund taxation varies according to its structure type in Peru. Banking trust funds are not subject to income tax, as long as the company originating the assets is the final beneficiary of the fund. Securitization trust funds, however, are subject to income tax and VAT.

### Wind farms: multi-source financing and the role of trust funds

The Marcona wind farm, the first Peruvian wind power plant, is located near the town of Marcona, Department of Ica, and began operations on April 2014. It has a generation capacity of 32.1 MW with eight Siemens model SWT 108 3.15 MW wind turbines and three Siemens model SWT 108 2.3 MW wind turbines, each with their corresponding substations.

The Tres Hermanas wind farm is also located near the town of Marcona, Peru and began operations in March 2016. Its installed capacity is 97.15 MW with 25 Siemens model SWT108 3.15 MW wind turbines and eight Siemens model SWT 108 2.3 MW wind turbines installed, each with their corresponding substations.

Combined, these wind farms combined represented 60% of Peru's wind power generation in 2017. Located in a region with little other power generation capacity, they contribute to the grid stability and provide energy for 30,000 families. According to an ACS 2017 industry report, the Marcona wind farm produces 167,992 MWh of power annually, while Tres Hermanas produces 497,606 MWh of electricity per year.

Grupo Cobra, a Spain-based subsidiary of ACS, was responsible for the engineering, procurement, construction, testing and commissioning of both wind farms, as well as the construction of access roads and interior roads. Initial funding for the projects included around USD 230 million in loans from seven different banks: DEG, Export-Import Bank of the United States (Eximbank), FMO, Natixis, Hyundai Power, PROPARCO (all senior debts), and CAF (subordinated debt). The loans' average interest rate was 7.7% p.a. and the average loan term was 18 years. In September 2015, the projects' financing package won the Best Renewable Energy Financing in Latin America award from Latin Finance, a renowned magazine on Latin America's financial markets. Table 36 discloses this package in detail (CAF, 2016).

In 2015, Grupo Cobra launched a trust fund with La Fiduciaria to manage USD 70 million in cash flows from the preoperational and operational phases of the projects.

Sigma FI is a closed-end equity fund focused on infrastructure projects. It is one of the largest investment fund managers in Peru.

**Table 36: Loan split for the development of the wind farms**

| Bank | Marcona loan amount (USD million) | Tres Hermanas loan amount (USD million) | Total loan amount (USD million) | % |
|---|---|---|---|---|
| Eximbank | 11.5 | 51.6 | 63.1 | 28 |
| Natixis | 19.7 | 35.3 | 55.0 | 24 |
| Proparco | 10.0 | 18.8 | 28.8 | 13 |
| DEG | 6.9 | 13.0 | 19.9 | 9 |
| FMO | 9.0 | 10.9 | 19.9 | 9 |
| Hyundai | 7.0 | 12.9 | 19.9 | 9 |
| CAF | 6.0 | 14.0 | 20.0 | 9 |

In 2016, it acquired a 49% interest in the two wind farms from Grupo Cobra and, in 2018, the fund consolidated its full ownership of the wind farms. This acquisition was financed with Sigma FI's own capital.

Simultaneously, through the SPV Parque Eólico Tres Hermanas and the SPV Parque Eólico Marcona, Sigma FI privately placed a USD 250 million bond under US jurisdiction, registered as an exempted security under SEC Section 4 (a) (2). Allianz Global Investors was the only investor.

In parallel, Sigma FI structured a new banking trust fund (*fideicomiso bancário*) with La Fiduciaria, to which it transferred the full proceeds of the bond issuance. It has the same tenor period as the bond issuance.

**Table 37: Snapshot of bond issuance**

| | |
|---|---|
| **Issuance date** | November 2018 |
| **Instrument** | Corporate bond |
| **Volume** | USD 250 million |
| **Tenor** | 18 years |
| **Interest rate** | 5.59% p.a. |
| **Issuance type** | Private placement |
| **Rating** | BBB- (Fitch Ratings) |
| **Use of proceeds** | Refinancing the outstanding debt of the Tres Hermanas and Marcona wind farms |

**Table 38: Snapshot of trust fund**

| | |
|---|---|
| **Issuance date** | November 2018 |
| **Instrument** | Trust fund |
| **Volume** | USD 250 million |
| **Tenor** | La Fiduciaria (trust company) |
| **Interest rate** | 18 years |
| **Issuance type** | Banking trust fund (unlisted) |
| **Rating** | Manage the bond's proceeds to refinance the Tres Hermanas and Marcona wind farms |
| **Use of proceeds** | Refinancing the outstanding debt of the Tres Hermanas and Marcona wind farms |

## Issuance and trading process

Initially, Sigma FI considered issuing its Corporate Bonds through SEC's Regulation 144a but, as Allianz Global Investors demonstrated their interest in fully acquiring the notes, they were registered as exempted securities under SEC Section 4(a)(2). Even though Sigma's Corporate Bond was an international issuance, its associated trust fund is registered under Peruvian jurisdiction.

Sigma FI issued the notes through two co-issuers, the SPV Parque Eólico Tres Hermanas and the SPV Parque Eólico Marcona, with USD 250 million bonds in a private placement under Peruvian jurisdiction. This was the country's first co-issuance by Peruvian issuers. The total proceeds were used mainly to refinance around USD 230 million in outstanding project finance debt and the rest was used in the payment of penalty costs. The bond is backed by the wind farms' 20-year power-purchase-agreements with Peru's Supervisory Agency for Investment in Energy and Mining.

The Corporate Bond issuance process by the company includes the assistance of third-party consultants and financial operators. The assisting companies in this particular issuance were:

- **placement agent**: Credit Suisse Securities (USA) LLC ;
- **bookrunner**: Credit Suisse Securities (USA) LLC;
- **SPV legal advisory**: Garrigues Abogados and Norton Rose Fulbright; and
- **funders' legal advisory**: Clifford Chance, Rodrigo, Elias & Medrano Abogados.

The issuance received a "BBB-" rating with a stable outlook by Fitch Ratings. Credit Suisse privately placed the notes to Allianz Global Investors, which has invested on behalf of its clients.

As Sigma FI structured the banking trust fund, it cannot issue securities linked to it. La Fiduciaria was the company responsible for structuring and managing the *fideicomiso*. La Fiduciaria is the leading trust services company in Peru, with over 50% of the market share. Both the trust fund's and the corporate bond's simultaneous structuring process led by Sigma FI took around a month.

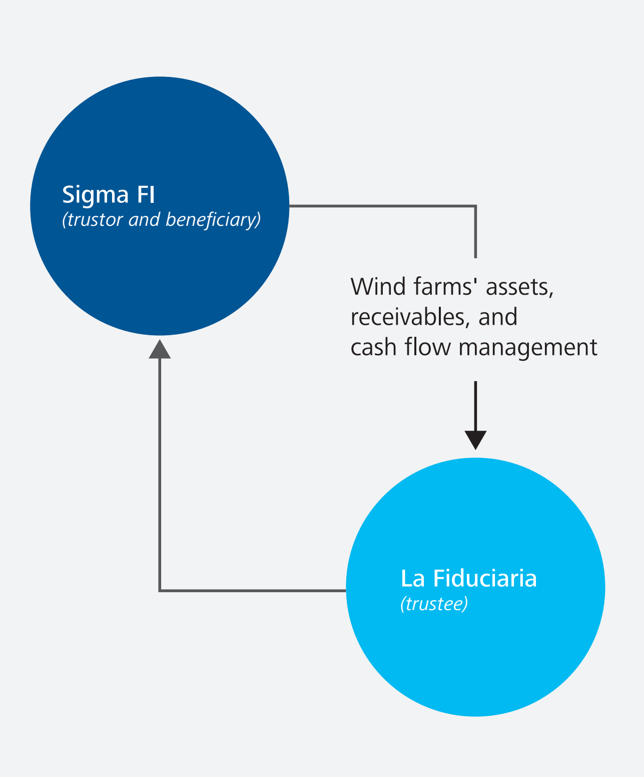


**Figure 22: Trust fund work flow**

**Key takeaways**

A banking trust is a common instrument used to reduce credit risk associated with infrastructure financing operations. This case is an example of the use of this instrument to improve credit rating, and consequently, reduce the financing cost by separating the risk of the company from the risk of the project whose assets were transferred to another party for a renewable energy project financing operation. Although this case presents wind farms financing, it did not receive a sustainability label, which would be an opportunity for further tracking of sustainable infrastructure investments.

**Insights for instrument improvement**

Trust funds are mainly used to improve guarantees for banking or non-banking financing. This financial instrument allows for the credit risk of the transferred assets and of the *fideicomitente* company to be done separately, which increases a project's viability and a company's or operation's liquidity. This improves its credit rating, which implies a lower financing cost. For this reason, it has become an important instrument among infrastructure projects, which are usually associated with longer terms and bigger debts.

In this specific case, Sigma FI established a banking trust fund to reduce credit risk, which was a requirement for the feasibility of the refinancing operation. The trust is responsible for managing the wind farms' cash flow, creation, and control of operational and management accounts for the assets and debt payment.

Securitization trust funds can also represent an additional funding source for infrastructure projects through debt securities issuance. This is particularly interesting for expansion projects, in which operational assets are transferred into a securitization trust fund that attracts investments through the issuance of debt securities backed by those asset's revenues.

In 2017, new financial instruments for real estate investments were regulated in Peru, among them the FIBRA, which are securitization trust funds focused on the acquisition or construction of real estate assets intended for lease. FIBRA is also subject to an income tax rate reduction for individual investors (from 29.5% to 5%). This innovation has been well received by the market, with the expectation of increased capitalization of the sector.

The Peruvian government could apply similar incentives to trust funds focused on sustainable infrastructure projects. The new instruments could be labeled as green, social, or sustainable as long as the transferred assets follow eligibility requirements aligned with international standards. Consequently, it would promote the Peruvian capital market's role in financing sustainable infrastructure projects.

Trust Funds are financial instruments commonly used in Latin American countries. For example, Mexico has FIBRA and FICAP while Argentina has *fideicomisos financieros*.

### Adapting to sustainable infrastructure

In Peru, trust funds currently have no legal criteria related to sustainability. Even though the wind farms have clear green credentials, the financing process did not examine the environmental and social benefits associated with the projects. The potential for green labeling was not considered as the bond was privately placed.

This was Allianz Global Investor's first investment in the infrastructure debt market in Peru, with one of the largest bond offerings in the renewable energy sector in the country. The large amount financed was decisive for the bond's financial attractiveness. Green labeling could attract dedicated institutional investors, increasing the demand for sustainable infrastructure securities, and therefore, lowering the issuance cost and the minimum financed amount necessary.

Law 30,532/2016 created the Real Estate Investment Trust (FIBRA), which established tax incentives for securitization trust funds focused on real estate projects (individual investor's income tax lowered from 29.5% to 5%). The Peruvian government could expand the tax incentive to securitization trust funds focused on sustainable infrastructure projects, which could promote infrastructure projects in sectors other than real estate and increase the integration of environmental and social criteria into infrastructure project development in the country.

# 8. Annex III – Country-specific sources of information

| | |
|---|---|
| **Argentina** | • CNV (Argentinian Securities Commission): market data on closed-end investment funds, trust funds, and negotiable obligations, as well as regulations<br>• Merval (Buenos Aires Stock Exchange): information on key capital markets instrument characteristics<br>• CAFCI (Argentinian Chamber of Investment Funds): market data on open-end investment funds<br>• BNA (*Banco de la Nación Argentina*) and BICE (National Development Bank): information on their credit lines for infrastructure projects<br>• Interviews: Fitch Ratings, BICE, and CAFCI for data on financial instruments<br>• The national legislation registry website (InfoLEG) |
| **Brazil** | • ANBIMA (Brazilian Financial and Capital Markets Association): reports and market data of fixed income instruments (FIDC, CRI, CRA, debentures, and infrastructure debentures), equity funds and real estate investment funds<br>• B3 (Brazilian Stock exchange): data on credit default swaps, LCI and LCA markets<br>• BNDES: data on its credit lines for infrastructure projects, such as FINEM, and infrastructure financing reports in Brazil<br>• Interviews: ANBIMA, B3 and Ecoagro (a securitization institution)<br>• Official legislative websites and CVM (Brazilian Securities Commission) for regulations<br>• Specific regulation on investors activities obtained from SUSEP, PREVIC, ANBIMA, and BCB |
| **Chile** | • *Comisión para el Mercado Financiero*: information on the capital market instruments, including records of all bonds emitted in Chile, as well as records and information on mutual funds<br>• *Asociación Chilena Administradoras de Fondos de Inversión* (ACAFI): information on investment funds in Chile, including an "Investment Fund Yearbook", 2016<br>• "*Financiamiento privado de la infraestructura en América Latina y el Caribe: Chile, Perú y Uruguay como casos de estudio*" (2017), Inter-American Development Bank: analysis of private sector investments into infrastructure<br>• Legislative texts in the *Biblioteca del Congreso Nacional de Chile*<br>• *Superintendencia de Pensiones*: regulatory overview of the pension fund regulations related to infrastructure |
| **Colombia** | • *Bolsa de Valores Colombia* (BVC): information on the capital market instruments, bonds in the case of Colombia. An interview with the BVC complemented the public information available<br>• "*Evolución y análisis de la industria de Fondos de Capital Privado*" (2018), Ernst&Young, ColCapital: study on the private equity fund landscape in Colombia, with regulatory framework and investment funds data<br>• An interview with Bancolombia also provided significant insight on green credit lines and their green bond issuances |

| | |
|---|---|
| **Mexico** | • *Bolsa Mexicana de Valores* (BMV): information on the capital market instruments, their regulatory framework and the volumes invested in said instruments<br>• *Comisión Nacional Bancaria y de Valores* (CNBV): information on the regulatory framework of the capital market instruments and the volumes traded<br>• "*Inversión de fondos de pensiones en infraestructura*" (2018), CONSAR: information on the investments of pension funds into infrastructure through different types of capital market instruments<br>• Interview: Banobras, for insights on infrastructure investments<br>• Reports specific to certain instruments (e.g., Deloitte study on CKDs and CerPIs) and public information of regulatory bodies such as the CNBV<br>• *Proyectos Mexico* platform: provides insights into market data, regulations for infrastructure investments and regulatory framework |
| **Peru** | • SMV (Peruvian Securities Commission): information on bonds, private investment funds, FIRBI, and FIBRA<br>• BVL (Lima Stock Exchange): market data on FIRBI and FIBRA<br>• SBS (banks, insurance, and AFP Superintendence) and La Fiduciaria (key player in the fiduciary market): information on trust funds<br>• Finance Ministry: data on private investment funds and sovereign bonds<br>• COFIDE (National Development Bank): data on its credit lines for infrastructure projects, such as COFIDE Project Finance<br>• Interviews: COFIDE, FIBRA Prime, Faro Capital, and La Fiduciaria for data on financial instruments<br>• SBS (banks, insurance, and AFP Superintendence), the SMV (Peruvian Securities Commission) and the national legislation registry website (*Diario Oficial El Peruano*) for regulatory data |

# 9. Annex IV – Partners of the study

## 9.1 Inter-American Development Bank

The Inter-American Development Bank is a leading source of long-term financing for economic, social and institutional projects in Latin America and the Caribbean. Besides loans, grants and guarantees, the IDB conducts cutting-edge research to offer innovative and sustainable solutions to our region's most pressing challenges. Founded in 1959 to help accelerate progress in its developing member countries, the IDB continues to work every day to improve lives.

www.iadb.org

## 9.2 South Pole

South Pole is a leading provider of global sustainability financing solutions and services, with a proven track record in understanding climate change investment opportunities worldwide, blending public and private finance, designing and managing funds and facilities, and designing innovative financial incentives and instruments, with over 1,000 consultancy projects advising public clients on mobilizing finance for NDC and SDG implementation.

One of the best uses of public climate finance is to de-risk and incentivize private investment in the low-carbon and climate-resilient economy. South Pole develops and implements blended financing schemes on behalf of development banks and governments, unlocking the allocation of critical private capital for climate and sustainability actions, helps governments (at the national and local level) to access international climate finance, and advises the private sector on how to access public finance for climate action.

South Pole was the lead partner of the consortium of consultants who successfully prepared "Financing Sustainable Infrastructure in Latin America: Market Development and Recommendations". Drawing on its international experience of sustainable infrastructure financing practices and its local presence in Colombia and Mexico, the company's experts were able to produce an in-depth analysis of the local infrastructure and sustainable infrastructure investment market. South Pole focused particularly on the analysis of the Chilean, Colombian, and Mexican markets.

This entailed effective oversight of project coordination and outreach to key local financial sector stakeholders to refine the analysis of the local and regional markets and provide relevant recommendations to stimulate the uptake of sustainable practices in the infrastructure investment market.

www.southpole.com

## 9.3 SITAWI

SITAWI Finance for Good is a Latin American organization working to advance social and environmental outcomes through finance and investing. SITAWI manages philanthropic funds for large donors, develops financial solutions for social enterprises, and advises financial institutions and institutional investors on integrating ESG issues into strategy, risk management, product development, and investment analysis. SITAWI works with Latin America's leading players in social and sustainable finance and is piloting innovative concepts for the region such as P2P impact investing and green bonds.

Their work has been recognized as Latin America's Best Socially Responsible Investment project by IADB's Beyond Banking 2011 awards and by Extel's Independent Research on Responsible Investment – IRRI 2019 as a top-five ESG research provider to investors globally. Founded in 2008, SITAWI now boasts 53 staff members based out of its Rio de Janeiro, São Paulo, Carauari, and Bogotá offices.

SITAWI operates Latin America's largest Sustainable Finance research and consulting practice, now boasting over 20 full-time professionals. It has advised over 60 financial institutions and investors in the region on integrating ESG and climate issues, including development banks, commercial banks, insurers, pension funds, private equity, and asset managers. Its ESG research unit covers 220 listed Latin American companies.

Since 2015, SITAWI became Latin America's leading provider of green bond second opinions, having worked on all 15 Brazilian domestic green issuances to date, as well as Colombia's first domestic issuance, Peru's first social bond, and Ecuador's first sustainable bond, among other innovations. Our publication "The Coolest Bonds" (2018) guides potential issuers about eligible assets in nine sectors and the "Guidelines for Issuing Green Bonds in Brazil" (FEBRABAN and CEBDS, 2016), written by SITAWI, won Environmental Finance's Initiative of the Year Awards in 2017.

www.sitawi.net

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