

PREPARING FOR GREEN BOND ISSUANCES

A MANUAL FOR FINANCIAL
INSTITUTIONS IN **LATIN
AMERICA AND THE
CARIBBEAN**



GB-TAP Green Bond Technical
Assistance Program



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Foreword



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Global Director of
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Countries in Latin America and the Caribbean (LAC) need an annual investment of about 5% of their gross domestic product (GDP) until 2030 to build the infrastructure to meet the climate goals of the Paris Agreement. At the same time, they have to address a variety of social challenges and promote a just transition for their population, which requires an additional 5% to 11% of their annual GDP until 2030 in social investments.¹

Green bonds are one of the fastest-growing instruments to direct financial flows to projects and activities with environmental benefits and contribute to this sustainable agenda, with the global green bond market reaching \$2 trillion at the end of 2022. Despite LAC's immense investment requirements to build low-carbon, resilient and sustainable economies, green bond issuances of the region represent only 2% of the global green bond market.

Financial institutions (FIs) are uniquely positioned to be catalyst agents and drive the LAC region's just transition to a low-carbon, resilient and inclusive growth. So far, only 19 financial institutions in LAC have issued green bonds for a total of \$3.5 billion, which corresponds to less than 10% of the regional green bond market. As loan aggregators and bond issuers, FIs are at the center of

financial flows and can expand the use of green bonds to shape LAC's future and contribute to the Paris Agreement and Sustainable Development Goals (SDGs). At the same time, green bonds can provide FIs with access to additional investors with strong Environmental, Social, and Governance (ESG) mandates, diversification of their funding sources, improvement of their sustainability credentials, and mitigation of climate risks.

This Manual provides a detailed step-by-step on how financial institutions in LAC can prepare for a successful green bond issuance. It brings case studies based on interviews with LAC FIs that issued green bonds to illustrate in practice how the steps can be implemented in the region's context.

The Manual leverages IFC's extensive experience supporting financial institutions in the LAC region, with over \$9 billion committed in the four-year period from 2019-2023. It also builds upon IFC's **Green Bond Technical Assistance Program (GB-TAP)**, which supports the mobilization of sustainable finance in emerging markets by providing technical assistance to FIs on green, social and sustainability bond issuances. Since 2018, GB-TAP has trained over 1,000 professionals from over 280 financial institutions across 70 countries and stimulated the issuance of over 80 green, social and sustainability bonds for a total value of US\$7.7 billion.

I hope this Manual provides helpful guidance for your institution to issue a green bond, implement your sustainability strategy, and diversify your investors base.

¹ IDB (2022). *How Much Will It Cost to Achieve the Climate Goals in Latin America and the Caribbean?*. Available [here](#).



Acknowledgements

This Guide – Preparing for Green Bond Issuances: A Manual for Financial Institutions in Latin America and the Caribbean – has been developed at the initiative of the International Finance Corporation (IFC) Green Bond Technical Assistance Program (GB-TAP), which aims to stimulate the supply of green bonds in emerging markets by creating and disseminating best practices and knowledge as global public goods. The GB-TAP is a multi-donor program managed by IFC and in partnership with the State Secretariat for Economic Affairs of Switzerland, SECO; the Swedish International Development Cooperation Agency, SIDA; and the Ministry of Finance of Luxembourg. The program has two overarching goals: to facilitate capital flows from responsible investors in developed countries into green projects in emerging economies; and to grow markets by stimulating the demand for and supply of green bonds in emerging markets.

The research and writing of this report were conducted by Yvonne Vogt, Isabel Montojo, Valeria Cantú, Daniela

Canevaro, and Natalia Velázquez from HPL.LLC (HPL), under the guidance of Kaikham Onedamdy, Yang Li Epstein, and Helena Dill at IFC. HPL provides sustainable finance advisory to institutional clients with the mission to accelerate capital flows to support the sustainability agenda. HPL has over six years of experience working with governments, corporations, investment funds as well as public, private and international financial institutions developing and implementing projects related to sustainable finance projects. As of Q2 2023, HPL has completed 49 projects in 17 countries for 34 beneficiaries, contributing as experts to mobilize institutional investors towards Latin American green bond markets.

The authors would like to acknowledge the valuable input from Carla Dueñas at Banco Pichincha, Laura Ávalos, Patricia Renderos and Ana Marcela Trabanino at Banco Promerica El Salvador, Diana Barón at Banco de Bogotá, and Arthur Flores and Gabriel Rodrigues da Silva at Banco Sicredi.



Abbreviations

BCI	Banco de Crédito e Inversiones
BCP	Banco de Crédito de Perú
CBI	Climate Bonds Initiative
CEO	Chief Executive Officer
E&S	Environmental and Social
EM	Emerging Markets
ESG	Environmental, Social and Governance
ESMS	Environmental and Social Management System
EU	European Union
FI	Financial Institution
GBP	Green Bond Principles
GDP	Gross Domestic Product
ICMA	International Capital Market Association
IFC	International Finance Corporation
KPI	Key Performance Indicator
LAC	Latin America and the Caribbean
SDGs	Sustainable Development Goals
SPO	Second Party Opinion

1.

Introduction



Latin America and the Caribbean (LAC) requires significant investment to build resilient economies capable of addressing challenges resulting from climate change. The region holds significant potential for green finance – it is home to an incredible source of natural capital, with more than 30% of the earth's available freshwater² and half of the world's tropical forests.³ The energy matrix is one of the cleanest in the world, hosting more than a quarter of its primary energy from renewables (2x the global average).⁴ At the same time, the region is vulnerable to every natural phenomenon, from earthquakes to hurricanes, to severe droughts and floods, with a high need for investment in resilient infrastructure.

By 2030, Latin America needs to invest from \$470 billion to \$1.3 trillion in infrastructure and social spending to

address climate change challenges while promoting a just transition and a sustainable development. Relative to the region's economy, this represents an investment equivalent to between 7% to 19% of its annual GDP until 2030.⁵ Green bonds are effective capital market instruments that can drive institutional and private capital to prioritize the sustainability agenda, as their use of proceeds are exclusively applied to activities with positive environmental benefits. While the Latin American green bond market has been steadily growing in the last years, it only represents 2% of global green bond issuances.⁶ Given the large infrastructure investment gap and the need for a green and resilient recovery, there is a great opportunity to further boost the market.

² United Nations (n.d.). *Climate Change and Freshwater in Latin America and the Caribbean*. Available [here](#).

³ IDB (2022). *Latin America and the Caribbean forests: large providers of ecosystem services*. Available [here](#).

⁴ IRENA (2022). *Latin America and the Caribbean*. Available [here](#).

⁵ IIDB (2022). *How Much Will It Cost to Achieve the Climate Goals in Latin America and the Caribbean?*. Available [here](#).

⁶ HPL's proprietary database estimates issuances of \$45 billion in green bonds; the global green bond market has been estimated at US \$2 trillion according to CBI, see [here](#).

Financial institutions (FIs) play an integral role in mobilizing capital towards the implementation of low-carbon and climate resilient solutions, as they act as natural aggregators of assets with green attributes. Green bonds can be an attractive source of funding for FIs who invest in projects that help mitigate the effects of climate change and build a more resilient future. Issuing a green bond is a strategic step for an FI, as it signals the institution’s commitment to its sustainability strategy and highlights how it is directing financial flows to catalyze the climate action agenda. However, to achieve a successful issuance, it is key that the process leading up to the transaction is carefully managed.

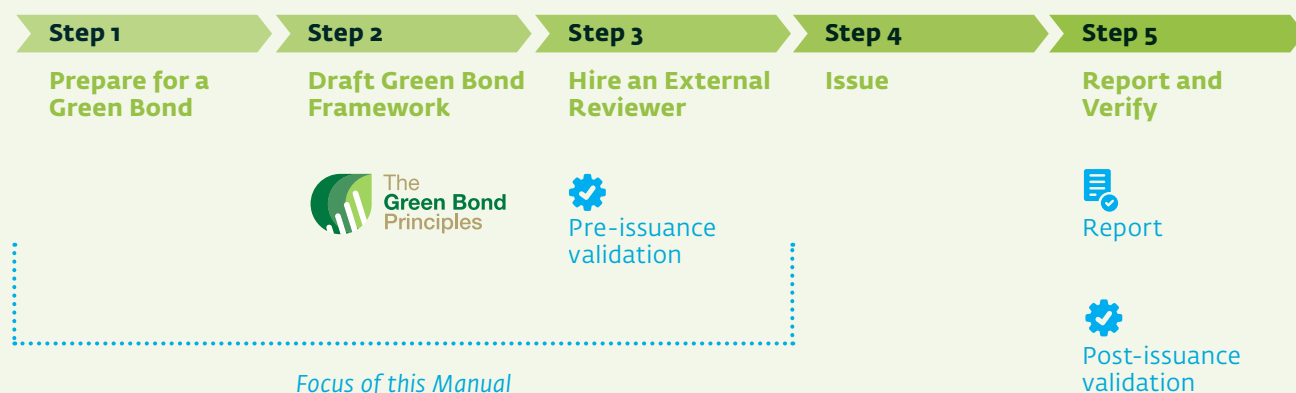
This Manual for Financial Institutions in Latin America and the Caribbean (“the Manual”) provides FIs with a step-by-step approach to prepare for the issuance of a green bond (see **Figure 1**). It addresses a range of challenges that FIs must navigate, including identifying a green portfolio, defining eligibility criteria aligned with sustainable finance taxonomies, developing

robust indicators that encompass both output and outcome metrics, establishing a portfolio selection and evaluation process, defining the management of proceeds, and establishing a reporting process.

This Manual also provides builds on existing documents such as the [Green Bond Principles \(GBP\)](#) and the [Harmonized Framework for Impact Reporting](#) from the International Capital Market Association (ICMA), and the IFC [Green Bond Handbook](#). While these resources have laid the foundation for green bond issuances, this Manual goes a step further by addressing common gaps and existing opportunities in the industry.

In addition, this Manual provides real-life case studies and examples of best practices from FIs that have successfully placed green bonds in LAC. These case studies provide valuable insights into how eligibility criteria were established, which indicators were utilized, and showcase tangible examples of projects that met these standards.

Figure 1. Key Steps for a Successful Issuance



The green bond issuance process is like that of a regular bond, but entails additional efforts in terms of governance, traceability, and transparency to increase investors' confidence in the bond's green credentials. In particular, the green bond issuance process requires five fundamental steps:

- Step 1**
Prepare for a Green Bond

involves reviewing funding options, designing green bond criteria and a project evaluation and selection process, identifying eligible projects, and setting up robust management and internal controls for tracking and allocation of proceeds.
- Step 2**
Draft the Green Bond Framework

entails developing a clear narrative describing the issuer overall sustainability strategy and the processes implemented for the green bond, in alignment with the GBP.
- Step 3**
Hire an External Reviewer

the issuer should decide which type of external review to obtain and hire the provider, who will assess the Framework's alignment with the GBP.
- Step 4**
Issue

this step does not vary significantly from the issuance process of a plain vanilla bond; however, the issuer might consider the sustainability profile of different underwriters or seek getting their bond listed on a green bond dedicated listing platform, for example.⁷
- Step 5**
Report and Verify

involves preparing for impact and allocation reporting. Additionally, in this last step, an issuer can engage an external reviewer to obtain a verification on the allocation and impact report (the post-issuance review).

This document guides FI issuers in LAC to follow Steps 1 – 3 of the green bond issuance process – highlighting best practices by providing case studies from other issuers in the region. Furthermore, the Manual also covers key actions, examples and recommendations concerning Step 5, since the issuer needs to start preparing internally for the reporting process at the time of developing its Framework.

The Manual is structured in four parts. **This Section 1** provides an introduction as well as outlines key terms, definitions, principles, and guidance. **Section 2** gives an overview of the market. **Section 3** serves as a step-by-step manual, breaking down the key tasks that FIs should follow to prepare for a green bond. It includes illustrative case studies based on interviews with FI issuers in LAC. Finally, **Section 4** provides a summary, checklists and recommendations for a green bond issuance.





⁷ Stock Exchanges in Argentina, Brazil, Chile, Colombia, Dominican Republic, Mexico, and Perú provide sustainability bonds listing segments (full list [here](#)).

1.1. Key Terms and Definitions

A **green bond**, as defined by the GBP, is a fixed-income financial instrument with earmarked funding for new and existing projects with environmental benefits.⁸ ICMA provides the **GBP** as a set of voluntary guidelines outlining best market practice to promote market credibility and integrity. A key recommendation of

the GBP is that the issuer develops a **Green Bond Framework** with clear and detailed information about four essential components: 1) Use of Proceeds, 2) Project Evaluation and Selection, 3) Management of Proceeds, and 4) Reporting, as shown in **Figure 2**.

Figure 2. The Four Core Components of the Green Bond Principles

Components	Description
 1. Use of Proceeds	<ul style="list-style-type: none"> • How the use of proceeds will be applied for bonds • Eligibility Criteria
 2. Project Evaluation and Selection	<ul style="list-style-type: none"> • Green Bond Committee • ESG Risk Management
 3. Management of Proceeds	<ul style="list-style-type: none"> • Allocation of proceeds • Process for unallocated funds
 4. Report	<ul style="list-style-type: none"> • Allocation reporting • Impact reporting

⁸ ICMA (2022). *The Green Bond Principles*. Available [here](#).

The first component of a Green Bond Framework, **Use of Proceeds**, focuses on disclosing to which types of projects the proceeds will be used to fund.

The GBP classify green eligible projects into ten broad categories: 1) Renewable Energy, 2) Energy Efficiency, 3) Pollution Prevention and Control, 4) Environmentally Sustainable Management of Living Natural Resources and Land Use, 5) Terrestrial and Aquatic Biodiversity, 6) Clean Transportation, 7) Sustainable Water and Wastewater Management, 8) Climate Change Adaptation, 9) Circular Economy Adapted Products, Production Technologies and Processes and/or Certified Eco-efficient Products, and 10) Green Buildings. Issuers are encouraged to detail the green eligible categories they will finance, with their corresponding criteria to define eligibility.

To obtain more information on projects that can be considered green, issuers can refer to **sustainable finance taxonomies** in the market such as the Climate Bonds Taxonomy from Climate Bonds Initiative (CBI), the European Union (EU) Taxonomy, and other local taxonomies in the LAC region. It is important to note that taxonomies are continuously updated and refined based on the evolution of the market. More details on the sustainable finance taxonomies can be found in the **Annex**. Other green guidelines can also be useful references for project selection, such as the IFC's Biodiversity Finance Reference Guide⁹, Sustainable

MSME Finance Reference Guide¹⁰, and Guidelines for Blue Finance¹¹. Examples related to the Use of Proceeds are provided in **Section 3.1.2**.

The second component, **Project Evaluation and Selection**, describes the internal decision-making process to manage environmental, social, and governance (ESG) risks, and to evaluate and select projects that qualify for funding through green bonds. More detail on this component is provided in **Section 3.1.4**.

The third component, **Management of Proceeds**, focuses on the effective management and tracking of the funds raised from green bond issuances. Issuers are expected to establish internal systems and controls to ensure that the proceeds are used exclusively for projects that meet the green eligibility criteria. More detail on this component is provided in **Section 3.1.4**.

The fourth component, **Reporting**, highlights the importance of disclosure and communication to build trust and credibility with investors and stakeholders. Issuers must provide regular and timely reporting on the proceeds allocation and environmental impact of the funded projects. More detail on this component is provided in **Section 3.1.4**.

Transparency and accountability are key in a green bond issuance; therefore, the issuer should seek an external review. More detail is provided in **Section 3.3**.

⁹ IFC (2023). *Biodiversity Finance Reference Guide*. Available [here](#).

¹⁰ IFC (2023). *Sustainable MSME Finance Reference Guide*. Available [here](#).

¹¹ IFC (2022). *Guidelines for Blue Finance*. Available [here](#).

2.

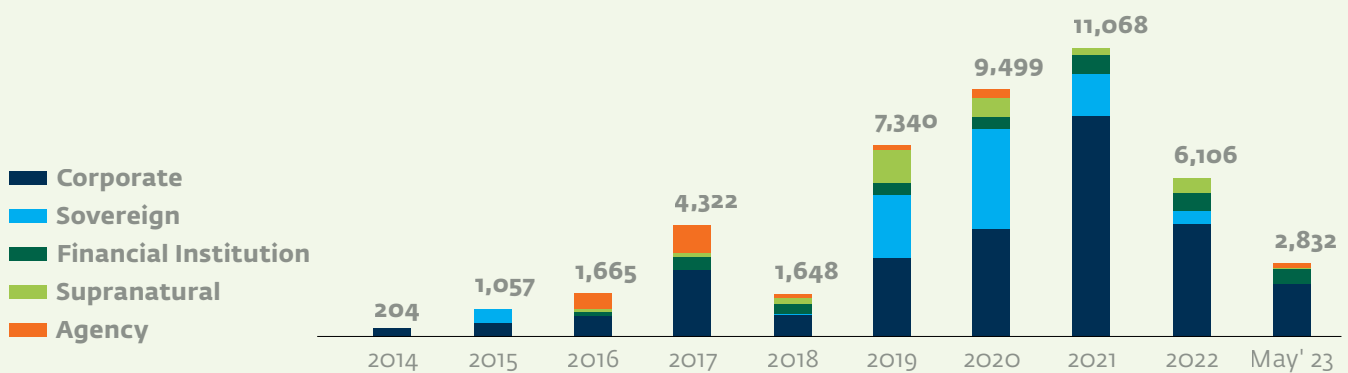
Market Overview



Since 2008, green bonds have become important financial instruments to address and mitigate the effects of climate change.¹² A large amount of capital is needed to address environmental challenges, and green bonds have proven to be effective tools to drive investments towards low carbon solutions, such as renewable energy, energy efficiency, pollution prevention, clean transportation, and others. At the end of 2022, the global green bond market reached the \$2 trillion mark and continues to grow.¹³

Compared to the global market, LAC's green bond market is more nascent, but has been steadily growing. Energía Eólica, a Peruvian wind energy company, made history in 2014 by becoming the region's pioneer green bond corporate issuer.¹⁴ Since then, the market has experienced substantial growth, with over 320 green bonds issued, totaling approximately \$45 billion.¹⁵ As seen in **Figure 3**, 2021 stood out as a highly active period for green bonds in LAC, in line with the overall bond markets, which peaked in 2021 fueled by low interest rates and high liquidity.

Figure 3. Green Bond Volume in LAC (\$M)¹⁶



¹² World Bank (2021). *What You Need to Know About IFC's Green Bonds*. Available online [here](#).

¹³ CBI (2022). *Green Bond Market Hits \$2tn Milestone at end of Q3 2022*. Available online [here](#).

¹⁴ Climate Bonds Initiative (2022). *Peru Sustainable Finance State of the Market 2022*. Available online [here](#).

¹⁵ HPL proprietary database on thematic bonds in LAC, up to May 2023.

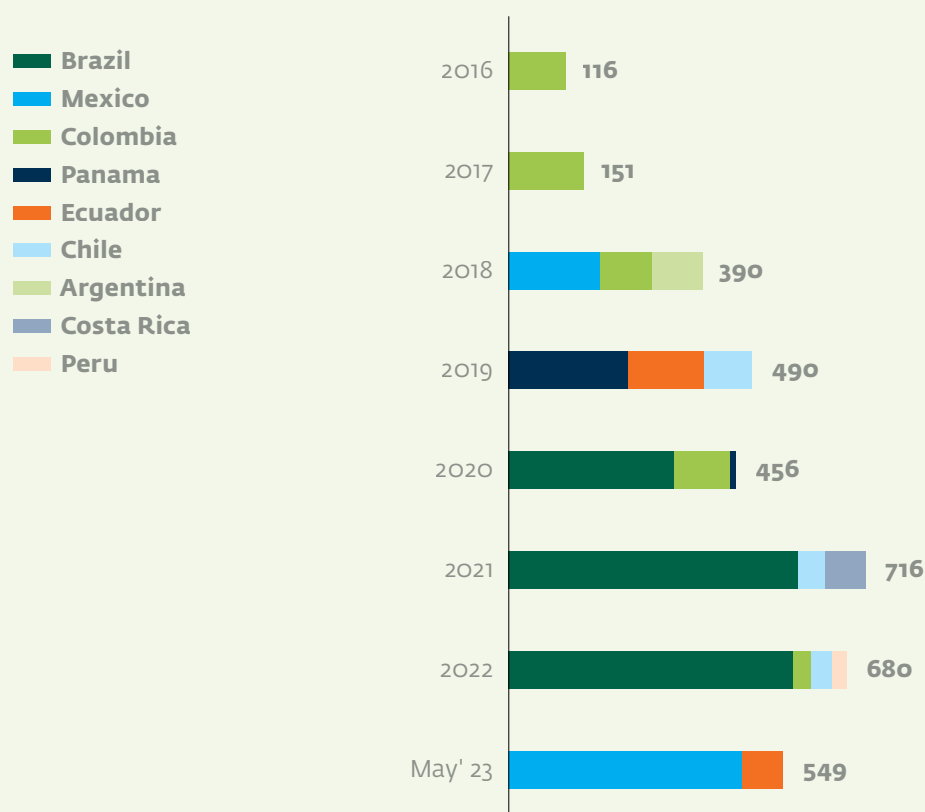
¹⁶ HPL has developed a proprietary database of all thematic bond transactions in LAC including transactional data, key performance indicators (KPIs), use of proceeds, main bookrunners, links to frameworks, external reviews, annual reports, memorandums, and press releases. The team uses this information to gather and analyze market data for reports and to support their advisory for issuers. Information and insights have been derived from this data base. In this database, the Sovereign category includes all levels: national, state, and municipal. The FI category includes commercial and non-bank banks. Supranatural includes regional organizations such as CAF and CABEI. The Agency category includes local development banks.

Of the total green bonds issued by FIs in the region, around 56% of that volume was issued in local currency and 44% in hard currency.¹⁷ The preference for local currency can be explained by the fact that FIs mainly have assets denominated in local currency. However, as the international green bond investor base is larger, issuers may be inclined to tap into foreign currency and incur the cost of hedging.

In 2016, Bancolombia became the first FI in LAC to enter the green bond market, paving the way for others to follow suit. Since then, more than 40 green bonds have been issued by FIs, accumulating a total value of

approximately \$3.5 billion. Even though FIs are potential natural aggregators of green assets, they represent only 8% of the total volume of green bonds issued in the region. This is an underperformance compared to Corporates and Sovereigns, which represent 59% and 20% of total green bond volume in LAC, respectively. This signals an important potential for growth as more FIs in the region establish sustainable finance strategies. As shown in **Figure 4**, FI issuers (19 in total) come from nine countries, including Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, and Peru.

Figure 4. Green Bond Volume by Financial Institutions in LAC (\$M)



¹⁷ HPL proprietary database on thematic bonds in LAC, up to May 2023.

Overall, the largest volume of green bond issuance by FI's comes from Brazil, followed by Mexico and Colombia. Brazil, the biggest capital market in the region, has the most FIs that have issued green bonds (6 issuers), represented by some of its biggest players (Itaú, Bradesco, and BTG). In Colombia and Chile large banks such as Bancolombia, Banco de Bogotá, Davivienda, Banco de Chile, and Banco de Crédito e Inversiones (BCI) have issued green bonds. In contrast, in Mexico,

the second largest market in LAC, BBVA Bancomer is the only green bond FI issuer in the country. Likewise, in Peru, the only green bond FI issuer is Banco de Crédito de Perú (BCP). There is potential for other large banks to issue green bonds in these markets. In addition, in the region, there exists the potential for middle tier banks and non-bank FI's to join as green bond issuers as well. **Figure 5** below contains the most notable issuers by volume in the region.

Figure 5. Top 10 Green Bonds Issued by Financial Institutions in LAC (by Volume)



It is worth noting that FI green bond volume growth has been affected because some FIs have opted to issue sustainability bonds instead of green bonds, as they have a wide-ranging portfolio that includes social in addition to green use of proceeds. To date, 72 sustainability bonds have been issued by FIs in LAC, accumulating a total volume \$4.8 billion which clearly exceeds FI green bond numbers mentioned above (40 bonds and 3.5 billion volume).¹⁸

When analyzing green use of proceeds of both labels (green and sustainability), the most popular categories are Renewable Energy, Energy Efficiency, Clean Transportation, and Green Buildings. This is followed by Sustainable Water and Wastewater Management. In

recent years, Brazilian FIs have been particularly focused on financing Environmentally Sustainable Management of Living Natural Resources and Land Use (Sustainable Agriculture). Two categories that are scarcely or not featured at all in current issuer frameworks in LAC are Terrestrial and Aquatic Biodiversity and Climate Change Adaptation, which are potential areas of opportunity in the region.

There is an untapped potential for further growth and expansion in the region. As green investments gain more prominence, there is an opportunity for FIs to leverage growing demand. This Manual seeks to support FIs in navigating the specific features of green bonds and effectively harness the potential of the market.

¹⁸ HPL proprietary database on thematic bonds in LAC, up to May 2023.



3.

Preparing for a Green Bond Issuance

The preparation process for a green bond requires some additional tasks in comparison to a regular bond. For many FI issuers, green bonds are a strategic source of funding as they provide an important signal to the market highlighting the organization's commitment to addressing key sustainability issues. For others, issuing a green bond can be a starting point

for the institution's sustainability journey, serving as an opportunity to define and establish a sustainable finance strategy and incorporate it in the FI's DNA.

FIs should execute six key tasks to prepare for a green bond (see **Figure 6**), which are within Steps 1 – 3 of the overall green bond process described in Figure 1.

Figure 6. Key Steps for a Successful Issuance

The following sections provide further guidance on each of these steps and their corresponding tasks.

3.1.

Step 1: Prepare for a Green Bond



The first step entails four main tasks: (1) establishing a core team, (2) conducting a screening of the portfolio, (3) developing meaningful indicators, and (4) establishing key processes. The following subsections detail each of these tasks.

3.1.1.



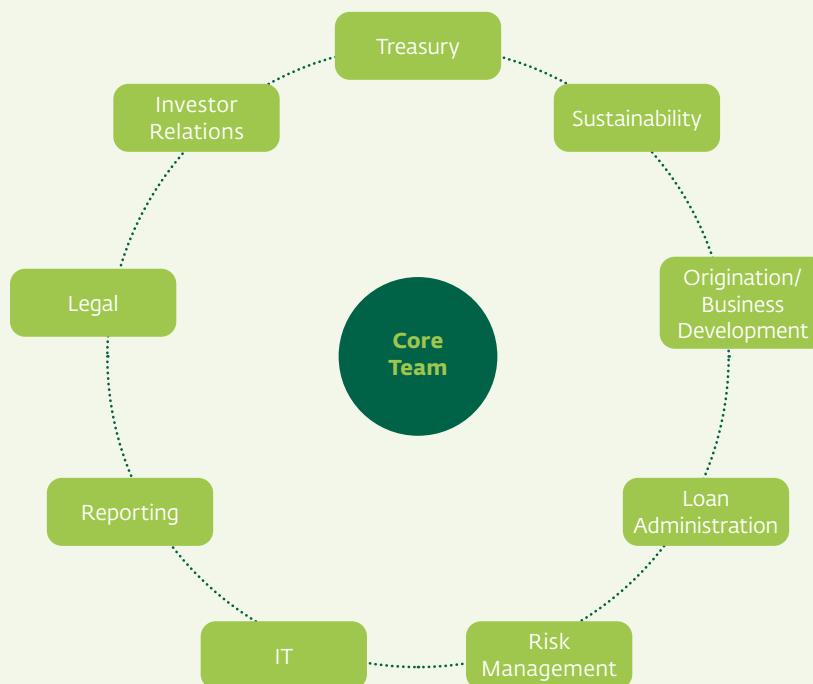
Task 1:

Establish a Core Team

Preparing for a green bond requires the engagement and commitment of multiple areas within the organization. Establishing an interdisciplinary group, or “Core Team”, is key. To adequately prepare and fulfill its responsibilities, the team will need the experience and perspective of

different disciplines, such as Origination/Business Development, Loan Administration, Risk Management, IT, Reporting, Legal, and Investor Relations (see [Figure 7](#)). Additionally, the involvement of the C-suite (Board, President, CEO and/or other high-level personnel) is a key factor to the transaction’s success.

Figure 7. Core Team Members



The role of the Treasury and Sustainability teams are important as they need to ensure that the sustainability and financing strategies are aligned. Areas such as Origination/Business Development, Loan Administration, Risk Management, and IT are crucial for the identification, definition and tracking of the eligible portfolio. Risk will help define how the environmental & social (E&S) risks will be managed when selecting and evaluating eligible projects/loans to make sure they do no significant harm to any other environmental objective. The Reporting team can help setting up the systems for reporting on allocation and impact, as well as engaging with external reviewers. Legal should be involved to support the underwriting process. Also, including the Investor Relations team can have a positive influence in this process, as they play an important role in structuring the institution's agenda and strategy, as well as marketing

the bond and mobilizing investors. Finally, buy-in from the C-Suite is essential to support the overall implementation and incorporation of the green bond process into everyday operations.

Engaging a diverse team facilitates the collection of information, allows for knowledge exchange, and enables greater communication between departments, which will help build a robust instrument.

To promote greater engagement, the institution can organize meetings to share perspectives and address issues that come up throughout the preparation. Another useful way to enhance motivation is to organize capacity building sessions to enhance the organization's knowledge on green bonds to better prepare for implementation.

Case Study:**Sicredi Bank***The Integral Role of the Core Team*

In 2022, Sicredi Bank became the first credit union in Brazil (and in the region) to issue a green bond. The \$100 million bond was allocated to finance new solar energy and energy efficiency projects.¹⁹ A few months later, they issued one sustainability bond in the local market, to include other categories, such as financing smallholder farmers in the region.

Given the nature of Sicredi's structure, where the issuer was Sicredi Bank and the proceeds were allocated to a network of credit unions, establishing an interdisciplinary and engaged Core Team was pivotal in the successful first green, and subsequent sustainability bonds. Sicredi formed a participative working group, led by the Structured Operations Team, with the help and commitment from the Risk Management, Credit Risk Management, Credit Portfolio, Environmental and Social Risk Management, and Treasury teams. The Core Team took six months to prepare for their inaugural green bond issuance.

To identify its eligible portfolio, Sicredi consolidated the information from 105 singular credit unions. The Core Team was tasked with evaluating the lending criteria from each credit union to identify eligible green credit lines. Moreover, Sicredi also recognizes the value of including legal advisors, as half of the issuance preparation time was committed to the preparation of the legal structure of the transaction. Overall, the bank considers having an engaged core team to be an essential and decisive factor to successfully prepare for a green bond.

3.1.2.**Task 2:****Portfolio Screening**

The second task in the preparation of a green bond issuance is to screen, segment, and categorize the FI's portfolio. It is crucial to establish clear eligibility criteria to determine which assets or projects qualify for the green bond. To do this, the FI needs to understand the definition and criteria required to determine if a project or asset can be called "green", as well as the positive environmental impact of the project or asset, and how it will be measured. Although FIs may have financial products that were previously identified as "green", the portfolio segmentation exercise may result in new eligible categories, disclose gaps the organization needs to attend or even imply in a reclassification of assets as "not green" anymore due to changes in the eligibility criteria or technological improvements.

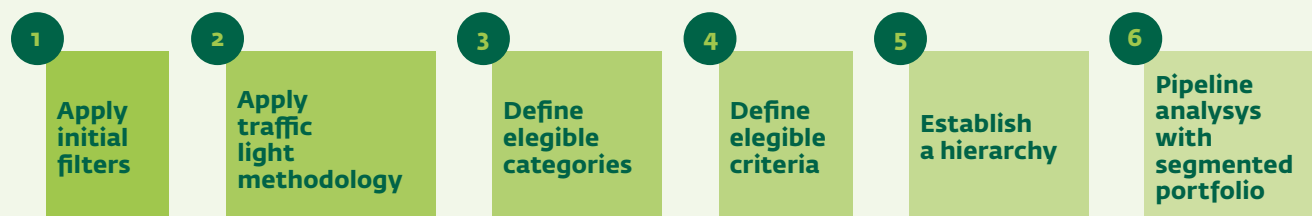
The segmentation and categorization process should be guided by local taxonomies and regulations. International taxonomies can also be relevant for reaching a diversified pool of investors – if the issuer wants to attract European investors to the bond, it may be helpful to align with the EU Taxonomy²⁰ (for further details, refer to the Annex). These taxonomies define green investments and help to ensure consistency and credibility in the segmentation process. Additionally, issuers can map the eligible categories financed by the bond against the SDGs. This alignment can demonstrate a broader positive impact of the green bond and attract investors focused on sustainable development. Other useful references for project selection include the IFC's Biodiversity Finance Reference Guide, Sustainable MSME Finance Reference Guide, and Guidelines for Blue Finance.

¹⁹ Sicredi (2022). Em operação inédita, Sicredi faz emissão de Green Bond subordinado de \$100 mi junto ao BID Invest para financiar projetos de energia renovável e eficiência energética. Available [here](#).

²⁰ Alignment with the EU Taxonomy is not a requirement for issuers in LAC, but it serves as a guide to ensure that the best international standards are followed.

The following steps are recommended to conduct an adequate and robust portfolio screening and segmentation:

Figure 8. Portfolio Segmentation Process



- 1. Apply initial filters to eliminate projects or assets that could not be financed or refinanced by a green bond such as:**

 - a.** Assets older than the pre-defined lookback period. The lookback period is the maximum age of assets already in the issuer's balance sheet that can be used for green bond issuances. It should be clearly specified in the Framework. Although there is no specific standard, the best practice is to establish a two-year lookback period.
 - b.** Past due loans. The bond will not finance overdue loans.
 - c.** Loans with non-substitutable external financing sources. There are loans that are always financed by an external source, such as the government or a development finance institution. If it is not foreseen that these loans can be financed by conventional sources in the future, it is recommended to remove them from the analysis.
 - d.** Projects that are under the entity's exclusion list. If the institution does not have an exclusion list, it is recommended its development prior to the portfolio screening task.

- 2. Apply traffic light methodology to evaluate projects and assets:**

For the remaining portfolio, it is recommended to analyze the projects and assets by their use of funds and apply a traffic light categorization:

RED	Projects and assets that do not meet any eligible category under the GBP.
YELLOW	Projects and assets with potential eligibility but requiring more detail for confirmation. ²¹
GREEN	Projects and assets that are fully aligned with the GBP.

- 3. Define eligible categories:**

Based on the results of the traffic light analysis, design eligible groups or categories, guided by the GBP's 10 eligible categories.

²¹ For example, a financing line to replace old equipment could be eligible, but only if it is shown that the replacement is more energy efficient.

4. Define eligibility criteria:

Outline the eligibility criteria for each category, considering sustainable finance taxonomies as references (for further details, refer to the Annex). The criteria establish which assets or projects can be financed with the proceeds of the green bond. Usually, the eligibility criteria include specific thresholds. For example, for the Energy Efficiency category, the issuer may specify the required percentage of energy savings for eligibility.

5. Establish a hierarchy to avoid double counting of eligible assets:

To avoid double counting of eligible assets, it is important to establish a prioritization system, or hierarchy, to determine the order in which the bond's funds will be assigned to the green eligible categories. If a loan qualifies for multiple categories, decide in which category it will be assigned based on a certain criterion, for instance, giving priority to the category with the smaller volume or to the one with bigger impacts. This ensures each category receives appropriate focus and avoids duplication. For example, there may be a loan that financed the installation of a solar panel in a building that is LEED certified, which would allow the loan to be classified under two green categories: "Renewable Energy" or "Green Buildings." In this case, the FI must decide on how to categorize the project.

6. Conduct an analysis of the pipeline within the segmented portfolio:

Analyze the portfolio once again, assigning each eligible project or asset to one of the defined categories. This analysis will help determine the capacity of each category to be financed by a green bond.

By following these steps, the FI can effectively segment its portfolio and identify the eligible assets or projects that can be financed through the issuance of a green bond. Screening the portfolio and pipeline is also relevant to assess whether there are enough eligible projects and assets to back the amount of the bond issuance.

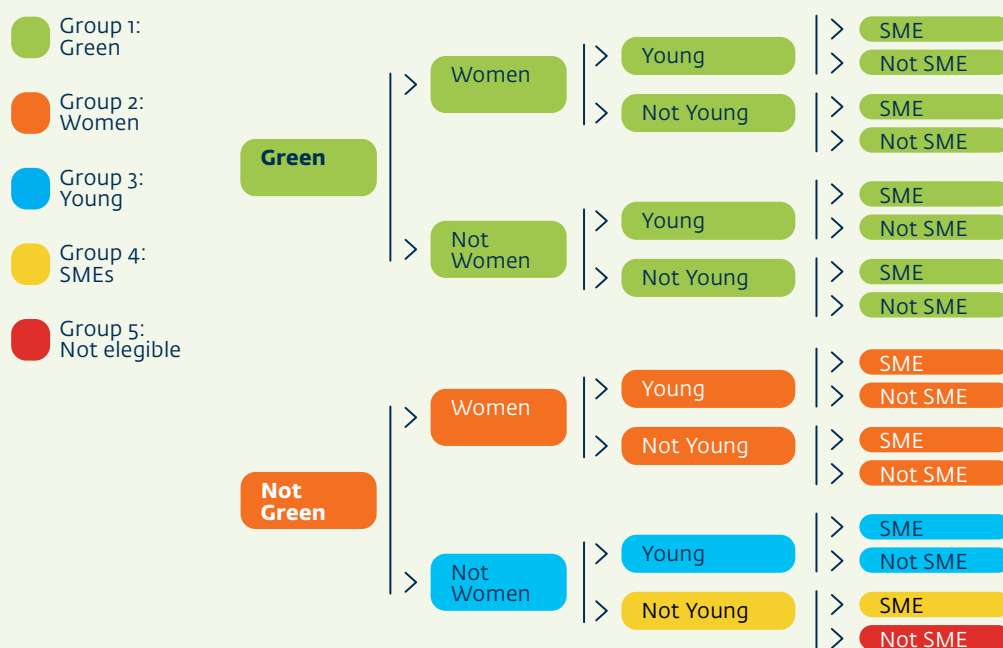


Case Study:**Banco Promerica El Salvador***Establishing a Hierarchy of Eligible Proceeds*

Banco Promerica El Salvador, part of Grupo Promerica, issued a sustainability bond in June 2022 for \$100 million. The use of proceeds was allocated to both social and green credit lines such as financing SMEs led by women and young entrepreneurs, renewable energy projects, amongst others.²²

Within its Framework,²³ the bank details the hierarchy process for the categorization of eligible projects and assets. The Framework explains that one loan may simultaneously meet either green or social eligibility criteria. To avoid double counting of transactions, a hierarchy for portfolio segmentation was applied (as shown below).

Figure 9. Loan Categorization Hierarchy²⁴



Banco Promerica is particularly noteworthy due to the institution's systematic and automated categorization process. During the development of its Framework, the bank seized the opportunity to incorporate the project/asset selection, categorization, and hierarchization process within its data processing system.

As a result, now, upon loan origination, the account executive inputs relevant information related to the eligibility criteria, along with specific parameters and impact indicators, into a data warehouse system. Subsequently, the system compiles the information and generates a consolidated report where each loan is assigned to a specific category based on its unique characteristics.

Banco Promerica further emphasized the significance of ensuring the quality of information registered in the system. To achieve this, the bank provided training across the entire institution, involving them in every step of the process.

²² Banco Promerica El Salvador (2022). Banco Promerica y BID Invest emiten primer bono sostenible en El Salvador por \$20 millones, de un programa autorizado por \$100 millones. Available [here](#).

²³ Banco Promerica El Salvador (2022). *Prospecto del Programa de emisión de Bonos Sostenibles*. Available [here](#).

²⁴ Banco Promerica El Salvador (2022). *Prospecto del Programa de emisión de Bonos Sostenibles*. Available [here](#).

To develop a **strong portfolio screening process**, it is important to design solid eligibility criteria. One way of achieving it is to review definitions used in taxonomies or market standards, such as Climate Bonds Initiative standards. **Table 1** shows the five most used environmental categories by FIs in the region and common general definitions.

Table 1. Examples of Green Bond Eligibility Criteria Applied by FIs in LAC²⁵

Category	# issuances	General description
Renewable Energy	65	<p>Financing of renewable energy projects or investments that include:</p> <ul style="list-style-type: none"> • Solar: Rooftop solar, photovoltaic generation systems where no more than 15% of electricity is generated from non-renewable resources. • Bioenergy: (1) biofuel generated from a sustainable feedstock that demonstrates 80% greenhouse gas (GHG) emission reduction compared to a fossil fuel baseline, (2) biomass power stations generated from a sustainable feedstock with emissions lower than 100 gCO₂/kWh. • Wind: Onshore wind farms with environmental licenses. • Geothermal: Such as geothermal plants with direct emissions less than 100gCO₂/kWh.
Sustainable Water and Wastewater Management	45	<p>* Best practice is to include specific thresholds/criteria for each type of renewable energy source.</p> <p>Financing of new or existing potable water systems that improve water efficiency, quality, and monitoring, and/or reduce energy consumption or water losses.</p> <p>Financing of new or existing sewage systems that increase the volume of treated wastewater, improve the efficiency and/or reduce water consumption through reuse.</p>
Energy Efficiency	45	<p>Financing of projects, expenses or investments that include:</p> <ul style="list-style-type: none"> • Installations, constructions, machinery replacement, and others, that demonstrate a 20-30% reduction in electricity/water consumption/CO₂ generation. • Installation or replacement of energy efficient LED lighting and associated controls. • Energy efficient heating, ventilation, and air conditioning systems. • Reduction of heat losses in industrial processes. • Smart grids for more efficient energy systems. • High efficiency motors. • Efficient boilers. • Industrial microgeneration. <p>* Best practice is to include a reduction limit and/or an associated energy efficiency certification.</p>
Clean Transportation	39	<p>Financing replacement or acquisition of public and private cargo and passenger transportation vehicles. For example:</p> <ul style="list-style-type: none"> • Electric. • Hydrogen-operated. • Hybrids, if the bond is issued before 2026 and emissions are under 50 gCO₂/p-km (passenger per kilometer). <p>Financing of infrastructure associated with clean transportation. For example:</p> <ul style="list-style-type: none"> • Infrastructure for electric vehicle charging (separate from traditional fueling stations). • Electrification of train tracks, trolleybuses, cable cars. • Bicycle paths or pedestrian walkways.
Green Buildings	38	<p>Financing of green buildings projects or investments that include:</p> <ul style="list-style-type: none"> • Construction of certified buildings: LEED (Gold or Higher), BREEAM (Excellent or higher), HQE (Excellent or higher), Living Building Challenge pre-certification, EDGE (Level 2 or 3), DGNB (Platinum or Higher) local certifications. • Retrofit, the results of which show a minimum 30% reduction in carbon emissions generation. <p>* Best practice is to include a reduction limit and/or an associated energy efficiency certification.</p>

²⁵ Based on a review of 72 green and sustainability bonds issued by 32 FIs, from HPL's proprietary database (June 9, 2023).

In addition to the traditional categories outlined and guided by the GBP, the evolving green bond market has witnessed the emergence of new concepts that address the evolving needs of sustainability. One example is lending to “pure play” companies; these are companies that derive over 90% of their revenues from climate-aligned activities. Recently, CBI has included lending to pure players as an eligible use of proceeds within the banking sector.²⁶ Banco de Crédito e Inversiones (BCI) in Chile,²⁷ Banco de Crédito de

Perú (BCP) in Peru,²⁸ and Banco Bradesco in Brazil²⁹ are examples of FIs that have included lending to pure players within their eligibility criteria. Other best practices are establishing a limit on the net proceeds to be allocated to pure players (no more than 20%), and a description of how issuers can identify, track and report lending to pure players. It is expected that more innovations such as these continue to gain prominence within the market.



²⁶ CBI (2022). *Climate Bonds Initiative Green Bond Database Methodology*. Available [here](#).

²⁷ Banco de Crédito e Inversiones (2022). *Sustainable Financing Framework*. Available [here](#).

²⁸ Banco de Crédito del Perú (2022). *Sustainability Financing Framework*. Available [here](#).

²⁹ Banco Bradesco (2022). *Sustainable Financing Framework*. Available [here](#).

3.1.3.



Task 3:

Developing Meaningful Indicators

Green bond issuers are required to report on the allocation of proceeds and to measure and report the impact of the use of proceeds. Impact reporting is a key attribute of green bonds as it is the way that an issuer can demonstrate the environmental benefit of the projects. However, it is frequently cited as one of the most challenging aspects for FIs.

Common barriers include:



- Impact indicators are often not part of the usual financial operations.
- No process in place to ask for information that could be used to develop impact indicators.
- Lack of understanding on what impact indicators are.
- Collecting data to report on impact is a very manual process.
- Ensure coherent and consistent calculation methodology.

Developing a process to capture meaningful indicators is an essential but challenging job. Here are five best practice recommendations to keep in mind when it comes to reporting impact:

Practice #1.

Harmonization: Apply commonly used and material impact indicators. [The ICMA Handbook - Harmonized Framework for Impact Reporting](#) provides recommendations on indicators for green bonds.



Example: The following table summarizes green impact indicators reported by Banco de Bogotá in its 2022 Annual Report.

Table 2. Examples of Green Impact Indicators Used by Banco de Bogotá³⁰

Green Category	Impact Indicator
Renewable Energy	<ul style="list-style-type: none"> • Renewable energy generated (MWh) • Installed capacity of renewable energy plants (MW) • GHG emissions reduced or avoided (tCO₂eq) • Total GHG emissions (tCO₂eq)
Energy Efficiency	<ul style="list-style-type: none"> • Energy savings (MWh)
Sustainable Transport	<ul style="list-style-type: none"> • Number of clean transport vehicles financed (#)
Water	<ul style="list-style-type: none"> • Volume of water treated (m³)
Waste Management	<ul style="list-style-type: none"> • Waste reduced (t) • Avoided or recycled waste (t and %)

³⁰ Banco de Bogotá (2022). *Uso de Fondos e Impacto Ambiental*. Available [here](#).

Practice #2.

Transparency: Disclose which indicators are output, outcome, and impact indicators as well as the underlying methodology and/or assumptions used to calculate these indicators, including any reference to external benchmarks and data sources (e.g., for GHG emission factors).



Example: Banco Pichincha includes definitions of the impact indicators used and delineates which ones are output versus impact indicators (see [Table 3](#)).

Table 3. Disclosure of Methodology in Sustainable Construction Category from Banco Pichincha³¹

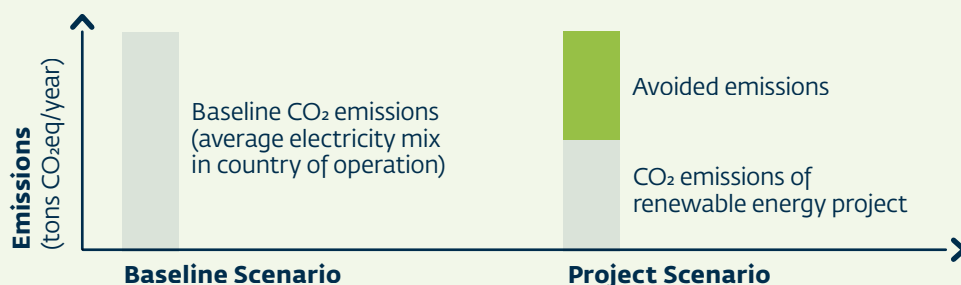
Indicator	Unit	Value	Methodology
Number of buildings constructed with sustainable certification (output)	#	97	= Number of buildings and/or houses that are constructed with sustainability certificates
Energy savings in certified buildings (impact)	KWh	7,028,560	= Annual KWh consumed of the certified building compared to a similar building with no certification
Water savings in certified buildings (impact)	m ³	271,450.76	= Annual m ³ consumption in certified building compared to a similar building with no certification

Practice #3. Establish baselines to facilitate calculation

Example: to calculate emissions avoided, a baseline scenario must be defined as a point of comparison. An issuer can build up a baseline based on different sources such as common market benchmarks, and national or international regulatory requirements.

For example, in the case of a new renewable energy project that is being financed, the baseline would be the average CO₂ equivalent emissions of the country where the renewable energy project is in operation. This will be compared with the expected emissions of the new plant, and the difference would equate to the avoided emissions (see [Figure 10](#)).

Figure 10. Establishing a Baseline Scenario



³¹ Banco Pichincha. *Reporte de indicadores de impacto del bono verde*. Available [here](#).

Practice #4.

Study available methodologies: that can be used to develop impact indicators.



Example: Banco Promerica Costa Rica includes a methodological note describing the calculation of carbon dioxide (CO₂) equivalent emissions reduced per solar panel financed by the sustainability bond (see **Table 4**). They used the energy generated per month for each client and compared it to the same amount of energy if it were produced within the Costa Rican Grid, which in 2022 corresponded to 0.028 kg CO₂eq/KWh according to the Ministry of Environment and Energy in Costa Rica. Establishing this baseline helped them to calculate the value of emissions reduced.

Table 4. Disclosure of CO₂ Emissions Reduction Calculation by Banco Promerica Costa Rica³²

Client ID	Energy generated (KWh) per month	Reduced emissions (Kg/CO ₂ eq) per month	Emissions reduced (Kg/CO ₂ eq) per year
1	0.45	0.01	0.15
2	0.51	0.01	0.17
3	61.40	1.73	20.78
4	9.94	0.28	3.36
5	49.69	1.40	15.81
6	0.00	0.00	0.00
7	1,250.00	35.25	423.00
Total	1,371.98	38.69	464.28

Practice #5.

Find innovative ways to request information from clients: Incorporate questions within the credit approval process to solicit information from the client related to impact. Create non-financial products that incorporate the collection of information that can be used to create impact indicators (see example from Banco Pichincha below).

³² Banco Promerica Costa Rica (2022). *Reporte de Bono Sostenible Año 2*. Available [here](#).

Case Study:**Banco Pichincha***Creating Non-Financial Products*

Banco Pichincha, the largest private bank in Ecuador, issued the first green bond in the country in 2019, financing projects related to renewable energies, energy efficiency, cleaner and more efficient production, sustainable construction, sustainable transportation, sustainable waste management, and sustainable agriculture.

Prior to the issuance, they developed a sustainable financing line, called Bio Credit, that focuses on providing credit lines to finance those eligible categories. This credit line is accompanied by a non-financial product specific for sustainable construction projects, which involves the payment of an **EDGE Sustainable Construction Certification**, a sustainable housing bonus, as well as annual recognition of customers who have made investments in favor of the environment.³³

By undergoing the EDGE Certification process, the client provides information that Banco Pichincha can use as an input for the impact indicators in the annual green bond report. Additionally, this gives greater credibility to the eligibility category as it requires clients to align with international best practices. Therefore, the non-financial product was helpful in establishing a process that facilitated the capture of impact indicators that were not previously captured in the normal credit approval process.

**3.1.4.****Task 4:****Establishing Key Processes**

By establishing clear eligibility criteria and developing meaningful indicators, the FI will be able to correctly define the use of proceeds of the bond, which as mentioned in **Section 1.1**, is the first component of a Green Bond Framework. For the development of the remaining three components, the FI should develop other main processes for: 1) Project Evaluation and Selection, 2) Management of Proceeds, and 3) Reporting.

Project Evaluation and Selection

As a result of the portfolio segmentation process (**Section 3.1.2**), the FI will have established the main eligibility criteria for the use of proceeds of the green bond. To ensure the fulfillment of the commitments outlined in the Framework, FIs should have an appropriate governance structure for the internal decision or approval process. This can be done through the creation of a dedicated **Green Bond Committee** or assignment of the responsibility to an existing Committee that comprises key members from the areas involved in the Core Team (**Section 3.1.1**). The Committee must hold regular meetings to assess the eligibility of projects or assets and maintain traceability of the decisions taken.

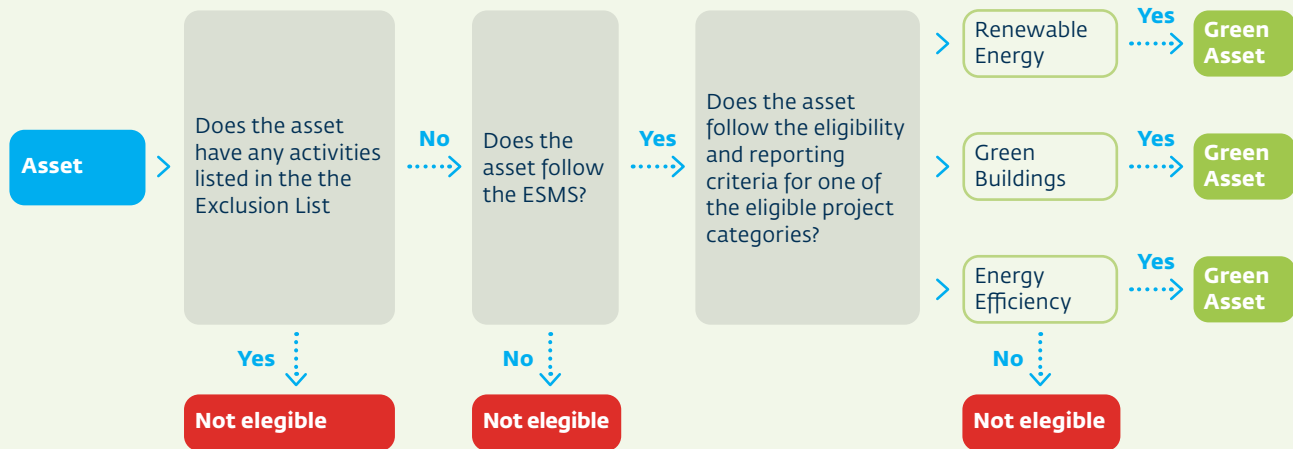
³³ Banco Promerica Costa Rica (2022). *Reporte de Bono Sostenible Año 2*. Available [Online](#).

The Committee will oversee the project evaluation and selection process, a governance process that defines whether a certain project or asset is eligible to be financed by a green bond, based on its adherence to the established eligibility criteria. In addition, the Committee will confirm that the eligible project or asset is not included within the FI's exclusion list of all the economic activities that are not eligible for green bond financing.

This process will also consider the FI's Environmental and Social Management System (ESMS). Issuers are expected to identify and mitigate/manage any potential environmental and/or social risks and/or negative impacts associated with projects or assets.³⁴

Figure 11 illustrates an example of the process an FI will follow to evaluate and select eligible projects according to the results of its previous portfolio segmentation.

Figure 11. Sample Process for Project Evaluation and Selection



The process encompasses the procedures and decision-making factors employed by the issuer to determine the eligibility of projects and assets. This process should be effectively communicated to investors and clearly outlined in the Green Bond Framework. Furthermore, the process will also determine the

proceedings to follow in case one of the projects or assets financed by the sustainable finance instrument encounters an ESG controversy. This includes the steps the issuer will implement to substitute such project or asset with a new eligible one.

³⁴ ICMA (2022). Pre-issuance Checklist for Green Bonds/Green Bond Programmes. Available [here](#).

Case Study:**Banco de Bogotá****Project Evaluation and Selection Process**

In March 2023, Banco de Bogotá became the first Colombian bank to issue a Subordinated Sustainability Bond. The structure provided favorable regulatory capital treatment in the form of Tier II capital. The \$230 million bond was subscribed by IDB Invest, acting as a lead investor, IFC with an investment of \$75 million, an impact investor, and other multilateral FIs.^{35,36}

In its Framework³⁷ (Chapter 3 - Process for Project Evaluation & Selection), the bank provides a comprehensive explanation of the credit approval process leading to the process for project evaluation and selection:

- 1. Client acquisition and information request** explains how each new client is classified and evaluated, specifies the required documentation at origination, and describes how the documentation is reviewed and stored.
- 2. Credit Analysis** insights into its two different credit analysis processes.
- 3. Credit Approval** describes the responsibilities and requirements for credit approval, including the differences between the credit approval process for commercial loans and housing loans.
- 4. Formalization and Disbursement** lists the steps involved in the formalization and disbursement procedure, including actions taken for operations with missing information or special ESMS conditions.
- 5. Monitoring and Portfolio Management** elaborates on the portfolio monitoring process and the measures taken in case of portfolio deterioration.
- 6. Selection of Projects to be financed by the Sustainable Bonds** introduces the Sustainability Bond Committee, which is responsible for project evaluation and selection. The committee's technical capacities, professional experience, and meeting frequency are outlined (once every quarter or whenever appropriate). The bank further elaborates on the activities conducted within the process:
 - a. Identification of projects and review of project eligibility.** The Commercial VP and Product Area oversee this step, focusing and matching disbursed loans with the green and social categories.
 - b. Review of project eligibility.** The Commercial VP & Product Area analyze whether loans identified in the previous step meet the eligibility criteria defined in the Use of Proceeds chapter.
 - c. Approval.** The Sustainable Bonds Committee validates and selects projects and assets presented by the corresponding areas.

By providing a summary of each step in the credit process, and then delving into the project evaluation and selection process, Banco de Bogotá effectively demonstrates the interconnectedness of these processes. The bank also emphasizes how the Sustainable Bond Committee ensures that loans financed with the bond's proceeds align with eligible categories and meet the defined eligibility criteria outlined in the Process for Project Evaluation & Selection chapter of their Framework.

³⁵ IDB Invest (2023). *IDB Invest, Banco de Bogotá Announce First Sustainable, Subordinated Bond by a Colombian Bank*. Available [here](#).

³⁶ IFC (2023). *IFC anuncia inversión de \$75 millones de dólares en Bono Subordinado Sostenible emitido por Banco de Bogotá*. Available [here](#).

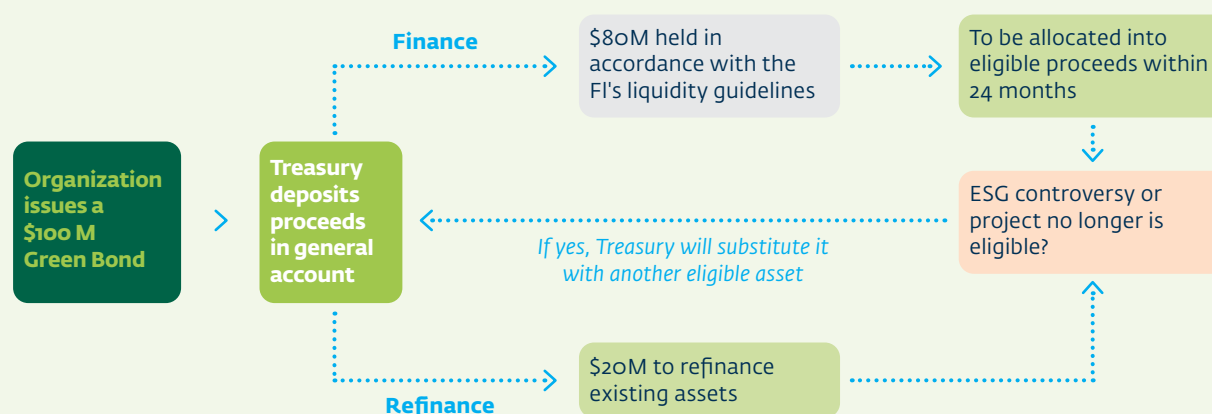
³⁷ Banco de Bogotá (2023). *Banco de Bogotá Sustainable Bond Framework*. Available [here](#).

Management of Proceeds

Issuers must establish a transparent process for effectively managing the proceeds designated for green bonds. Throughout the bond's term, the balance of tracked net proceeds should be regularly adjusted to align with allocations made to eligible green projects.

This process sets internal guidelines for monitoring and managing net proceeds until they are allocated to qualifying projects (refer to **Figure 12** for a visual representation).

Figure 12. Example of the Management of Proceeds Process



The Treasury Department is best suited to assume the governance of the management of proceeds, as it involves monitoring the allocation of resources, and keeping a record of each loan marked as eligible and assigned to the corresponding issuance.

Various tracking methods can be employed such as the creation of a sub-account, moving the proceeds to a sub-portfolio, or earmarking the funds in a specific manner. It is important to specify the intended temporary placement options for unallocated net proceeds. Ideally, the issuer should allocate funds within a short time frame to avoid a high cost of carry. Important to note that there is an increasing

expectation among investors that the temporary placement is also a sustainable finance instrument.

The FI must establish clear procedures to follow if a project or asset financed by the green bond encounters an ESG controversy. This includes outlining steps for substituting such a project or asset with a new eligible one.

To ensure credibility prior to the issuance of the bond, the GBP recommend engaging an external reviewer to validate the issuer's internal methodology for tracking and monitoring the bond's proceeds.³⁸

³⁸ ICMA (2022). Pre-issuance Checklist for Green Bonds/Green Bond Programmes. Available [here](#).

Reporting

The third process that a prospective issuer must define pertains to the allocation and impact reporting of the green bond.

Allocation reporting involves detailing how the funds raised were allocated to eligible projects, as well as indicating the remaining unallocated amount. It is recommended that allocations are audited annually by an auditor or an independent third party. This post-issuance review should be carried out annually until the complete allocation of the green bond's proceeds.



 **Example:** Banco Itaú in their 2021 allocation and impact report included a comprehensive table summarizing the allocation of proceeds from the issuance of their \$500 million sustainability bond due in 2031 (see **Table 5**).

Table 5. Example of Allocation Reporting by Itaú³⁹

Eligibility Criteria	Number of Transactions	Sustainable Bond Allocated Amount ⁴⁰	Total Allocated Amount
Green – a.1) Renewable energy – Solar Energy	1	\$27,515,755	6%
Green – a.2) Renewable energy – Energy Transmission Lines	1	\$72,484,245	14%
Social – h.1) Inclusive Finance – Micro and Small Enterprises	10,923	\$200,000,000	40%
Social – h.2.a) Inclusive Finance – Women-owned MSMEs	4,591	\$80,000,000	16%
Social – h.2.b) Inclusive Finance – MSMEs located in North and Northeast of Brazil	4,596	\$120,000,000	24%
Total	20,472	\$500,000,000	100%

Impact reporting encompasses the expected (ex-ante) environmental impact of eligible assets, with the objective of providing actual impact (ex-post) whenever feasible. The GBP recommend that issuers provide both qualitative and, whenever possible, quantitative indicators in their reports.

 **Example:** Banco Itaú included a table summarizing the impact of the green use of proceeds in their sustainability bond report (see **Table 6**).

³⁹ Itaú (2021). *Sustainability Bond Annual Allocation and Impact Report*. Available [here](#).

⁴⁰ The Exchange Rate USD/BRL as of September 30th, 2021 was R\$ 5,4394.

Table 6. Example of Impact Reporting by Itaú⁴¹

Eligibility Criteria	Number of Transactions	Sustainable Bond Allocated Amount ⁴²	Start Date	Maturity	Context and KPIs
Green – a.1) Renewable energy – Solar Energy	1	\$27,515,755	March 2021	March 2030	Installation of 49 photovoltaic solar power generation plants in Brazil. <ul style="list-style-type: none"> • Estimated Installed capacity of the portfolio: 47.75 MWp. • Estimated energy generated per year: 69.8 GWh. • Estimated GEE emissions avoided per year: 5 thousand tCO₂ e.
Green – a.2) Renewable energy – Energy Transmission Lines	1	\$72,484,245	February 2021	July 2044	Installation of: <ul style="list-style-type: none"> • 169 km of transmission lines and a substation with 800 MVA installed capacity in the state of Rio Grande do Sul. • 37 km of transmission lines and the expansion of two substations in the states of São Paulo and Mato Grosso do Sul. • 173 km of transmission lines and four substations with 1,600 MVA combined installed capacity in the state of Minas Gerais.⁴³
Total	2	\$100,000,000			

To ensure the successful preparation and publication of an annual allocation and impact report on the green bond's proceeds, it is recommended to consider the following aspects:

- Define the reporting period clearly, indicating when projects should be included or removed from the report based on their allocation status during the reporting period.
- Determine the preferred approach for impact reporting, whether it will be done on a project-by-project basis or through a portfolio report based on portfolio allocations. The GBP recommends and investors prefer project level information.
- Specify the impact indicators that will be used to report the impacts associated with each eligible category, and establish a consistent and effective calculation methodology to facilitate the utilization of these indicators. Investors prefer indicators that are comparable and aggregable.
- Adjust the client information request as necessary to ensure the collection of data required to apply the selected impact indicators effectively.
- Calculate pro-rata impacts depending on the amount financed of the project. For instance, if the institution financed only 50% of a project, only 50% of the impact should be reported.



⁴¹ Itaú (2021). *Sustainability Bond Annual Allocation and Impact Report*. Available [here](#).

⁴² The Exchange Rate USD/BRL as of September 30th, 2021 was R\$ 5,4394.

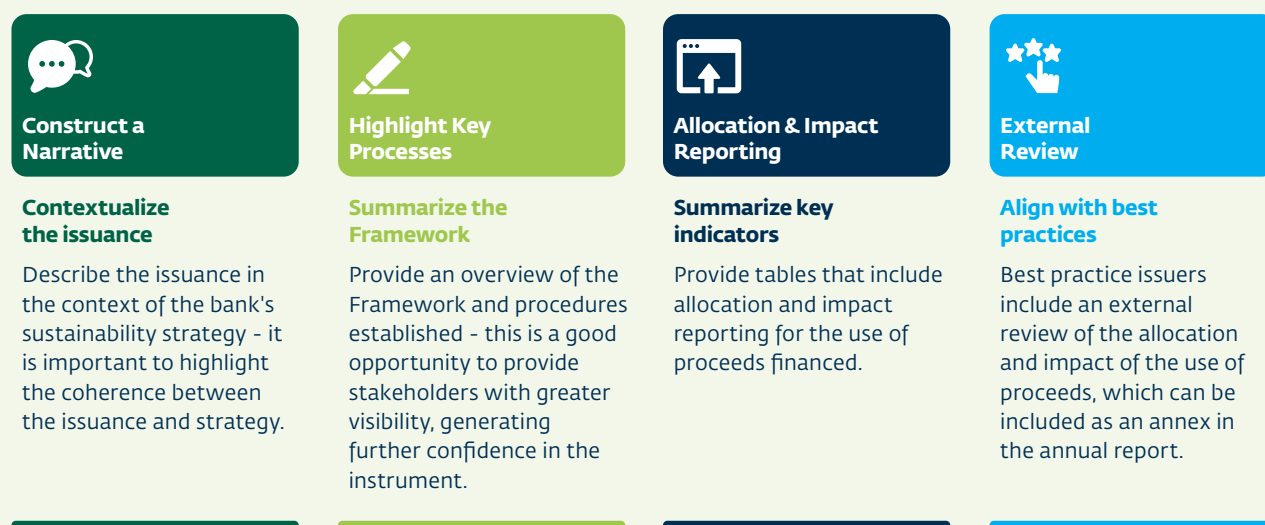
⁴³ The project owner intends to report other types of potential KPIs periodically during the life of the investment, such as i) the number of green users connected to the transmission lines and ii) the evolution of the average emission factor of transmitted energy (gCO₂ e/kWh).

The reporting process involves the development of reports detailing the allocation and impact of the green bond's proceeds. These reports should include a list of the projects where the proceeds have been allocated, including a description of such projects, the expected impact, and the amount allocated or at least the percentage allocated.⁴⁴

Once a process is in place to collect and monitor allocation and impact indicators, the issuer will need to summarize the information in an annual green bond report.

To effectively convey these messages, it is important to ensure that the report is comprehensive, yet clear and easy to navigate. This can be achieved by presenting information using graphics, tables, and illustrative case studies. The following outline can be used to organize the report sections:

Figure 13. Outline for the Annual Green Bond Report



Reporting can be integrated into an existing sustainability report, or alternatively, a standalone report can be developed specifically for the green bond. Some issuers, like Banco Promerica Costa Rica, choose to create separate reports for each series issued under their Green Bond Program.^{45,46}

Lastly, the annual green bond report is an opportunity to highlight and communicate their positive environmental impact with external stakeholders and investors. It not only fulfills reporting obligations, but also allows the FI to underscore its commitment to sustainability and showcase its overarching sustainability strategy.

⁴⁴ ICMA (2022). *The Green Bond Principles*. Available [here](#).

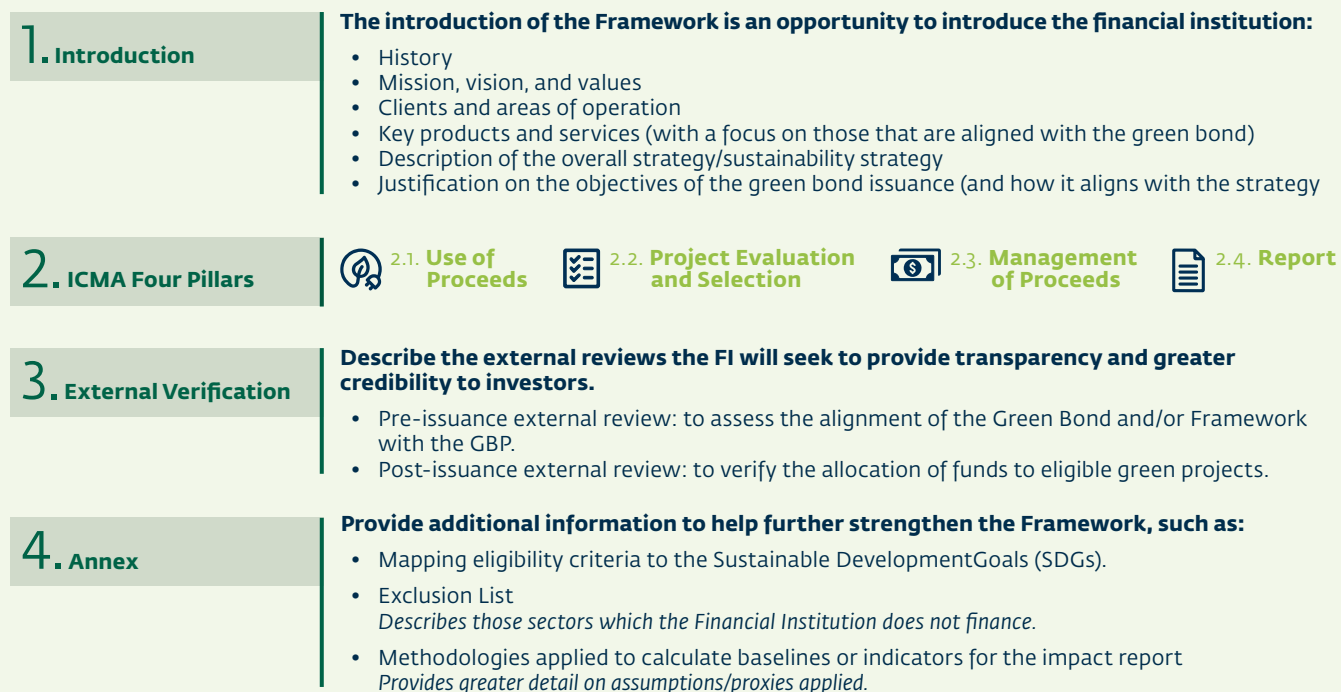
⁴⁵ Banco Promerica Costa Rica (2022). *Reporte de Bono Sostenible Serie A 2022*. Available [here](#).

⁴⁶ Banco Promerica Costa Rica (2022). *Reporte de Bono Sostenible Serie B&C 2022*. Available [here](#).

3.2. Step 2: Draft the Framework

Once all the preparatory work has been completed, the issuer is ready to draft the Framework. The following outline can be used for FIs:

Figure 14. Framework Outline



The Framework is an opportunity for the issuer to highlight how the transaction underpins their sustainability strategy, and further detail the necessary decision-making processes that have been established in line with market practices. Once the Framework is ready, it is recommended that the issuer makes it publicly available by publishing it in a dedicated section on the institution's website.

3.3.

Step 3: External Verification

The GBP recommend the green bond issuer undertake an external verification of the Green Bond Framework prior to the bond's issuance.⁴⁷ The issuer should contract the services of an external review provider to review and assess the alignment of

its Framework with the four components of the GBP (described in **Section 1.1**). The issuer can choose over the four types of external reviews recognized by ICMA (explained in **Figure 15**).⁴⁸

Figure 15. Types of External Reviews



Second Party Opinion

Assessment of the alignment of the issuer's Green Bond Framework with the GBP. The SPO can also evaluate the issuer's strategy, objectives and/or processes related to E&S sustainability. The external reviewer's analysis on the eligible projects includes the environmental and/or social characteristics, benefits and impacts, and risks.



Verification

Assessment of the alignment of the green bond with internal or external standards. Verification can include the evaluation or assurance of the issuer's internal tracking method for the allocation of proceeds from the green bond, and/or environmental and/or social impact reporting.



Certification

An issuer can have its green bond or green bond framework or Use of Proceeds certified by a recognised external green or sustainability standard or label. The certification will be the result of the evaluation of the bond's alignment with the standard or label's specific criteria.



Rating

An issuer can have its green bond or green bond framework or Use of Proceeds assessed by an external reviewer against an established scoring or rating methodology, based on environmental and/or social data.

The external review should be available on the issuer's website (preferably on the same page as the Framework). The GBP also recommend an external verification post-issuance, including the assessment of the issuer's management and allocation of proceeds.⁴⁹

⁴⁷ Ibid.

⁴⁸ ICMA (2022). *Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews*. Available [here](#).

⁴⁹ ICMA (2022). *The Green Bond Principles*. Available [here](#).

4.

Checklists, Summary, and Recommendations

In the following paragraphs, the reader will find a checklist with a summary of the best practices and key tasks for each step of the process to prepare for a green bond.

Step 1

Prepare to become a Green Bond Issuer

- Establish an engaged and multidisciplinary Core Team, which should consist of professionals from various departments within the FI.
- Segment the FI's portfolio based on international and local taxonomies as well as SDGs. It is also necessary to apply a hierarchy to prevent double counting in portfolio sizing and to define the percentage of financing and refinancing.
- Develop meaningful indicators by referring to ICMA's [Handbook - Harmonized Framework for Impact Reporting](#) to identify core indicators. Additionally, establish methodologies for monitoring these indicators which may involve utilizing proxies, baselines, and incorporating relevant questions within the credit approval process for data collection purposes.
- Define key processes for the successful implementation of a green bond, which includes appointing a committee responsible for ensuring compliance with the Framework's commitments, setting up a system for management of proceeds that can be validated by a third-party verifier, and streamlining the reporting process (proceeds allocation and impact indicators).

Step 2

Draft Green Bond Framework

- Develop a comprehensive Framework that outlines the use of proceeds, project evaluation and selection criteria, management of proceeds, reporting requirements, and other relevant details. This document should include:
 - a. A short description of the issuer and type of issuance,
 - b. A summary of the issuer's sustainability strategy and supporting standards for issuer's sustainability strategy and disclosure,
 - c. The rationale for establishing a Green Bond Framework,
 - d. A description of the green bond's alignment with the four components of the GBP, and
 - e. Information on its external review provider.⁵⁰
- Ensure transparency and compliance by publishing the Framework in a dedicated section in the issuer's website.

⁵⁰ For more detailed information, please refer to the following document: [Pre-issuance Checklist for Green Bonds](#), published by ICMA.

Step 3

Hire an External Reviewer

- Decide on types of external reviews recognized by ICMA, the most common are SPOs.
- Contract the services of an external review provider to assess the alignment of its Framework with the four components of the GBP.
- Make the Framework and external review available on the issuer's website.

Step 4

Issue

- Engage with banks for financial preparations, including structuring the bond, determining terms and conditions, and coordinating the pricing and distribution strategy.
- Work with legal advisors and other stakeholders to ensure compliance with regulatory requirements.
- Prepare the necessary documentation, including the offering memorandum or prospectus, and launch the green bond issuance process.
- Engage with investors in roadshows for bond promotion.

Step 5

Report and Verify

- Provide regular reports on the use of proceeds and the achieved sustainability outcomes/ impact and make them available on the issuer's website.
- Consider engaging an external verifier to validate the accuracy and reliability of the reporting (proceeds allocation and impact indicators).
- Ensure transparency and compliance by publishing successive impact and allocation reports in a dedicated section in the issuer's website.

Green bonds present a great opportunity for FIs who want to raise funds to finance their green portfolios. This Manual set out and explained key actions, recommendations, and examples for FIs to prepare for a green bond issuance, draft their green bond framework, and hire an external reviewer (Steps 1 to 3, as shown in Figure 1). Once the issuer has a Green Bond Framework and an external review (e.g., SPO), it will be able to add a green label on its debt issuance. After the issuance (Step 4), the issuer must comply with its reporting and verification commitments (Step 5).





Annex.

Additional Resources

For additional resources related to the four components of the GBP, refer to the [IFC Green Bond Handbook](#).

Apart from the GBP and sustainable finance taxonomies, there are other guidance documents in the market for green bond issuances that are complementary. These documents are outlined in the table below:

Table 7. Other Guidance Documents for Green Bonds

Document	Description
Climate Bonds Standard	<ul style="list-style-type: none">• Developed by CBI, these standards set criteria for certifying green bonds across various sectors.• It provides sector-specific guidelines and technical screening criteria to ensure that projects financed by green bonds make a significant environmental impact.
Green Project Mapping	<ul style="list-style-type: none">• Developed by ICMA, this is a broad frame of reference to relate and evaluate the benefits and contributions of the GBP's green eligible categories to five environmental objectives: 1) Climate change mitigation, 2) Climate change adaptation, 3) Biodiversity, 4) Natural resource conservation, and 5) Pollution prevention and control.• It also provides a comparison of these categories to other green taxonomies and classification systems.
Pre-issuance Checklist	<ul style="list-style-type: none">• Developed by ICMA, this document provides guidance on the steps for establishing a Green Bond framework as recommended by the GBP.
Harmonized Framework for Impact Reporting	<ul style="list-style-type: none">• Developed by ICMA, this document outlines general core principles and recommendations for reporting.• It also offers impact reporting metrics and sector specific guidance for the GBP project categories.
Green Bond Handbook	<ul style="list-style-type: none">• Developed by IFC, this handbook is a step-by-step guide on how to prepare and execute a successful green bond issuance by providing best practices along the green bond process.

Table 8. Description of Sustainable Finance Taxonomies

Taxonomy	Description
Climate Bonds Taxonomy	<ul style="list-style-type: none"> • A global classification system for identifying environmentally sustainable economic activities, developed by CBI. • Covers a wide range of sectors, including renewable energy, low-carbon buildings, sustainable land use, and more. • Provides specific criteria and thresholds that projects must meet to be considered eligible for green finance, promoting transparency and credibility in the green finance market. • An issuer can apply and obtain a CBI Certification for its Green Bond if the transaction follows the criteria specified by both the CBI Taxonomy and Standard.
EU Taxonomy	<ul style="list-style-type: none"> • A classification system specific to the EU, aiming to guide sustainable finance and promote environmentally sustainable economic activities. However, European investors are still subject to it when investing in other jurisdictions, such as LAC. • Focuses on key sectors relevant to the EU economy, such as energy, transport, agriculture, and waste management. • Sets out rules and technical screening criteria for economic activities to be considered environmentally sustainable, aligning with the EU's environmental objectives, and supporting the European Green Deal.
Other Local Taxonomies	<ul style="list-style-type: none"> • Several countries in LAC have been developing national green taxonomies to guide sustainable finance and green bond issuance, for example: Mexico, Colombia, Dominican Republic, and Chile.

Contacts

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