

MEXICO SUSTAINABLE DEBT STATE OF THE MARKET REPORT 2023



1. Introduction

The objective of this report is to provide analysis and recommendations to support the growth of the sustainable finance market in Mexico. The market analysis is complemented by an overview of key policy developments, trends, guidance, investment, and growth opportunities for sustainable finance in Mexico. Thus, it identifies sustainable investment opportunities using thematic bond issuance as the means to finance sustainable projects, and provides clear guidelines for eligible entities to enter the market.

The scope of this report includes analysis of green, social, and sustainability (GSS) bonds plus sustainability-linked bonds (SLBs) (collectively GSS+) considered to be **aligned** with Climate Bonds dataset methodologies (Appendix I) that originate from Mexico.¹ This report describes the shape and size of the aligned GSS+ debt market as of 31 December 2023.

The LAGreen Fund supported Mexico's Sustainable Debt State of the Market 2023 and the Climate Bonds Initiative (Climate Bonds) analysed the data, conducted research, and consulted key stakeholders in Mexico while developing the report.

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Climate Bonds Initiative

The Climate Bonds Initiative (Climate Bonds) is an international organisation working to mobilise global capital for climate action. It promotes investment in projects and assets needed for a rapid transition to a low-carbon, climate-resilient, and fair economy. The mission focus is to help drive down the cost of capital for large-scale climate and infrastructure projects and to support governments seeking increased capital markets investment to meet climate and greenhouse gas (GHG) emission reduction goals. Climate Bonds conducts market analysis and policy research; undertakes market development activities; advises governments and regulators; and administers a global green bond Standard and Certification scheme.

LAGreen Fund

The LAGreen Fund is the first impact investment fund dedicated to promoting green bonds in Latin America. The fund aims to support positive climate, environmental, and societal benefits through the promotion of Latin America's green bond market. To consolidate green bonds as instruments for mobilising resources towards more sustainable and green economic models in the region, the LAGreen Fund provides technical assistance and invests in green bonds issued in the region.

The German Development Bank (KfW) established the LAGreen Fund, with seed capital provided by the European Union (EU) and the German Federal Ministry for Economic Cooperation and Development (BMZ), with Finance in Motion and Santander Asset Management as investment advisors. The fund seeks to support the issuance of high-impact thematic bonds in the region, attract a greater volume of long-term funding for sustainable projects, as well as support issuers through technical assistance during the different phases of bond preparation, issuance, and post-issuance, with the commitment to purchase a significant portion of the issue.

List of abbreviations and acronyms

A&R: Adaptation and Resilience	GTS: Sectoral technical group	SDG: Sustainable development goals
CBS: Climate Bonds Standard	ICMA: International Capital Market Association	SINACC: National system of climate change
CBS v4.2: Climate Bonds Standard Version 4.2	IIG: Gender equality index	SLB: Sustainability-linked bond
DFI: Development finance institutions	ITCZ: Intertropical Convergence Zone	SLBDB: SLB bond database
DNSH: Do no significant harm	JPY: Japanese yen	SLD: Sustainability-linked debt
ENSO: El Niño-Southern Oscillation	KPI: Key performance indicator	SPO: Second-party opinion
ESG: Environmental, social, and governance	LAC: Latin America and Caribbean	SPT: Sustainability performance target
EUR: Euro	LGCC: General Law on Climate Change	SSBD: Social and sustainability bond dataset
FDI: Foreign direct investment	MPBI: Multiple purpose banking institutions	UNDP: United Nations Development Programme
GBDB: Green bond database	MSME: Micro, small, and medium enterprises	UNFCCC: United Nations Framework Convention on Climate Change
GBD: Green bond dataset	MXN: Mexican peso	UoP: Use of proceeds
GBTP: Green bond transparency platform	MXV: Mexican inflation indexed	USD: United States dollar
GDP: Gross domestic product	NDC: Nationally determined contributions	YOY: Year-on-year
GHG: Greenhouse gas	OECD: Organization for Economic Cooperation and Development	
GSS: Green, social and sustainability	PND: Mexico's national development plan 2019-2024	
GSS+: GSS, SLB, and transition		

2. Country overview

Summary

Mexico benefits from a diverse cultural heritage, and vast natural wealth, holding 12% of the Earth's land surface biodiversity in 1.5% with the Mesoamerican Biological Corridor recognised as a critical global biodiversity hotspot, housing numerous species facing extinction or vulnerability.² Mexico's extensive coastline of nearly 8,000 miles is home to vibrant marine ecosystems that support unique wildlife and bolster the economy at various levels.³ Notably, the Mesoamerican Reef, the largest barrier reef in the Western Hemisphere, stretching nearly 700 miles from the northern tip of the Yucatan Peninsula.⁴



Mexico is highly vulnerable to the impacts of climate change and already experiences diverse weather patterns with 68% of Mexico's population exposed to the consequences of global temperature increases.⁵ Such vulnerabilities include rising sea levels and sea surface temperatures, increased hurricane intensity, flooding, and drought.

In a business-as-usual scenario, the costs of climate change in Mexico, excluding extreme weather events and biodiversity loss, are expected to range from 6.2% to 30% of annual gross domestic product (GDP) by 2100. In contrast, the costs for implementing mitigation efforts are predicted to be lower, ranging from 0.7% to 2.2% of annual GDP.⁶ To this end, the sustainable debt market is already being mobilised by the Mexican government and issuers from the private sector to channel finance to fund the required decarbonisation and resilience efforts.

Macroeconomic overview

Mexico is the second largest economy in the Latin America and Caribbean (LAC) region, after Brazil, and one of the 15 largest in the world. The country has solid macroeconomic fundamentals, is open to trade and investment, and has a diversified manufacturing base connected to global value chains. The Mexican economy grew by 3.1% in 2023, the second consecutive year of growth exceeding 3.0%.⁷

Despite the complex global macro-financial environment, by the end of 2023, the country's financial system maintained a solid and resilient position.⁸ In 2023, Mexico also engaged in unprecedented levels of trade with the United States, the country's top trading partner, with a total trade volume of USD798.83bn.⁹ In addition, foreign direct investment (FDI) reached USD36.1bn, with the United States as the principal source of investment, accounting for 38% of the total FDI in the country.¹⁰

Recently, the Mexican financial system has witnessed progress in sustainable finance and investing. In 2023, Mexico was the largest market for labelled bonds in the LAC region, with USD55.7bn of cumulative GSS+ volume. Issuers from the public and private sectors have demonstrated their commitment to implementing sustainability strategies aligned with international environmental, social, and governance (ESG) standards and frameworks.¹¹

Market regulators and supervisors are enhancing the sustainable finance agenda through the creation of guidelines and national policies, most importantly the Mexican Sustainable Taxonomy and the Sustainable Finance Strategy, as well as the creation of the Sustainable Finance Committee (Comite de Finanzas Sostenibles) to support the Financial Stability Council (Consejo de Estabilidad Financiera). Mexico has also implemented several measures to advance sustainability within its banking sector, stock exchanges, Bolsa Institucional de Valores (BIVA) and the Bolsa Mexicana de Valores (BMV), and other relevant stakeholders such as the Mexican Council on Sustainable Finance (CMFS).

The Mexican economy offers many opportunities for sustainable investments, particularly in areas such as the circular economy, sustainable infrastructure, low-carbon buildings, transportation, and nature-based solutions, such as reforestation, conservation of ecosystems, and sustainable land management; all of which can be supported through GSS+ debt instruments. These sectors present opportunities for those companies implementing ambitious transition plans and seeking access to green investment.¹² In this context, growth in the manufacturing sector, and agricultural production and consumption in Mexico presents a great opportunity for channelling investment towards the adoption of sustainable models, thereby ensuring economic resilience and mitigating the negative impact of this growth on the environment.

Country facts

Population: **132m ppl.** (2024 est.)

Macroeconomic facts

GDP: **USD1.47tn** (2022)

GDP growth: **3.1% annual** (2022–2023)

Inflation: **4.66%** (2023)

Country's investment risk rating

Fitch rating: **BBB-** (December 2023)

S&P rating: **BBB** (July 2022)

Moody rating: **Baa2** (July 2022)

Macroeconomic outlook for Mexico

Annual data	2023	2024	2025
Gross domestic product (GDP) growth	3.1	2.5	2.0
Unemployment rate	2.8	3.0	3.1
Headline inflation index	5.5	4.1	3.2
Core inflation index	6.7	4.2	3.2
Public net debt (% of GDP)	46.8	48.7	48.6

Source: OECD Interim Economic Outlook database.

3. Sustainable debt market overview

GSS+ market snapshot

By the end of 2023, Climate Bonds had recorded USD55.7bn of cumulative GSS+ volume originating from Mexico, of which USD38.3bn (69%) was in alignment with Climate Bonds screening methodologies (Appendix I). Despite a lower alignment share compared to global (80%) and regional LAC (75%) cumulative volumes, in 2023, Mexican alignment rates improved, reaching 83% of GSS+ debt volume issued that year.



The main reasons for non-alignment of use of proceeds (UoP) bonds in Mexico are a) insufficient information disclosure and b) not meeting Climate Bonds technical screening criteria. In the case of SLBs, where non-alignment shares are higher, lack of GHG targets and partial emissions coverage are the main issues. All green, social, and sustainability bonds presented in this report, including the number of deals and USD volumes, pertain to deals aligned with the Climate Bonds methodologies. Nevertheless, due to the very low alignment rate of SLBs with Climate Bonds methodology (not just in Mexico, but globally), the analysis for this type of bond includes numbers from the entire market (both aligned and non-aligned SLBs).

Between 2019 and 2023, the GSS+ market in Mexico accounted for around 8% of the overall debt issued in the country, double the global figure of 4%.¹³

In 2023, aligned volume increased by 25% reaching USD14.7bn compared to USD11.7bn in 2022, as shown in Chart 1. The same year, Mexico ranked first in aligned GSS+ issuance in LAC and was the largest source of sustainability debt globally (Chart 1).

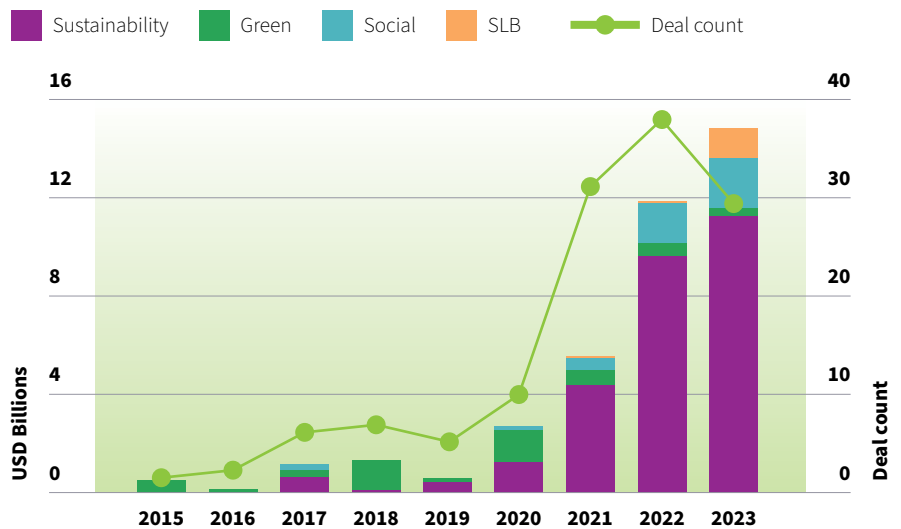
The Mexican GSS+ market represents 21% of the cumulative volume originating from the LAC region. Mexico ranks second in LAC's cumulative aligned GSS+ (USD55.7bn) market after Chile (USD57.4bn) and above Brazil (USD29.7bn), with the three representing almost 70% of regional cumulative issued amounts (Chart 2).

Aligned Mexican GSS+ scorecard (USD)

	Green	Social	Sustainability	SLB	GSS+ total
2015–2019	2.2bn	229m	1.3bn	N.A.	3.7bn
2020	1.3bn	148m	1.3bn	N.A.	2.7bn
2021	600m	479m	4.3bn	72m	5.5bn
2022	511m	1.6bn	9.5bn	51m	11.7bn
2023	304m	2bn	11.2bn	1.2bn	14.7bn
Cumulative	4.9bn	4.5bn	27.6bn	1.3bn	38.3bn

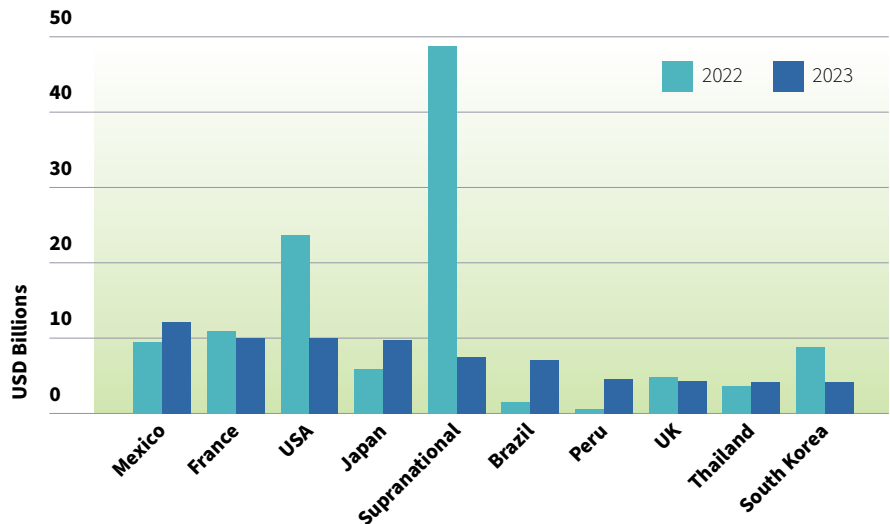
For details about issuer type, see Chart 4.

Chart 1: Aligned GSS+ volume from Mexico GSS+ has grown consistently since 2019¹⁴



Source: Climate Bonds Initiative

Chart 2. Mexico leads aligned sustainability volume in 2023¹⁵



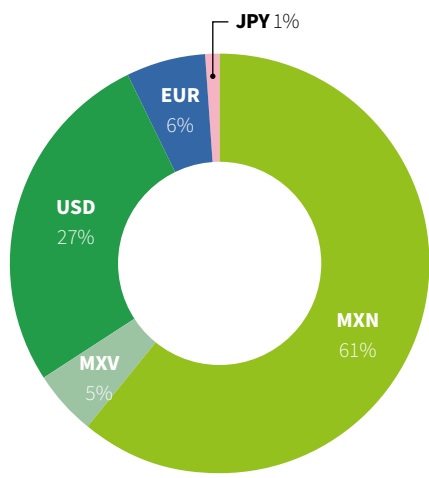
Source: Climate Bonds Initiative

Cumulatively, 35% of aligned GSS+ volume originating from Mexico is sovereign debt. By the end of 2023, the Mexican government had priced 14 sustainability deals amounting to USD13.3bn. In the same period, development banks made the second largest contribution, with 28%. The local development bank Banobras is the second largest overall issuer. By the end of 2023, Banobras had issued 17 deals worth USD 4.5bn. These numbers indicate the importance of the public sector in driving the growth of the GSS+ market, with the public sector accounting for 75% of overall volume. Mexican private corporates (financial and non-financial) have followed the same upward trend, with aligned GSS+ volume steadily increasing since 2019 (Chart 3).

Mexican GSS+ debt originates from a range of sources. The sustainability theme accounted for 72% of the cumulative aligned Mexican GSS+ market and 43% in LAC. The growing relevance of sustainability stems from the flexibility it offers issuers to direct UoP towards both green and social projects, effectively addressing intertwined agendas with one instrument (Chart 5).

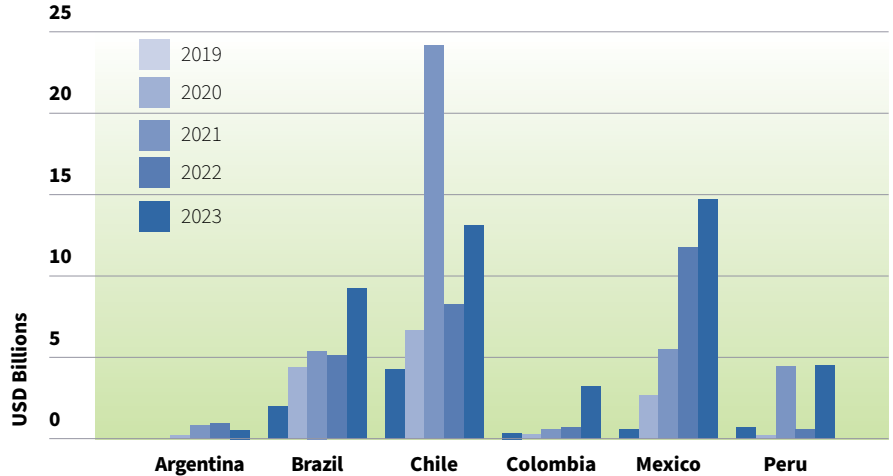
Local currency. The Mexican Peso (MXN) accounts for more than 60% of the total aligned Mexico GSS+ market, underscoring investor preference for issuing in local currency. In 2023, MXN accounted for 75% of GSS+ volumes, driven by sovereign issuances but USD, EUR, and JPY have also been mobilised to attract the international investor community. Hard currencies were the source of 57% of green bonds, and 37% of sustainability cumulative volumes, while aligned social bonds and SLBs were issued exclusively in MXN.

Chart 6: Mexican Peso is the leading currency for issuances in the country



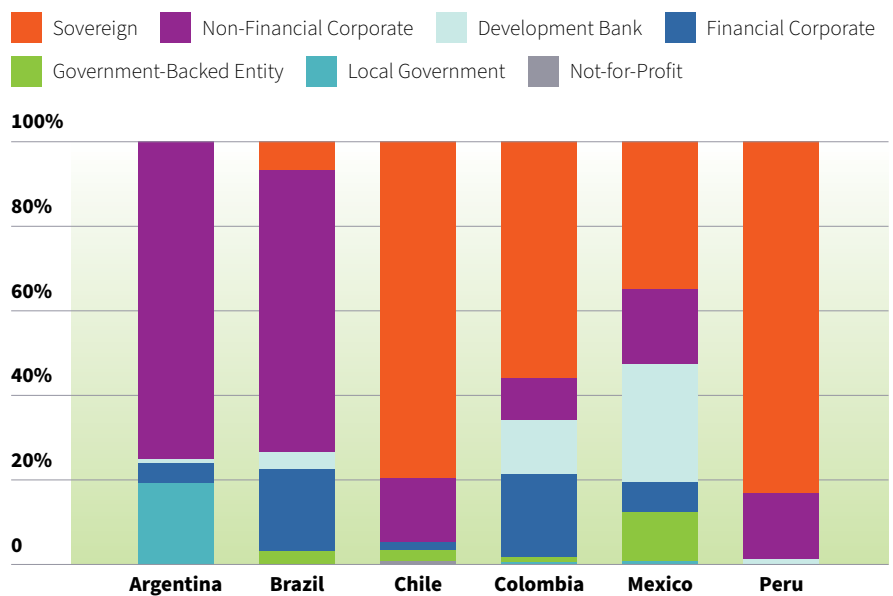
Source: Climate Bonds Initiative

Chart 3: LAC countries have made substantial contributions to the GSS+ market



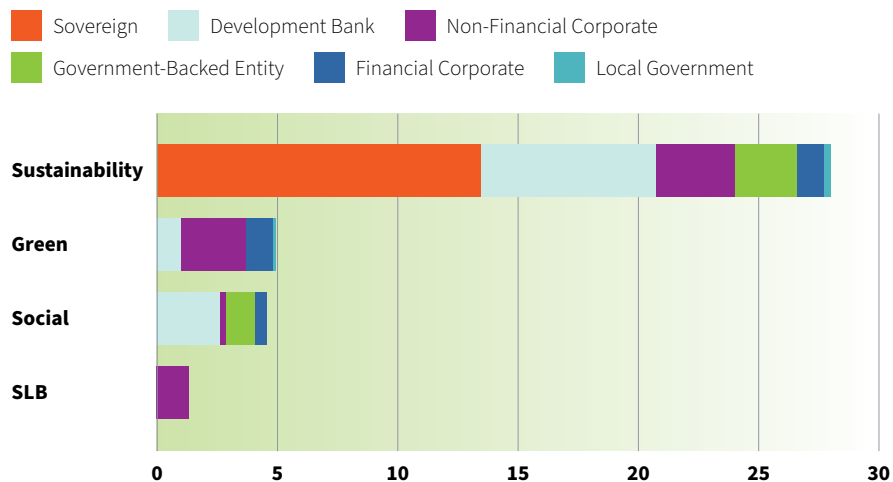
Source: Climate Bonds Initiative

Chart 4: Diverse issuer types contribute to Mexico's GSS+ volume



Source: Climate Bonds Initiative

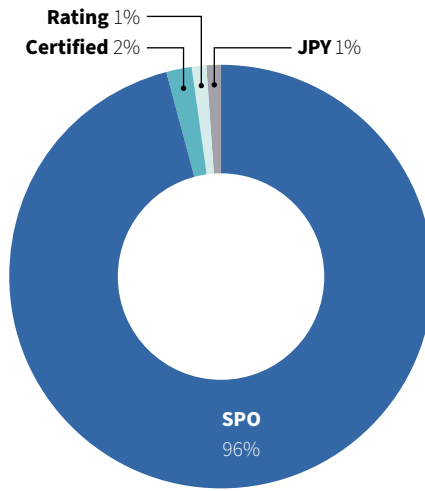
Chart 5: Sovereign cumulative volumes lead overall in the country



Mexican investment unit (Unidad de inversión mexicana) (UDI)

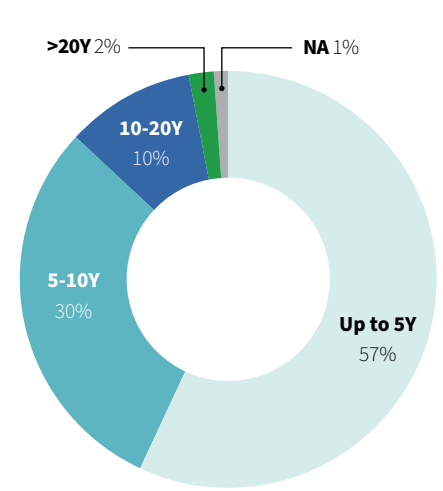
In 1995, the Mexican government introduced the inflation indexed UDI, ISO CODE MXV, to manage inflation in loan agreements, particularly mortgages. The MXV is tied to the exchange rate of the MXN, but moves with inflation, safeguarding its purchasing power and offsetting potential losses stemming from currency devaluation. Other countries in LAC that have issued bonds in units of investment to protect against inflation and attract investors include Chile, via the Chilean Investment Unit (CLF) which accounted for 2% of cumulative volume issued in the country by the end of 2023, a lower share compared to the MXV in Mexico.

Chart 7: By the end of 2023, Second-party opinions (SPOs) were the predominant form of external review



Source: Climate Bonds Initiative

Chart 8: Shorter dated deals are preferred

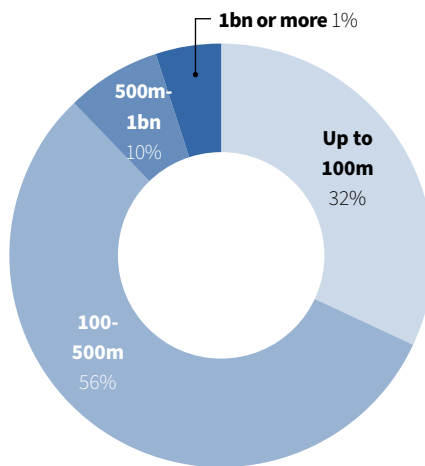


Source: Climate Bonds Initiative

Issuers of GSS+ debt can engage external reviewers to assess a bond's alignment with market principles. This is regarded as best practice and is adopted by 96% of thematic debt volumes in Mexico where the preferred type of review is an SPO. Sustainalytics, Moody's ESG Solutions (formerly Vigeo Eiris), and S&P Global Ratings are the top three SPO providers in Mexico, together responsible for 90% of review volumes.

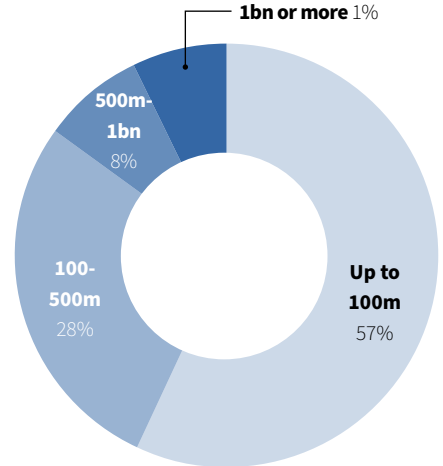
Bonds maturing within five years comprise the majority of those originating from Mexico. The average ticket size in the country is within the USD100-500m range, with almost 10% of deals crossing the USD500m mark. Skewed by sovereign issuances, sustainability bonds have the highest average size, at USD383m, while green bonds have the lowest, at USD175m.

Chart 9: Overall, deals issued in Mexico have a higher ticket size than the <USD100m LAC average



Source: Climate Bonds Initiative

Chart 10: Most deals in LAC have a ticket size up to USD100m



Source: Climate Bonds Initiative

Green

Green is the second-largest label in the country's cumulative GSS+ market, accounting for 13% (USD4.9bn) of the volume.



This ranks the country as the third largest source of green bonds in the region, with Brazil in the lead, followed by Chile. Non-financial corporate issuers make the largest contribution to the Mexican cumulative GSS+ market, representing 40% of the aligned volume, followed by financial corporates with 23% (Chart 11).

Mexico green bond scorecard

LAC ranking	3rd
Cumulative volume	USD4.9bn
Number of deals	28
Average deal size	USD175m
Number of issuers	16
Largest issuer	FIBRA Prologis (USD825m)

By the end of 2023, the largest green issuer was FIBRA Prologis, with four deals worth USD825m (see box below), followed by Coca-Cola FEMSA with one deal worth USD705m. While green bond issuance from Mexico has slowed since 2020, the sustainability theme has accelerated.

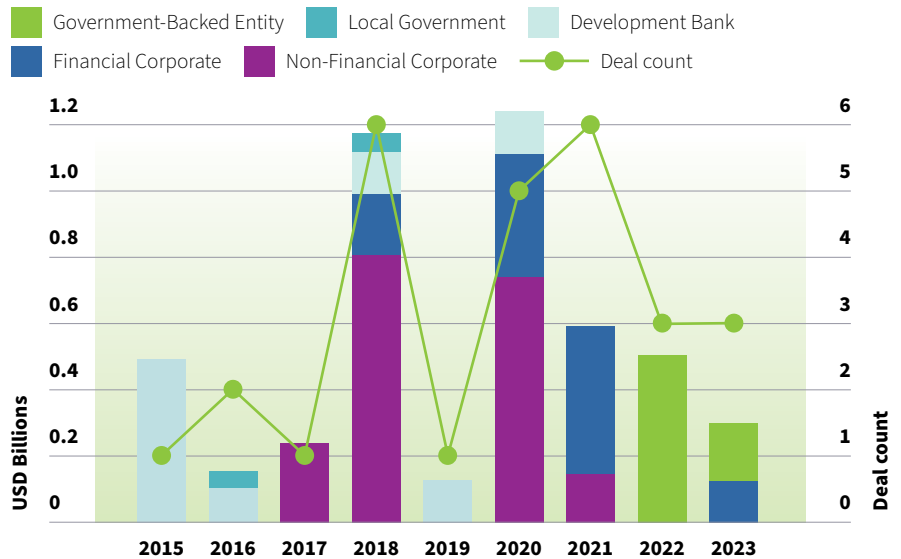
In 2023, the Mexican government published its Sustainable Taxonomy (page 17), which will help issuers to identify appropriate assets for inclusion in green and sustainable bonds, and issuance is expected to increase as a result.

The USD helps issuers attract a broader range of international investors and those with dedicated green or sustainability funds.

By the end of 2023, more than 70% of green volumes underwent a SPO review. Sustainability remains the main external review provider for green bonds, followed by Moody's ESG Solutions, and Carbon Trust. Climate Bonds Certification was obtained by 17% of green bonds.

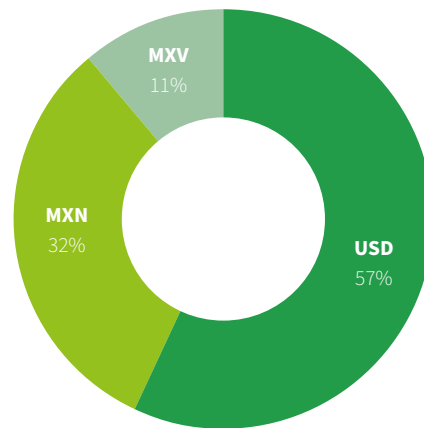
By the end of 2023, Renewable Energy was the most common UoP category, aligning with the global imperative to increase renewable energy to 70-85% of electricity generation by 2050 to limit global warming to 1.5°C. Green Buildings, another capital intensive UoP category that requires large decarbonisation investments, ranked second.

Chart 11: The private sector is the largest source of Mexican green bonds



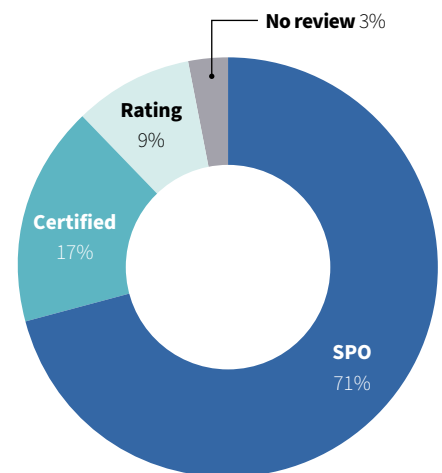
Source: Climate Bonds Initiative

Chart 12: USD dominates in green bonds issuances



Source: Climate Bonds Initiative

Chart 13: By the end of 2023, more than 70% of green volumes underwent a SPO review and 17% obtained Climate Bonds Certification

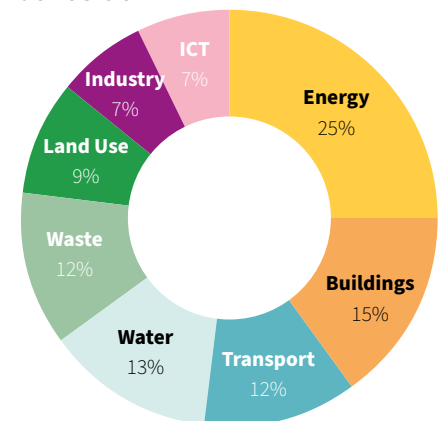


Source: Climate Bonds Initiative

UoP allocations

UoP outlines how funds raised from a GSS+ instrument will be deployed. Pre-issuance documents describe the eligible UoP categories but rarely disclose the percentage split. For each deal, Climate Bonds records an equal allocation for all named UoP categories which, in the case of the green theme, are in alignment with its taxonomy.

Chart 14: Renewable Energy is the main beneficiary of green bonds UoP



Source: Climate Bonds Initiative

Green spotlight – Private sector pioneers and prospects for growth

Private corporates have spearheaded green bond issuance in Mexico, contributing to 63% of the total cumulative aligned volume. The private sector has provided most of the deals to date and is well-positioned to catalyse this growth by capitalising on opportunities to fund environmentally sustainable projects. The construction and infrastructure sectors in Mexico require more green investment to improve their resilience to extreme weather events. Private entities from these sectors that already have experience in the green bond market and have not been active since 2020, such as CADU Inmobiliaria and FIBRA Storage, could use green bonds to fund projects that tackle physical climate risks. Furthermore, public organisations can also issue green bonds to finance projects that address Mexico’s increased vulnerability to floods and strong winds, especially in coastal areas. Storm-resistant transport systems, renewable energy installations that reduce dependency on vulnerable power grids, and enhanced water management systems to prevent flood damage are examples of project opportunities.

Banca Mifel

Banca Mifel is a local bank offering corporate banking services including loans. In 2023, it priced its inaugural green bond, a 3-year MXN1.5bn (USD82m) deal. Its comprehensive green finance framework encompasses four different categories: Sustainable Agriculture and Livestock, Renewable Energy, Energy Efficiency, and Water and Wastewater Management. The breadth of the framework offers a versatile tool for greening the bank’s portfolio and facilitating engagement with borrowers across the real economy. Notably, Banca Mifel’s issuance in MXN, contrasting with the predominance of USD green issuances, showcases the importance of local currencies in advancing sustainability efforts nationally. Local currency deals enable small- and medium-sized entities to participate in the GSS+ market and help to mobilise capital from a range of local sources including pension funds.



FIBRA Prologis

FIBRA Prologis, a global logistics real estate company, has ambitious decarbonisation goals including an approved science-based target.¹⁶ In 2020 and 2021, the company priced four green bonds totalling USD825m. UoP were earmarked to finance or refinance projects that improve the environmental performance of the company’s properties. Eligible project categories span Low-Carbon Buildings, Energy Efficiency, and Low-Carbon Energy.



Social

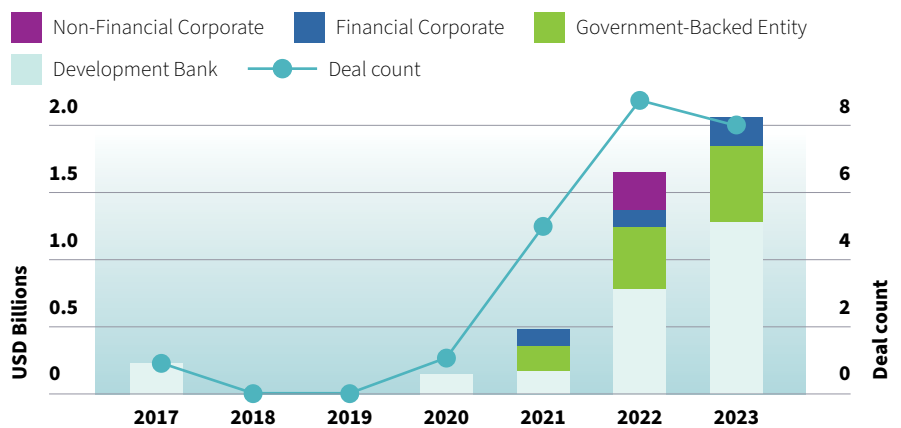
Mexican development bank, Nacional Financiera (NAFIN), priced Mexico’s first aligned social bond in 2017, a MXN4bn (USD229m) 5-year deal (see box below). Since then, the market has grown steadily, and by the end of 2023, had reached USD4.5bn, in cumulative volume, spread over 24 deals constituting 12% of Mexico’s thematic debt. While USD4.5bn might seem modest compared to global numbers, it underscores a growing commitment to social investment in the region, positioning Mexico as the third-largest source of social debt volume in LAC, behind only Chile and Supranationals. Notably, in 2023 alone, six Mexican issuers successfully priced eight aligned social deals, contributing USD2.1bn to this total.



Social bond aligned issuances in Mexico

Issuer type	Issuer name	Amount issued (USD)	Deal count
Development bank	NAFIN	1.8bn	8
	FIRA/FEFA	801m	5
Government-backed entity	FONACOT	754m	4
	Comisión Federal de Electricidad	446m	1
Financial corporate	Banco Compartamos	416m	4
	FIN ÚTIL	34m	1
Non-financial corporate	Coca Cola FEMSA	274m	1
Total		4.5bn	24

Chart 15: The social label has experienced sustained growth since 2020



Source: Climate Bonds Initiative

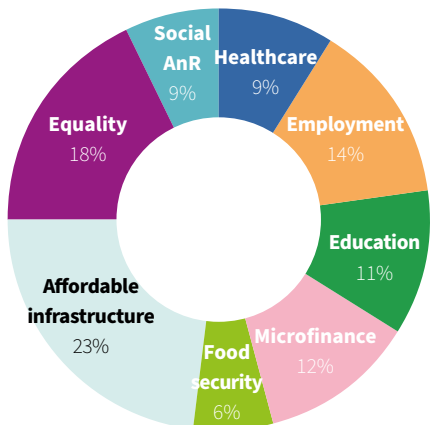
Mexico social bond scorecard	
LAC ranking	3rd
Cumulative volume	USD4.5bn
Number of deals	24
Average deal size	USD188m
Number of issuers	7
Largest issuer	NAFIN (USD1.8bn)

While international currencies dominate the social bond market in LAC, all Mexican issuers have preferred to use the domestic currency to raise funds.

All social bonds underwent an SPO review. Sustainalytics was the leading SPO provider in the social bonds issued in the country, conducting reviews for 19 out of the 24 deals, followed by HR Ratings and S&P Global Ratings.

Most social bonds have multiple UoP. Affordable Infrastructure is the most frequently named category in the cumulative total of Mexican social deals. Affordable housing is normally the main type of project included in this category, but it also encompasses schools, cultural and sports centres, hospitals, parks, and other types of infrastructure. In line with other nations across the LAC region, the country has prioritised the strategic utilisation of social UoP to bolster investments geared towards social objectives, notably through its national development banks.

Chart 16: Affordable Infrastructure leads the total amount issued, followed by equality and employment



Source: Climate Bonds Initiative

Sustainability

Sustainability has become the main thematic label for Mexican issuers, placing the country as a global leader in 2023. The flexibility to incorporate a wider range of green and social UoP into the sustainable framework attracts more issuers and has supported the growth of the label. The sustainability market is largely supported by sovereign issuances, with the Mexican government placing a particular emphasis on both green and social themes. This commitment is evidenced by the launch of the first Sustainable Taxonomy, as well as the issuance of the first United Nations Sustainable Development Goal (UN SDG)-linked bond globally. The government has chosen to focus its efforts on innovation to address financing deficits and facilitate a transition to a more inclusive, low-carbon economy.¹⁷



Public sector drives social issuance

Most of the social bonds originating come from public institutions, with four government-backed entities and development banks together accounting for 84% of the cumulative volume (USD3.8bn). Reflecting their mandates, these institutions have a natural affinity towards social bonds, underscoring their role in public welfare and development.

Banco Compartamos

Banco Compartamos (Compartamos), a Mexican microfinance-focused bank, demonstrates the potential for a wide array of issuers in the social bond market. The bank has priced four social deals between 2021 and 2023 including its latest four-year MXN3bn (USD173m) bond. Compartamos' engagement in financing projects that enable access to essential services and foster employment generation, particularly among women, positions it as an example for enhancing issuer diversity within Mexico's social bond ecosystem. Other financial institutions focused on providing microfinancing solutions to vulnerable target populations could also deploy the thematic bond market to attract mission-driven investors.

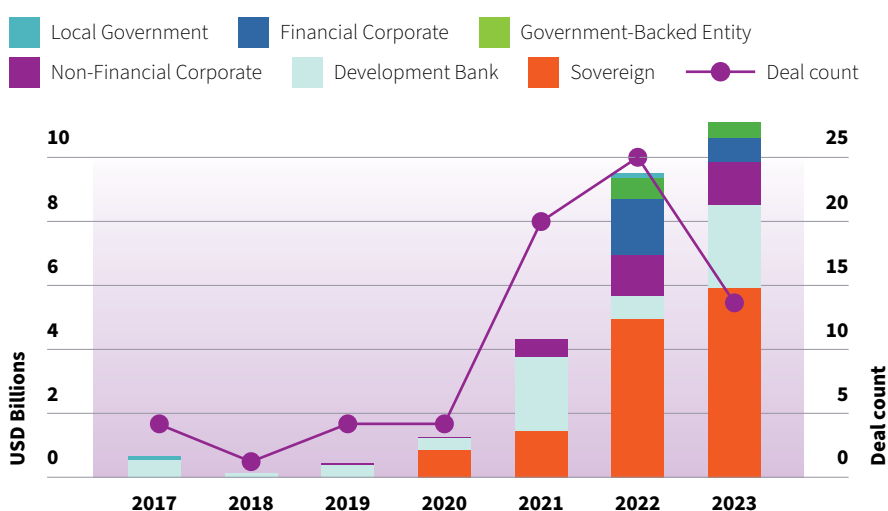


NAFIN – Championing Mexico's social bond issuance

NAFIN, Mexico's national development bank, stands as a pivotal force in Mexico's social bond market, with a history of eight deals, including four in 2023, NAFIN's Sustainability Bond Framework is aligned with the International Capital Markets Association (ICMA) Green Bond Principles (GBP) and Social Bond Principles (SBP). The framework lays a diverse foundation for social investments, and named project categories include Essential Services Access, Micro, Small and Medium Enterprise (MSMEs) Support, and Women's Empowerment. Eligible projects aim to enhance vocational skills, provide technical assistance to marginalised segments, invest in water and sanitation projects, alongside initiatives fostering gender equality and regional development. Such a diverse portfolio underscores the dynamic scope present within the social domain.



Chart 17: Mexican sovereign bonds have supported sustainability volumes since 2020



Source: Climate Bonds Initiative

Mexico sustainability scorecard

LAC ranking	1st
Cumulative volume	USD27.6n
Number of deals	72
Average deal size	USD383m
Number of issuers	16
Largest issuer	Mexico Government (USD13.3bn)

The recent boom in sustainability bond volumes has been led by the state and complemented by increased issuer diversity from financial and non-financial corporates.

There were eight aligned Mexican issuers in 2023, and 50% of the volume originated from the Mexican Government at USD6bn. In 2022, the issuer made headlines for its UN SDG-aligned bond priced in its local currency.

Mexico leads on sustainability globally

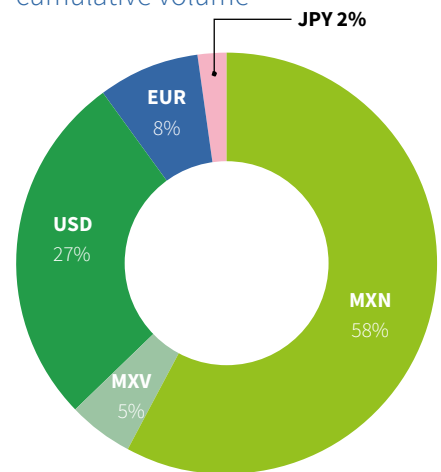
In 2023, Mexico distinguished itself as a global front-runner in sustainability bonds, contributing USD11.2bn to the market, or 11% of global aligned sustainability volume issued that year. This reflects a broader trend in LAC, which has seen a consistent increase in sustainability bond issuance over the past four years. This trend also underscores the critical role that sustainability bonds play in financing the region's transition to a more resilient and equitable future, especially in the context of the region's unique socio-environmental challenges.

In cumulative numbers, the Mexican sustainability bond market is dominated by the public sector, with development banks and sovereign bonds together accounting for almost 75% of total

issuance. This market's skew towards public entities echoes their integral role in addressing nationwide sustainability goals. However, the involvement of non-financial corporate issuers, accounting for 11.8% of 2023 volume, indicates the potential for broader market participation and diversity, reinforcing the role of private sector innovation in sustainability efforts.

MXN was the preferred currency for sustainability deals originated in Mexico, supported by sovereign issuance, which differs from LAC in general, where the USD dominates the sustainability market. However, the presence of a large, domestic currency sovereign issuer can provide a GSS+ anchor for local market engagement and unlock capital to support the transition to net zero. All sustainability bonds originating from Mexico obtained an SPO, which is positive and contributes to market credibility. Sustainalytics and Moody's ESG Solutions were the leading SPO providers, conducting reviews for 51 out of the 72 deals.

Chart 18: The domestic currency prevails in sustainability cumulative volume



Source: Climate Bonds Initiative

Mexico's government embraces sustainability

The Federal Government was the largest source of aligned sustainability bond volume in 2023, contributing 50% (USD5.9bn) to the total aligned volume. Since 2020, the Federal Government has priced ten deals in JPY (five deals), USD (two deals), EUR (one deal), and MXN (one deal) with a cumulative volume of USD13.3bn.

In 2020, Mexico became the first sovereign issuer to price sustainability bonds linked to the achievement of the UN SDGs, which referenced its innovative SDG Sovereign Bond Framework, published the same year. The framework is aligned with the strategic priorities referenced in Mexico's State Development Plan 2017-2023 (PDEM) and

three of the pillars designed to support its achievement: social, economic, and territorial, which channel the resources towards the most disadvantaged areas of the country and vulnerable populations, such as indigenous peoples, the elderly, and children. It lists eligible expenditures spanning food security, healthcare, education, water, sanitation, energy, employment, infrastructure, transportation, and biodiversity.

The cross-cutting nature of Mexico's sustainability bonds and its strategy to issue in different currencies can be an effective way to crowd-in international capital to support the country's sustainability agenda.

Sovereign sustainability deals in Mexico YOY

Year	Amount issued (USD)	Deal count
2020	887m	1
2021	1.5bn	1
2022	5bn	10
2023	6bn	2
Total	13.4bn	14

America Movil SAB de CV- Non-financial corporates playing a role in fostering sustainable finance

Since 2022, Mexican telecommunications company America Movil SAB de CV (America Movil), has priced five sustainability bonds with a combined volume of USD2.5bn. Four of the deals were priced in MXN, one in MXV, with tenors ranging from two to 15 years.



The deals reference the entity's sustainable financing framework, published in October 2022. The document names eligible project categories including Renewable Energy, Water, Pollution Prevention and Control, Clean Transportation, Buildings, and

Biodiversity as green categories. On the social side, proceeds focus on essential services with an emphasis on digital inclusion for underserved communities and training programmes to develop digital skills among low-income populations.

America Movil's active presence in the sustainability bond market highlights the flexibility of this instrument for corporates, most of which must switch to renewable energy or introduce energy efficiency measures to meet decarbonisation goals. Combining related expenditures with social ambition in one instrument can contribute to the achievement of socio-environmental objectives.

FIRA prices the first resilience bond in LAC

Fideicomisos Instituidos en Relación con la Agricultura (FIRA) is a combination of four public trusts established by the Mexican Government, dedicated to facilitating credit for borrowers in the agriculture, livestock, and fishing sectors.



In 2023, FIRA issued a MXN2.98bn (USD164.9m) green resilience bond, which given its blend of green and social UoP was classified as a sustainability bond. This issuance exemplifies FIRA's strategic use of varied labels to target distinct development sectors such as agriculture, renewables, gender equity, social inclusion, and

climate resilience. FIRA's resilience focus includes funding projects that promote climate-smart agricultural practices, such as no-till farming and integrated soil fertility management, together with projects that enhance water conservation and improve the efficiency and management of water infrastructure. This strategy enhances agri-food system resilience and reduces pressures that exacerbate or are exacerbated by climate change, such as water scarcity, in line with the Climate Bonds Resilience Taxonomy White Paper.¹⁸ Mexico's agriculture and water systems are increasingly threatened by extreme weather, rising water scarcity due to uneven rainfall and higher temperatures, as well as the spread of pests and diseases facilitated by warmer and wetter conditions.¹⁹ Therefore,

FIRA's investments in these sectors are crucial for enhancing Mexico's overall resilience in critical areas affected by climate change.

FIRA is a frequent sustainable debt issuer, consistently coming to the market over the past five years, with labelled bonds ranging between USD100-200m and maturities from one to four years. The institution segments its bonds under dedicated labels such as gender, green, or resilience, demonstrating good capacity to address the different facets of sustainability, from enhancing sustainable agricultural practices and renewable energy adoption to bolstering social equity and fortifying climate resilience.

Sustainability-linked

Mexico is the second largest source of aligned SLBs in the LAC region with cumulative volume reaching USD1.3bn by the end of 2023. It stands behind Chile in SLB aligned numbers in LAC, mainly due to Chilean sovereign issuances. The four issuers were all non-financial corporates, among which Grupo Bimbo was the largest, with two deals totalling USD856m. Globally, SLBs have seen a lack of growth since their big boom of 2021. However, the market is maturing, and Climate Bonds logged record-high alignment with its SLB database methodology in 2023. LAC was the only region to grow its SLB volume in 2023, with alignment rates improving faster than the global average.



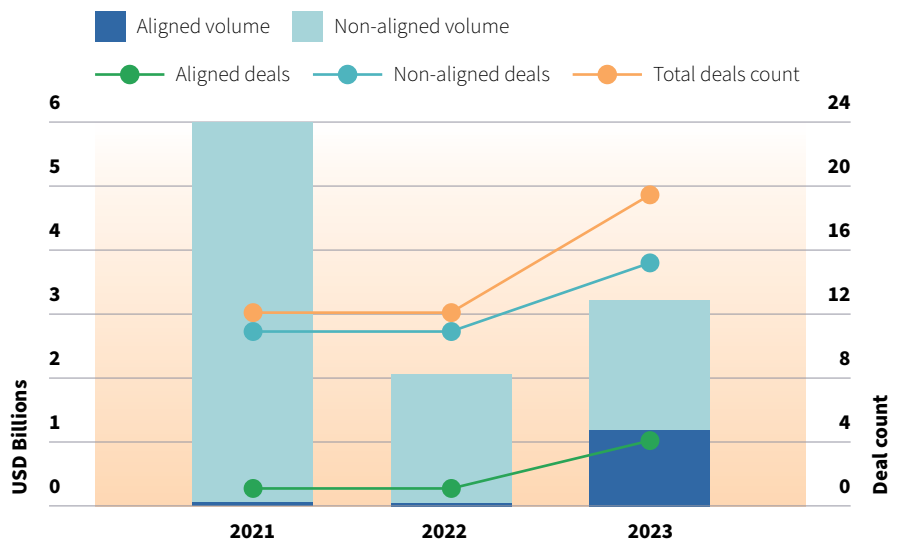
Mexico SLB scorecard (aligned numbers)

LAC ranking	2nd
Cumulative volume	USD1.3bn
Number of deals	6
Average deal size	USD218m
Number of issuers	4
Largest issuer	Grupo Bimbo (USD856m)

Based on the Climate Bonds methodology for self-labelled SLBs, 14% of SLBs issued by Mexican entities are considered aligned, which equates to the global figure. In 2023, SLB alignment increased to 21% in Mexico, following the global trend of establishing credible decarbonisation pathways. When considering 2023 SLB issuance volumes instead of deal numbers, the alignment share in Mexico increases to almost 40%.

Every SLB bond issued in Mexico underwent an SPO review, demonstrating assurance best practices are being followed in the country. Sustainability was the sole SPO provider in the country.

Chart 19: 21% of Mexican SLBs were aligned in 2023, representing almost 40% of issued volumes.



Source: Climate Bonds Initiative

Lack of GHG targets and partial emissions coverage are the main reasons for SLBs non-alignment

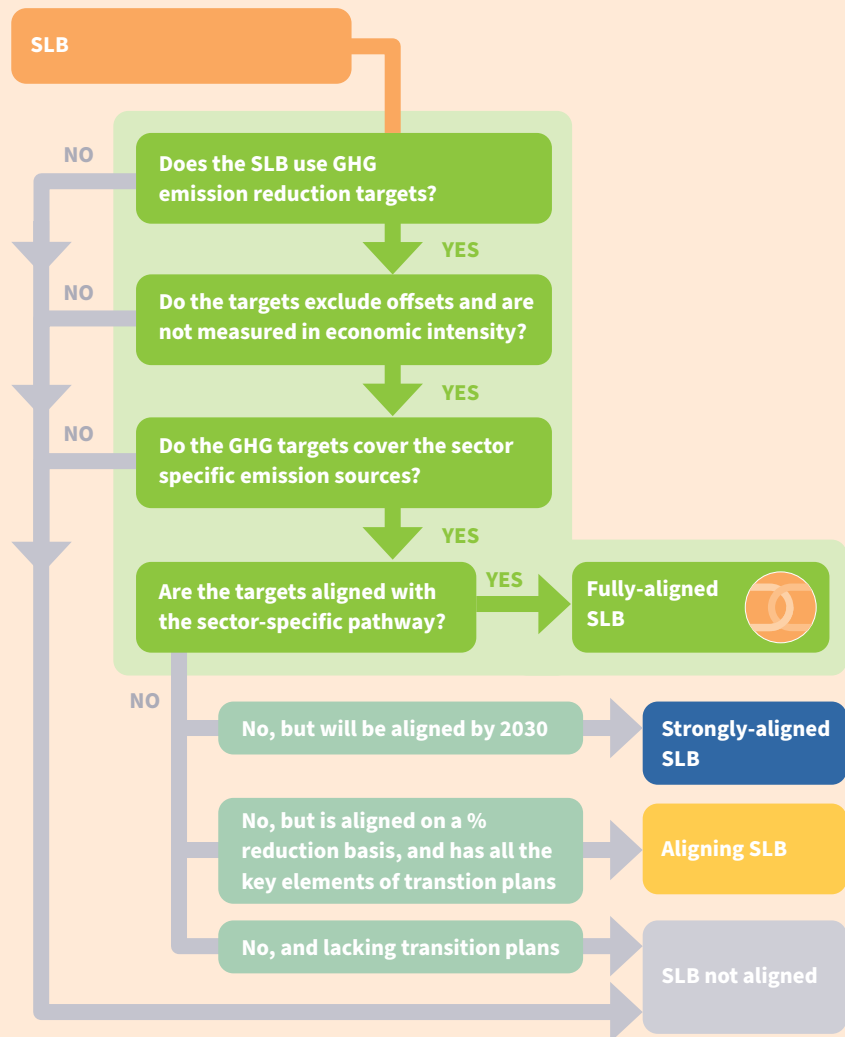
Alignment	Category / Reason	Amount (USD)	Bonds	Issuers
Aligned	Fully aligned	808.9m	3	3
	Strongly aligned	503.3m	3	2
	Total aligned	1,312.2m	6	5
Not aligned	Lack of GHG targets	5,885.0m	23	9
	Partial GHG scope coverage in targets	3,407.9m	12	6
	Not in line with pathway	646.4m	2	2
	Total not aligned	9,939.3m	37	17

NB: Alignment is determined for each SLB. Non-aligned figures represent bonds that failed to meet each requirement under the SLBDB funnel methodology approach, which particularly affects 'not in line with pathway' figures.

Climate Bonds sustainability-linked bond database

Climate Bonds screens self-labelled SLBs from all jurisdictions against the Climate Bonds SLB database (SLBDB) methodology to inform the size, credibility, and ambition of deals in the SLB market globally. Aligned deals reflect issuers who tie their cost of capital to credible and ambitious decarbonisation targets, in line with a 1.5°C transition. A summary of the assessment process is illustrated below, with the full methodology available on the Climate Bonds website.²⁰

The best way to improve the climate credentials of new SLBs is to use at least one KPI related to mitigation, including absolute GHG emissions and GHG emissions production intensity where relevant, and include scope 3 emissions if material. Lack of GHG targets is the top reason for non-alignment by bond and issuer count, which is in line with the global market. Partial emissions coverage ranks second and is also one of the main reasons for non-alignment worldwide. An in-depth analysis of structural SLB features and transition plans can be found in Climate Bonds' dedicated SLB report released in March 2024.²¹



SLB spotlight – Mexico as an emerging global force

In the SLB arena, Mexican issuers are increasingly improving the materiality of their decarbonisation targets. Among 43 SLBs priced by Mexican entities, only six classify as in alignment with Climate Bonds' SLBDB methodology. Yet, in 2023, a positive shift occurred: four out of 19 SLBs were aligned, representing 38% of volume. This improvement reflects a global trend where

SLB issuers appear to be making increased use of sector-specific guidance to establish their KPIs. Globally, Mexico ranks seventh in SLB cumulative issuance volume and ninth in 2023, and all deals originate from non-financial corporate issuers. Additionally, all aligned SLBs were priced in MXN, vital for fostering market access for domestic entities.

Grupo Bimbo

Grupo Bimbo is a Mexican international food company which makes and distributes baked goods through more than 100 brands and over 33,000 products.



Using a 2019 baseline, Grupo Bimbo's 2022 transition plan targets a 50% emissions reduction in scope 1, 100% in scope 2, and 28% in scope 3 by 2030, and net zero by 2050. To implement its targets, Bimbo has pledged to:

1. reduce scope 1 emissions by investing in zero-carbon vehicles and electric solutions in its factory;
2. move to renewable energy sources to cut scope 2 emissions; and
3. reduce waste, engage with the supply chain, and invest in regenerative agriculture to cut scope 3 emissions.

In 2023, Bimbo published an SLB framework and priced two SLBs with a combined volume of MXN15bn (USD856m). Both are aligned with Climate Bonds' SLBDB methodology, one already being fully-aligned and the other strongly-aligned, as its KPIs will be in line with the sectoral decarbonisation pathway in 2030. The company committed to four KPIs, notably including absolute scope 3 emissions reduction, with specific targets set for 2023, 2024, 2025, 2027, and 2030. This focus on scope 3 emissions is particularly important for food producers, where the supply chain emissions are the most substantial.

The four KPIs and their targets committed to by Grupo Bimbo.²³

KPI	SPT
Absolute scope 1 emissions (tCO₂e)	SPT 1: Reduce absolute scope 1 emissions by 50% by 2030, against a 2019 baseline.
Absolute scope 3 emissions (tCO₂e)	SPT 2: Reduce absolute scope 3 emissions by 12.5%, by 2025, 17.5% by 2027, and 28% by 2030, against a 2019 baseline.
Share of renewable electricity use (%)	SPT 3: Increase the share of renewable electricity use to 100% by 2025, against a 2020 baseline.
Share of treated water use (%)	SPT 4: Increase the share of treated water use to 96% by 2023, 98% by 2024 and 100% by 2025, against a 2020 baseline.

CEMEX

CEMEX is a multinational building materials company based in Monterrey, Mexico. It manufactures and distributes cement, ready-mix concrete, and aggregates in more than 50 countries. The Climate Bonds SLBDB methodology requires cement companies to address scope 1 emissions in their SLBs.



In 2023, CEMEX priced a dual-tranche SLB totalling MXN6bn (USD332m).²² CEMEX's SLB was assessed as strongly-aligned to the SLBDB methodology as the company will be in line with the sectoral decarbonisation pathway in 2030. The SLB's KPIs stipulate a reduction to below 454 kg per tonne of cementitious product in scope 1 and 2 emissions by 2030, divided into short-, mid- and long-term targets. The company has a transition plan in place as part of its Future in Action programme, outlining technological innovations and operational decisions supporting its decarbonisation objectives. CEMEX lists four levers to achieve its 2030 goals: increasing the use of alternative fuels, reducing the clinker factor in its cement, optimising kiln thermal efficiency, and using decarbonated raw materials. In line with these actions, achieving an alternative fuels rate of 55% and reducing clinker factor to 68% by 2030 are the SPTs for the two other SLB KPIs. The company also expects to invest USD150m annually to support these goals.

Cemex's climate change strategy is managed by the Sustainability, Climate Action, Social Impact and Diversity Committee, composed of the members of its board of directors tasked with setting and assessing emissions reduction targets and sustainability priorities. The execution of this strategy is led by the Vice President of Sustainability, who collaborates with regional and country representatives to maintain consistent operations and advance their sustainability goals.

4. Evolution of sustainable finance in Mexico

Since 1992, Mexico has been proactive in fostering environmental stewardship and socially inclusive development, beginning with the establishment of the National Commission for the Knowledge and Use of Biodiversity (CONABIO) and extending to recent initiatives such as the Sustainable Financing Mobilisation Strategy. Key milestones include the adoption of national climate strategies, development of environmental laws, and sovereign bonds issuances. Through regulatory frameworks and financial innovations, Mexico is building its pathway towards a more sustainable financial market.

Colour scheme:

National and Local Commitment

Regulation Market Development Committee

Sustainable Finance Platforms

National Taxonomy Guidelines

Market milestones

2000

National Biodiversity Strategies and Action Plans (NBSAP). The first of these was implemented to enhance biodiversity awareness, including understanding biodiversity status, threats, institutional capacity, and societal consciousness.²⁴

2012

General Climate Change Law. The introduction of this law delineated the scope of the national climate change policy, outlining the responsibilities of state authorities, and responsibilities of the powers of the three tiers of government, as well as institutional mechanisms required to address climate change challenges.²⁵

2014

Special Climate Change Program 2014-2018 (PECC). Published by the Mexican Government to establish directives for implementation of the National Climate Change Strategy.²⁶

2015

Nacional Financiera (NAFIN) priced Mexico's first green bond. The USD500m, 5-year deal was earmarked to support renewable energy projects.²⁷

2015

National Climate Change Strategy vision 10-20-40. Provided a short-, medium-, and long-term strategy for climate action. It is the guiding instrument to address climate change in the economy, including mitigation and adaptation lines of action.²⁸

2016

Mexican Banking Association's (AMB) Sustainability Protocol. Signed by 18 banks, and aligning with government climate change targets this offers guidance on risk management, sustainable lending, and plans for capacity building and implementation.³⁰

Green Finance Advisory Council (CCFV). Formed in 2016 as a voluntary representative body of the Mexican private financial sector that aims to promote financing and investment that generate positive environmental impacts, considering climate change risks and opportunities across the economy. The CCFV changed its name in 2022 to the CMFS – The Mexican Council on Sustainable Finance to integrate the sustainability components.³²

Energy Transition Law. Designed to regulate the sustainable use of energy as well as obligations regarding clean energy and the reduction of pollutant emissions from the electricity industry.²⁹

Sustainable Bond Market (SAM). Introduced by the Mexican Stock Exchange (BMV) expanding the range of sustainable finance instruments to include green, social, and sustainability bonds.³¹

2017

Afore XXI Banorte is the first Mexican institution and pension plan to become a PRI Signatory, reinforcing its commitment to integrating environmental, social, and governance (ESG) factors into investment decisions and promoting responsible investment practices in Mexico.³³

2018

Green Bonds Principles MX. Launched by CCFV (now CMFS) are guidelines to assist green bond issuers in Mexico and provide reassurance for investors regarding the environmental credentials of financed projects.³⁴

National Institute of Ecology and Climate Change Institutional Framework offers guidance on disclosure of the legal, regulatory, and public policy instruments, as well as the institutional arrangements necessary to face climate change in the country.³⁶

General Climate Change Law (updates). Main changes include the adoption of the NDC as a baseline to achieve the Paris Agreement.³⁵

2019

National Strategy for the Implementation of the 2030 Agenda.

A framework for coordinating actions and policies at the national level to achieve the UN SDGs by 2030.³⁷

The National Commission of the Retirement Savings System (CONSAR)

issued the first mandatory regulation requiring AFORES to disclose information regarding ESG principles in investments, risks, transparency, and the use of corporate rights.³⁸

2020

Sustainable Finance Committee (Comité de Finanzas Sostenibles, or CFS).

Convened by the Financial System Stability Council (CESF) to assist in analysing and recommending sustainable finance strategies for the stability of Mexico's financial system. Chaired by the Ministry of Finance and Public Credit (SHCP), it includes representatives from key financial institutions and private sector associations focused on sustainable finance.³⁹

The Government of Mexico issued the first sovereign sustainability bond to support the achievement of the SDGs, referencing the innovative SDG Sovereign Bond Framework, published the same year.⁴⁰

2021

Reference Framework of Sovereign Bonds consistent with the Sustainable Development Goals.

Developed by SHCP, this framework established criteria for structuring financial instruments that contribute to the SDGs.⁴¹

Reference Framework for the issuance of Sustainable Bonds with a Gender Perspective.

Published by the National Public Works and Services bank (BANOBRAS) this recognised the impact that public works and services financed by the bank can have on reducing the gender gap and reducing the negative impacts on vulnerable groups.⁴²

2022

National Banking and Securities Commission (CNBV) **launched an assessment tool for voluntary self-diagnosis of ESG and climate-related risks to be used by Mexican financial institutions. The goal is to promote integration of ESG factors in their operations and non-financial disclosure.**⁴³

In April 2022, a mandate by the National Commission of the Retirement Savings System (CONSAR) requires **pension funds in Mexico (AFORES) to incorporate ESG criteria and metrics** into their investment strategies for regulatory compliance.⁴⁴

Framework for Social Bonds for Financial Inclusion is published by Fideicomisos Instituidos en Relación con la Agricultura (FIRA). The document outlines a structured approach to using social bonds to promote financial inclusion, particularly in the context of the Mexican agriculture sector.⁴⁵

Updated Mexican NDC. Presented by the Government of Mexico at the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) in Egypt, this reestablished its mitigation commitments and reaffirmed the adaptation commitments.⁴⁶

National Sustainable Taxonomy. The Ministry of Finance published Mexico's taxonomy to encourage investment in economic activities that protect the environment and reduce social and gender gaps.⁴⁷

2023

Climate Financial Risk Center (CFRCenter). A new hub in LAC to convene central banks, supervisory authorities, and other public and private financial institutions to develop best practices for managing climate-related risks in the region's financial systems. It encourages open discussion, capacity building, and knowledge sharing of experiences on identifying, assessing, disclosing, and managing climate-related financial risks.⁴⁸

In 2023, the Mexican Council for Financial Information Standards (CINIF) develop two sustainability reporting guidelines based on the IFRS S1 and S2, the General Standards for Sustainability Information Disclosure (NIS 1) and the Disclosure of Basic Sustainability Indicators (NIS 2). Both standards are expected to come into force by 2025 and become mandatory for all listed companies.⁴⁹

The Mexican Association of Retirement Fund Administrators (AMAFORE) attempts to unify criteria for environmental, social, and governance information of issuers where administrators invest by publishing the Homologated ESG Questionnaire.⁵⁰

Sustainable Financing Mobilization Strategy. Published by the Ministry of Finance and Public Credit (SHCP) policy to steer regulators and financial institutions towards low-carbon, climate-resilient, and inclusive investments and activities, benefiting both vulnerable communities and the environment.⁵¹

5. Sustainable finance policy and regulation

Mexico is the second largest GHG emitter in LAC, after Brazil. Its revised nationally determined contributions (NDC) committed to a 35% decrease in GHG emissions by



2030, however this includes large forest carbon sink contributions.⁵² Policy and regulation are important to development of the sustainable finance market and to achieving climate targets more broadly. Ambitious net-zero targets are an essential general first step and critical to steering debt markets specifically.

Mexico implemented a climate change law in 2012, the General Law on Climate Change, that establishes a national framework for addressing the issue. It delineated the roles and responsibilities at federal, state, and local government levels, and for coordinating effort across the different levels. The law sets goals for reducing greenhouse gas emissions and establishes institutions to oversee climate action, monitor progress, and implement strategies. Clear goals, such as generating at least 35% of power with clean technologies by 2024 and reducing emissions by 30% by 2020 and 50% by 2050 compared to 2000, the law creates a more predictable environment for investors and financial institutions. This, in turn, encourages the flow of capital towards sustainable projects.⁵³ The law establishes a fund to financially support climate mitigation and adaptation actions. It gathers public, private, national, and international resources to invest in projects that address both strategies. These projects can include state-level initiatives, research and innovation efforts, and technological advancements for tackling climate change, as well as tools such as the Risk Atlas which provides information on current and future vulnerabilities; helping communities, regulators, and other stakeholders understand and prepare for climate impacts.⁵⁴

With regard to sustainable finance, to date, the following policies have been implemented: the Mexican Sustainable Taxonomy (see further details in the following section), regulatory requirements for pension funds to consider ESG criteria in their investments as well as other initiatives for the private sector:

- In 2019, the National Commission of the Retirement Savings System (CON SAR) issued a regulation requiring pension funds to disclose information regarding ESG principles in investments, risks, transparency, and the use of corporate rights.⁵⁵

- Other initiatives, such as the Task Force on Climate-related Financial Disclosures (TCFD), are being increasingly adopted, albeit at a slower rate. It is anticipated that companies will eventually gravitate towards the initiatives that garner greater recognition from investors, while phasing out those that do not keep pace.⁵⁶

In addition, the following developments from industry associations have also taken place:

- The Mexican Association of Retirement Fund Administrators (AMAFORE) has since 2022, encouraged the development of sustainable retirement investment products, requiring pension funds in Mexico to incorporate ESG criteria into their investment strategies.⁵⁷
- In 2016, the Mexican Banking Association (ABM) and Mexican Association of Securities Intermediaries (AMIB) issued guidelines and recommendations to foster transparency and accountability in ESG disclosures on the Mexican stock exchanges that aim to support investor confidence.⁵⁸
- Mexico also established a Council on Sustainable Finance in 2016, which released Green Bond Principles in 2018 as a set of voluntary guidelines aimed at standardising the issuance process for green bonds in the Mexican market. These principles draw on ICMA's Green Bond Principles but with some adaptations specific to the Mexican context.⁵⁹

In addition, sovereign GSS+ issuances can serve as a catalyst for developing the local market for sustainable finance. While not universally applicable, it is significant that some sovereigns may lack creditworthiness. Nevertheless, for those that are creditworthy, these bonds demonstrate the potential to attract a broader range of ESG investors, thereby encouraging participation from private companies and local governments. This broader issuer base, combined with the influx of new investors, can then foster a more robust, liquid, and potentially lower-cost market for all players in the sustainable finance landscape.⁶⁰ In line with this, and historically, the public sector has played a critical role in Mexico's GSS+ bond market, accounting for nearly three-quarters of the total aligned volume issued in the country. In 2020, the Mexican government issued its first-ever sovereign thematic bond, priced in EUR. The sustainable bond was linked to the UN SDGs, with a mix of social and green UoP categories. In addition to issuing thematic bonds, the Ministry of Finance, together with the Sustainable Finance Committee have worked on promoting thematic issuances, and increasing market capacities through the preparation of analyses, evaluations, proposals, and recommendations on sustainable finance.

Market development support: Data collection and transparency

The IDB has created the Green Bond Transparency Platform (GBTP) to simplify and standardise post-issuance reporting practices, addressing challenges in commitment clarity.⁶¹ This free tool collects data directly from green bond issuers and reviewers, ensuring credible and comparable information for decision making. It standardises bond reporting, including detailed data on UoP and environmental impact, methodologies for impact calculation, and relevant documentation. The GBTP encourages data integrity by urging issuers to adhere to international standards and collaborates with various entities to promote transparency. The GBTP has become the primary platform for post-issuance reporting in the region. Since its April 2021 launch, it has included around 80% of the LAC region's issuance volume, with over 200 deals reported by 100 issuers.

Development finance institutions (DFIs) in Mexico have also been developing efforts towards sustainable finance. National Financial (NAFIN), National Bank of Public Works and Services (BANOBRAS), and Trusts Established in Relation to Agriculture (FIRA) play crucial roles in advancing the market due to their significant financial resources and expertise which can help de-risk projects and attract private sector investment. NAFIN have been supporting sustainable MSMEs through subsidised loans and technical assistance. BANOBRAS' green fund finances sustainable infrastructure projects aligned with national infrastructure development goals.⁶² FIRA provide finance for sustainable agricultural practices, including water conservation and renewable energy adoption, contributing to the resilience and sustainability of Mexico's agricultural sector.⁶³

DFIs also need to increase efforts to crowd-in private finance for green finance. They can utilise concessional financing to mitigate project credit risk, attracting more private capital, and ensuring efficient use of public finance. There are multiple mechanisms available to do this, from technical assistance with project initiation to blended finance structures including subordinated lending (using public investment to absorb the riskier portion of capital in projects while offering the less risky part to private investors). A pioneer of this mechanism is LAGreen Fund, which guarantees on-selling of investments.⁶⁴ Additionally, incorporating risk-hedging mechanisms, such as policy risk hedging shields against market fluctuations, enhancing financing flows, particularly crucial in emerging markets with constrained access to long-term capital.⁶⁵

Policy recommendations

Mexico has helped jumpstart its local sustainable finance market with the issuance of sovereign sustainability bonds at scale and the development of its national Taxonomy. It should maintain this momentum to encourage issuance from the private sector through the following initiatives:

- Establish clear regulations mandating companies to disclose their sustainability efforts and the impact of their investments. This builds transparency and credibility in the market.
- Actively promote and expand the usage of the Mexican Sustainable Taxonomy as the authoritative framework for classifying sustainable activities. This ensures all stakeholders uses the same standards.
- Make sustainable investments more attractive by introducing fiscal incentives, such as tax breaks and establishing government-backed de-risking facilities and guarantees. This can help to reduce risk for private companies and provide further incentives.⁶⁶
- Foster collaboration among government entities, financial regulators, industry associations, and civil society organisations to co-develop and implement sustainable finance policies and develop training programmes to enhance expertise in sustainable finance practices.

By implementing these policy recommendations, Mexico can further support its sustainable finance market, attract increased private sector investment, and advance progress in achieving its sustainability objectives effectively. These initiatives not only enhance market transparency and credibility but also provide tangible support mechanisms to facilitate sustainable economic growth.

Mexican Sustainable Taxonomy

Launched in March 2023, the Mexican Sustainable Taxonomy integrates environmental and social considerations, setting a global precedent in sustainability frameworks. Focused on addressing climate change, promoting gender equality, and ensuring access to sustainable cities, it encompasses 124 activities across six key sectors, including Agriculture, Forestry and Other Land Use (AFOLU), energy, and transportation. Projects must meet defined criteria, including adherence to Do No Significant Harm (DNSH) principles, with a pioneering focus on gender equality reflected in its gender equality index, underscoring Mexico's commitment to the environment and to social objectives in its sustainable development efforts.⁶⁷

The Taxonomy provides a structured approach to a framework for Mexico's policymakers to identify economic activities that contribute to both environmental and social goals. This allows them to prioritise investments and regulations that promote these activities. Furthermore, providing a common language for the definition of sustainable activities facilitates collaboration between public and private sectors which is crucial for achieving UN SDGs.

The Mexican Sustainable Taxonomy is a reference guide for issuers and their advisors to prioritise projects, activities, and expenditures with genuine climate and social impact, which can be deployed by investors to ensure that they are making investments consistent with environmental and social goals. While the use of the Taxonomy is currently voluntary, it is expected to channel capital to support Mexico's sustainability objectives and play a crucial role in guiding sustainable capital flows.⁶⁸

To demonstrate alignment with the Taxonomy, an economic activity must verify its eligibility and demonstrate operational compliance using the metrics and thresholds provided. Additionally, it must meet the DNSH criteria for other environmental objectives specific to each activity, along with adhering to minimum safeguards outlined in the OECD Guidelines for Multinational Enterprises, the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights.

The Ministry of Finance has taken the following initial steps on Taxonomy implementation:

User identification. A mapping exercise was undertaken to identify potential users of the taxonomy and capture the possible needs, capacities, and challenges of taxonomy integration. Three potential user types were identified:⁶⁹

1. Entities in the real economy,
2. Credit institutions,
3. Institutional investors.

Capacity building. The Taxonomy provides guidance for dissemination and reporting that will identify and characterise sustainable investment flows and credit lines; allow for the visualisation, comparison and monitoring of the results related to the Taxonomy implementation; and standardise the generation of information on financing aligned with the objectives of the Taxonomy.

The Mexican Government supported by international and local organisations, developed and launched an online tool to help users deploy the Taxonomy.⁷⁰ Evaluation and monitoring have been established to measure the impact of the Taxonomy during its implementation phase and the government has committed to ongoing support through several measures.⁷¹

- **Pilots for financial institutions.** Pilot programmes to encourage these institutions to align their lending activities with the Taxonomy.
- **Regulations and legislation.** The government will focus its efforts in supporting the Taxonomy implementation by ensuring legal clarity. Regulatory measures will establish a robust framework, providing the necessary support for the adoption and utilisation of the Taxonomy.
- **Development of technical criteria.** Technical criteria for sustainable cities will be developed to enable the assessment and allocation of financial resources towards sustainable urban projects and infrastructure. This will contribute to enhanced climate resilience and improve the quality of life in cities consistent with the Taxonomy.
- **Creation of financial instruments with sustainable and social criteria.** Financial instruments will be designed to encourage the prioritisation of projects that adhere to sustainability and social responsibility principles. These instruments will incentivise the allocation of resources towards sectors and endeavours that contribute positively to both the environment and society.

6. Economic sectors, opportunities, and strategies

Mexico is gaining important economic opportunities from the transition, including through US nearshoring, and sourcing goods and supplies from neighbouring countries to avoid supply chain disruptions.⁷² Mexico can also leverage its abundant renewable energy potential to take advantage of growing demand for decarbonised production.⁷³ However, combining a transition to clean energy with nearshoring could present capacity and just transition challenges, particularly in northern regions grappling with water and energy scarcity.⁷⁴

State of the economic sectors in the Mexican Sustainable Taxonomy

The Mexican Sustainable Taxonomy considers sectors that are economically relevant to the country and where there is greatest need for capital flows to finance projects.

Main sources of GHG emissions in Mexico	
Sector	GHG emissions %
Electricity generation	23.3%
Other energy sources	22.2%
AFOLU	19%
Transport	18.5%
Waste management	7%
Manufacturing	6.52%
Construction	3.48%

Source: National Institute of Ecology and Climate Change (INEGyCEI)⁷⁵

1. Agriculture, Forestry and Land Use

The Agriculture, Forestry, and Land Use (AFOLU) sector is one of the main sources of Mexico's economic development, especially in rural areas, and is crucial to ensuring national food security. Given its diverse climates, Mexico can produce a varied range of high quality AFOLU products. In recent years, the sector has expanded, primarily driven by increased exports of agricultural, livestock, and fishery products. This growth has positioned Mexico as the seventh largest global exporter of agri-food products, maintaining a surplus in the sector since 2015.⁷⁶



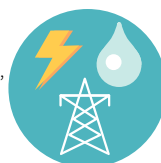
Climate change presents multiple challenges to the productivity, competitiveness, and performance of Mexico's AFOLU sector. According to the National Inventory of Greenhouse Gas and Compound Emissions (INEGyCEI), in 2021 this sector was accountable for approximately 19% of the nation's net GHG emissions, making it the

third-largest emitter of pollutants in the country. The agricultural sector is highly susceptible to climate change effects, with 60% of the country's agricultural areas exposed to drought events and 8% vulnerable to flooding.⁷⁷

To support the transition, the Taxonomy contains climate efficiency targets (CETs) for 64 eligible economic activities in agriculture, forestry, and animal husbandry subsectors, focused on climate change mitigation and adaptation. Agroecological practices such as soil conservation, cover cropping, and organic fertiliser usage will improve sustainability. In forestry, initiatives for sustainable timber and non-timber resource use are identified. Similarly, in animal husbandry, actions such as proper waste management and efficient grazing will foster a more productive, climate-resilient sector with lower emissions.

2. Generation, transmission, distribution and commercialisation of electricity and water supply to the final customer

Mexico's energy sector supplies many economic activities such as construction, manufacture, and AFOLU. In this context, one of Mexico's greatest challenges is to move towards a more sustainable energy model that guarantees universal and efficient energy provision to the entire population, as well as a water supply, while complying with international environmental commitments.



Mexico's energy generation activities are the primary source of its GHG emissions. In 2019, the INEGyCEI reported that electricity generation accounted for 23.3% of these emissions, while other energy sources contributed 22.2%. Combined, the energy sector was responsible for nearly half of the country's GHG emissions.⁷⁸ This stems from Mexico's reliance on fossil fuels, leading to environmental impacts such as air pollution. Mexico must transition to a sustainable energy model that focuses on the generation of clean energy sources.⁷⁹

To support the transition, the Taxonomy contains CETs for 16 eligible economic activities in clean energy generation, energy transmission, energy distribution, water capture, treatment, and supply.

3. Construction

The construction sector in Mexico provides the basic elements of society's well-being by building homes, schools, offices, hospitals, and infrastructure. It also uses inputs from other industries, such as steel, cement, aluminium, and energy, generating productive linkages between different sectors and a very important source of employment.



However, the construction sector's reliance on fossil fuels and substantial energy demands result in significant GHG emissions, which are continuing to rise. INEGyCEI's 2019 report reveals that the construction sector contributed 3.48% of GHG emissions, totalling 25,516 GgCO₂e. Between 2010 and 2020, emissions surged by 37.23%, driven by population growth in both urban and rural areas, which highlights the pressing need for environmental mitigation strategies in the sector. This offers a huge opportunity to develop programmes and initiatives to optimise energy usage including mechanisms and regulations that incentivise the adoption of best practices in new construction and renovations to mitigate emissions.

This sector can mitigate climate change but is also highly susceptible to its adverse effects. Investment in resilient infrastructure that helps reduce vulnerability to climate change presents a significant opportunity in the country. To reinforce this objective, the Taxonomy includes CETs for 10 eligible economic activities, encompassing renovations and construction in single-family and multi-family housing, as well as industrial plants and commercial buildings. This also covers the construction of commercial and service buildings, installation of air conditioning and heating systems, construction of roads, bridges, and similar infrastructure, and development of electric and railway transportation.

4. Manufacturing

Manufacturing in Mexico encompasses several sectors classified as hard-to-abate sectors, including cement, steel, and basic chemicals, which are those that generate the greatest global GHG emissions and will require substantial investment to upgrade their technology and infrastructure to decarbonise their production processes. These sectors offer many opportunities for manufacturing goods to advance on activities and objectives for climate change mitigation as well as adaptation. For example, a reduction in CO₂ emissions can be achieved by replacing clinker with materials such as concrete, slag, ash, or limestone in the cement manufacturing process.⁸⁰



The manufacturing industry is a driving force for Mexico's economic growth and development. According to INEGyCEI, emissions related to cement production in 2019 amounted to 19,411 GgCO₂e, marking an 88% increase compared to 1990.⁸¹ Emissions associated with iron and steel production were 16,888 GgCO₂e, 58% higher than in 1990.⁸² In 2019, the sector was responsible for 6.52% of the country's total emissions.⁸³

To strengthen environmental objectives, the Taxonomy incorporates CETs for 6 eligible economic activities, including the manufacturing of cement and cement-based products in integrated plants, iron and steel complexes, basic aluminum industries, industrial gases, other basic inorganic chemicals, and other basic organic chemical products.

5. Transport

In addition to facilitating the movement of goods and people, thereby driving trade and economic growth, the transport sector is a source of employment and plays a vital role in connecting urban and rural areas across the country. Therefore, this sector is one of the main sources of GHG and atmospheric pollutants in Mexico and produced 18.5% of the total national GHG gas emissions in 2019, according to INEGyCEI. To enhance environmental objectives in reducing emissions associated with transport, the Taxonomy encompasses six subcategories: rail transport, inland water transport, cargo transportation, fixed-route passenger transportation (international and domestic), tourist land transportation, and urban/suburban fixed-route passenger transportation, including taxis and private vehicles.



6. Waste management and remediation services

Urban growth and industrial development, among other factors, have led to a substantial increase in environmental impacts due to waste generation, due in part to the implementation of economic models leading to a shift in population consumption patterns. According to the INEGyCEI, waste sector emissions in 2019 totaled 54,257.55 GgCO₂e, which is equivalent to 7% of the total emissions produced.



Given the waste management sector's potential for climate change mitigation and adaptation, as well as its direct alignment with the UN SDGs and substantial economic impact, Mexico's Sustainable Taxonomy introduces CETs for 10 eligible economic activities within this sector. These activities encompass the collection of non-hazardous waste by both private and public sectors, treatment and disposal of non-hazardous waste by both public and private entities, as well as composting and waste recovery initiatives.

Overview of the gender equality Taxonomy component

A unique feature of the Mexican Sustainable Taxonomy is its incorporation of the gender equality index, by which all economic sectors and activities can be evaluated in a cross-cutting manner. This allows project alignment to be assessed across three core pillars:

1. Just and dignified labour
2. Overall well-being,
3. Social inclusion.

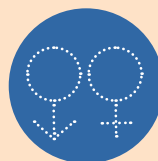
Within these pillars, specific metrics were developed to quantitatively evaluate such organisational initiatives or commitments pertaining to equitable compensation, women's health, and societal engagement. This index aims

to comprehensively gauge and promote gender equality within project evaluations, emphasizing critical areas of impact and progress.

To ensure that an organisation or activity making a positive social impact does not produce negative impacts on climate change adaptation and mitigation, it must demonstrate compliance with the environmental objectives outlined in the Taxonomy. This includes showing adherence to specific DNSH criteria. By doing so, an organisation or investment project focused on advancing gender equality will be aligned with objectives related to climate change, biodiversity conservation, circular economy promotion, pollution prevention, and water resource management, thereby avoiding any unintended negative impacts on these environmental goals.

Gender bonds from Mexico

To date, three bonds aimed at advancing gender equality have been issued by Mexican entities.



FIRA priced a social bond bearing the gender label in November 2023. The MXN3bn (USD176m) deal included three UoP categories focused on gender: i) Financial Inclusion, ii) Labor and Productive Initiative and iii) Business Initiative. Under these categories, FIRA will provide financing to women and women-owned companies, associations, and organisations of women producers with the exclusive participation of women or directed by women that have never received financing from FIRA; finance for working capital credits; and commercial or long-term credits to acquire capital goods and invest in productive infrastructure.

National Fund for Workers' Consumption (FONACOT) priced three bonds bearing the gender label between 2021 and 2022, with cumulative volume of MXN7.7bn (USD380m).

The UoP were earmarked to protect workers, ensure savings among the workforce, provide financing and support, and ensure access to credit. The issuer will channel the proceeds into lending to women at preferential interest rates ranging from 8.9% to 16.27% annually, compared to prevailing rates ranging from 20% to 25%. In the same issuance, FONACOT priced a fourth bond that although not specifically tailored to gender-related objectives, did incorporate certain elements within its UoP.⁸⁴

The National Bank of Public Works and Services (BANOBRAS) issued two sustainability bonds bearing a gender label in 2023 with combined volume of MXN40bn (USD1.9bn). The UoP was earmarked to reduce the gender gap in infrastructure. Eligible projects include initiatives for safe and efficient transportation, educational spaces for the development of girls, access to maternal and child health services, and funding for public spaces promoting sports and recreation for women, girls, and adolescents. Top of Form

7. Opportunities for market development

The shift towards a low-carbon economy offers financial institutions the chance to contribute to societal well-being by facilitating diverse new financial opportunities and capital flows. There are key investment areas aimed at GHG emission reduction, including developing low-emission assets and infrastructure, decarbonising emissions-heavy industries, and implementing climate adaptation measures. Investing in self-sufficient, low-carbon solutions can also drive regional energy transitions while enhancing energy security and decarbonisation efforts.⁸⁵

Mexico is a pioneer in the LAC region through its mobilisation of public and private efforts for climate change mitigation and adaptation, together with social objectives such as gender equality, health, and sustainable housing. This assertion is supported by market analysis, which highlights Mexico's significant focus not only on green but also on social UoP, underscoring its leadership and commitment to sustainability initiatives.

Several sectors in Mexico are witnessing a surge in demand for investment in green and sustainable initiatives, underscoring promising areas of opportunity. GSS+ bonds are increasingly gaining prominence as Mexican companies and organisations pursue funding for projects aligned with the Mexican Sustainable Taxonomy. Key sectors such as renewable energy, resource efficiency, sustainable agriculture, sustainable transportation, green infrastructure, and social impact stand to benefit significantly, fostering both economic growth and the reduction of GHG emissions. Several of the opportunities from different flourishing sectors in the Mexican market are described below.

AFOLU and agri-food supply chains

There are numerous opportunities for investment in sustainable agriculture, livestock, and fisheries production as well as agri-food supply chains. These include transforming coastal



fishing and aquaculture clusters in Mexico to create a strong blue economy with business opportunities in biodiversity-dependent sectors such as tourism and biomedical research. Mexico also offers the potential to counterbalance carbon emissions by engaging in reforestation and afforestation efforts, which can support the counterbalance of carbon emissions through financing tree planting initiatives, restoring degraded ecosystems, and the implementation of sustainable forestry practices.⁸⁶ Encouraging investments in ecosystem preservation and restoration of climate-smart agricultural and forestry practices will enhance the country's carbon capture and storage capabilities, while also promoting sustainable food production.

Potential agricultural sector issuers include agribusinesses focused on sustainable farming practices, precision agriculture technologies, and producers of alternative proteins, to developers of projects for the implementation of irrigation systems that reduce water usage, organic or regenerative farming practices, and building infrastructure for sustainable food production. Companies such as **Gruma**, a global leader in corn flour and tortilla production, has been developing initiatives focused on implementing precision agriculture technologies to optimise water usage and reduce pesticide use in its supply chain.⁸⁷ **Grupo Lala**, one of the biggest dairy companies in the country, integrates best sustainable farming practices and efficient infrastructure to promote reforestation and regenerative agriculture.⁸⁸ Companies such as **Grupo Modelo**, known for its commitment to sustainability in the beverage industry, has been developing projects aimed at reducing water consumption and implementing circular economy practices in its packaging.⁸⁹

Construction

Green bonds, globally deployed on a large scale to bolster Energy Efficiency, Low-Carbon Buildings, and Low-Carbon Energy present a viable avenue for supporting the decarbonisation of Mexico's construction industry. Potential projects in this domain could target rainwater collection and absorption systems, water treatment plants, zero-gas homes, as well as initiatives to enhance energy efficiency and promote low-carbon buildings. Efforts have already been mobilised in this regard; for instance, the Mexico City government issued a bond in 2018, allocating a quarter of its proceeds to financing low-carbon building projects. Leveraging the Mexican Sustainable Taxonomy could further facilitate green lending prioritisation, guiding entities towards preferred activities for inclusion in green instruments.⁹⁰



Construction companies specialised in sustainable building practices, developers focusing on green buildings, and water management companies can also be potential issuers to finance the development of green buildings with certifications such as LEED or EDGE, making investments in wastewater treatment and desalination plants, and developing climate-resilient infrastructure projects. In 2020, **CADU Real Estate**, a leading company dedicated to building affordable homes for all income levels in the country, issued the first green bond from a housing development programme called **EcoCasa** (see more below).⁹¹ This may lead to opportunities for other firms such as **Consortio ARA**, to support

its green buildings programme with green certifications.⁹² Companies such as **Rotoplas**, specialised in water management solutions, may find investment opportunities in wastewater treatment and desalination plants, addressing water scarcity challenges.⁹³ **Mexico City** has launched a building improvement and retrofit programme to improve all public buildings in need of improvements, auditing the energy of ten public buildings and retrofits of five.⁹⁴ This programme receives continued support from the federal government to promote energy-efficiency, regulation of energy efficiency, cooperation mechanisms, institutional capacitation, the culture of making energy savings, investigation and technological research, national targets for renewable energy, energy transition and energy efficiency, and clean technologies to satisfy power consumption requirements.⁹⁵

Additionally, there are several financial instruments available to finance low-carbon building assets. In Mexico, FIBRAS are structured finance vehicles used prominently in the real estate sector. For example, FIBRA Prologis includes 29 LEED certified facilities and 17 facilities with the BOMA Best certification. Additionally, FIBRA Uno, which has pre-certified LEED buildings that minimize GHG emissions and solid waste generation in the maintenance and operation stage.⁹⁶

EcoCasa proxy

The EcoCasa programme, developed by Sociedad Hipotecaria Federal (SHF) to certify sustainable housing, was approved as a proxy in Mexico by the Climate Bonds Standard (CBS).⁹⁷ The housing programme is aimed at improving quality of life, reducing energy consumption, and protecting the environment. It targets a reduction in GHG emissions by at least 20% and up to 40% compared to the existing baseline, and it also focuses on water conservation. Residential buildings certified by EcoCasa, achieving a minimum 20% reduction in CO₂ emissions against the baseline, can use this sustainable building certification as a proxy for green bond Certification under the CBS.

CADU Real Estate, a housing developer, issued the first Climate Bonds-certified bond in Latin America, adhering to the CBS low-carbon emissions building criteria.

Infrastructure

In 2023, the infrastructure sector was influenced by three primary trends: ongoing major infrastructure projects initiated by the federal government, some of which are still in progress; rising demand for industrial and basic infrastructure due to nearshoring trends; and a growing emphasis on sustainability-related infrastructure projects.⁹⁸ In this scenario, there is a broad set of potential project opportunities in the sector such as sustainable and energy efficient transport, low-carbon buildings, sustainable roads, waste management facilities, water treatment plants, among others.



Addressing climate change impacts on flood control and drought resistance is challenging but has become a pressing necessity for Mexico. The country receives an average annual rainfall of 740 mm, with 72% lost to evapotranspiration, 21% becoming runoff, and 6% recharging aquifers. Mexico's diverse climates and variable water availability exacerbate these issues. From 2000 to 2015, hydrometeorological events caused 60-99% of national damage from natural events.⁹⁹ Developing robust infrastructure is crucial to overcoming these challenges, as it can help manage water resources more efficiently, mitigate flood risks, and enhance drought resilience. Significant players that could invest in this are **Ford, General Motors, Nissan, Toyota and, more recently, Tesla.**

With support from the Inter-American Development Bank (IDB), BANOBRAS has crafted a digital tool to gauge the alignment of infrastructure projects with the 2030 Agenda. This innovative tool facilitates the identification of both current and prospective projects within the sector by shedding light on their sustainability alignment, and can be utilised to identify more opportunities in the sector.¹⁰⁰

Manufacturing

Mexico's manufacturing sector, which constitutes 18% of GDP, attracted USD14bn in foreign direct investment in 2022 and employed over nine million workers. Despite its economic importance, it remains a significant source of GHG emissions, offering substantial potential for sustainable investment.¹⁰¹ Potential projects in the manufacturing sector could focus on assessing and improving energy-intensive processes by closely monitoring and managing the energy consumption of individual units, production lines, and machinery. This entails evaluating and optimising overall energy usage, costs, and emissions within operations. The application of the life cycle assessment (LCA) can provide



a comprehensive approach for industries to evaluate the environmental impacts of products throughout their existence.¹⁰²

Mexico has emerged as a beacon for automotive manufacturers, boasting a mature automotive infrastructure characterised by a dense network of suppliers and skilled labour. This strong foundation places Mexico at the forefront of a paradigm shift towards investing in energy-efficient vehicles.¹⁰³ Such investments will not only support the transition to a low-carbon economy but also encourage the industry to diversify and innovate.

For resource efficiency, manufacturers focusing on energy-efficient appliances, sustainable building materials, and companies implementing circular economy practices such as waste reduction, reuse, and recycling are potential issuers. Projects financed could include the development new production lines for energy-efficient products, upgrading existing facilities to reduce waste and resource consumption and investment in waste-to-resource infrastructure. One such manufacturer, **Elementia**, specialises in building materials, and has looked at upgrading the resource efficiency of its production facilities, including optimising manufacturing processes to reduce waste and energy consumption as well as sustainable by products in cement production and insulation materials.¹⁰⁴

Energy

The energy sector in Mexico has ample emerging opportunities for green investments, particularly in wind and solar power due to the expansive desert terrain.¹⁰⁵ According to the Ministry of Energy (SENER), by the end of 2022, Mexico had an installed capacity to generate 37% renewable energy, distributed across various sources: geothermal at 0.9%, nuclear at 1.8%, solar at 8.8%, wind at 12.8%, and hydroelectric at 16%. SENER has highlighted Mexico's potential to add over 24,000 MW of renewable energy by 2030, nearly doubling current capacity, with growing interest in investment in energy-efficient projects aimed at reducing energy consumption and carbon emissions.¹⁰⁶ Potential projects focus on providing energy to industry and commercial sectors through investment in green hydrogen and electromobility.



Potential bond issuers in the renewable energy sector include companies involved in developing, manufacturing, and installing solar panels, wind turbines, geothermal, and hydropower plants to finance projects such as the construction of new renewable energy facilities, upgrade of existing power grids to integrate more renewables or development of

decentralised renewable energy solutions for rural communities. **Coca-Cola FEMSA** issued a pioneering green bond in 2020 to increase renewable energy use, energy efficiency upgrades, and improve PET bottle recycling using labelled bonds to achieve its operational, financial, and sustainability goals.¹⁰⁷ Companies like **Grupo Bimbo** leverage resources to invest in solar panel installations in its manufacturing facilities, reducing its carbon footprint while enhancing energy efficiency.¹⁰⁸ **Cemex** plans to focus on sustainable energy solutions within its operations, such as the implementation of renewable energy technologies in its cement production processes.¹⁰⁹

Transport

Investment in the expansion of public transportation infrastructure presents an opportunity to mobilise a greater number of people in a safe and environmentally sustainable manner, thereby reducing CO₂ emissions associated with individual vehicle usage. Embracing low-carbon transport is pivotal for Mexico's climate commitments, with ambitious targets set to reduce carbon emissions by 51% by 2030.¹¹⁰ In 2019, the Chilean government set a good precedent in this respect by deploying green bonds to bolster public transportation and foster multimodal solutions. The proceeds from these bonds were allocated towards investments in public infrastructure, specifically targeting assets that improved electric public passenger transport, including the expansion of electric metro lines.¹¹¹ Another example is provided by Rumo SA, Brazil's largest independent freight rail operator, which issued a USD 500 million green bond in July 2020. This was the first rail freight bond in LAC to be certified under the Climate Bonds Standards Low-Carbon Transport Criteria. The proceeds were earmarked for increasing the network's energy efficiency, upgrading rail infrastructure, and the purchase of new rolling stock, including locomotives and wagons.¹¹²

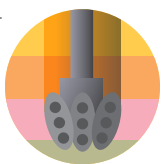


Potential issuers relating to sustainable transportation include public transportation authorities, electric vehicle manufacturers, companies developing charging infrastructure, and green logistics providers. Projects financed include electrification of public transportation systems, expansion of electric vehicle charging networks, and investment in sustainable logistics solutions. Companies like **Grupo México**, a leading transportation and infrastructure conglomerate, plans to develop projects to electrify its railway systems and expand sustainable logistics solutions, thereby reducing emissions and promoting cleaner transportation options.¹¹³

At sea, electric or hybrid ferries, shore power connections for docked ships, and wind-assisted propulsion technologies can reduce emissions. Ports can contribute with green infrastructure such as solar power and electric cargo handling vehicles, alongside adequate waste management. Collaboration on sustainable logistics with land-based transport can further optimise efficiency. Inland waterways offer a more sustainable alternative for freight with modernised barges on biofuels, utilising Mexico's rivers for cleaner transportation. Companies like **Grupo TMM**, a major player in maritime shipping, can be potential issuers to invest in electric ferries or wind-assisted propulsion for their vessels. Cargo shipper companies can also utilise labelled bonds to modernise fleets with cleaner technologies or collaborate with land-based partners on sustainable logistics initiatives.

Mining

Even though the Mining sector is not included in the Mexican Sustainable Taxonomy, several opportunities were identified to transition this hard-to-abate sector. Based on 2020 data, Mexico is one of the top 10 producers of 17 minerals including substantial lithium reserves and other crucial mineral resources vital for the global energy transition, ranking ninth worldwide in lithium reserves alongside reserves of silver, copper, and zinc.^{114,115,116} Leveraging these resources, Mexico can spearhead projects supporting renewable energy technologies such as lithium-ion batteries. These batteries play a pivotal role in storing wind energy and the manufacture of electric vehicles, positioning Mexico as a frontrunner in clean energy transitions.¹¹⁷ Projects can focus on proper management of surface and water resources throughout the mining process, emphasising environmental stewardship. This involves designing and constructing durable mine water management facilities that remain stable both physically and chemically, ensuring effective control during both operational and closure phases.¹¹⁸



Climate adaptation and resilience (A&R)

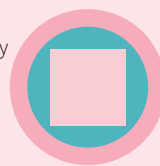
As the impacts of climate change become increasingly evident and damaging, the need to direct financing from capital markets toward climate resilience become ever more pressing. The United Nations Environment Programme (UNEP) estimates that physical adaptation and resilience financing needs in developing countries alone could reach up to USD387bn per year until 2030.¹¹⁹ However, current finance flows for climate resilience fall far short of these estimates. In 2021, the Climate Policy Initiative (CPI) reported that finance flows related to climate resilience, or adaptation finance, amounted to only USD46bn per year from a total of USD632bn per year in climate finance flows. The vast majority of adaptation finance comes from international public sector sources, such as development finance institutions (DFIs), with less than USD1bn originating from private finance sources.¹²⁰

The sustainable bonds market presents a substantial opportunity to bridge the gap between current finance flows and the estimated requirements for climate resilience. Green bonds, which have already channeled over USD3tn from capital markets to sustainable activities, have emerged as a primary vehicle for financing climate action. Despite the significant progress made by sustainable bonds, only a small portion of the capital flows are currently directed towards climate resilience. Only 19% of labelled green bonds were found to have any resilience-related UoP.¹²¹

In Mexico, in May 2023, FIRA launched the country's first A&R bond via its FEFA trust fund. Valued at MXN3bn (USD 165mn) and set to mature in 2026, the bond proceeds aim to fund 88 productive projects in agriculture, livestock, and rural areas. The primary objective is to enhance A&R, thereby mitigating risks and reducing vulnerability to the impacts of climate change.¹²²

Resilience refers to the capacity of economic, social or ecological assets or systems to resist, absorb, accommodate, adapt to, transform, and recover from the current and projected impacts of climate change, both direct and indirect, maintaining their basic structure and function.

Adaptation is the process of adjustment to actual or expected climate and its effects, in order to moderate harm or exploit beneficial opportunities.



Although the demand for thematic borrowing and investment has expanded and diversified in recent years, the supply of project pipelines still falls short, leaving investor demand unmet. The lack of clarity on what constitutes a resilient investment is a major reason for the supply and demand mismatch in climate resilience investments. To overcome this challenge, Climate Bonds is expanding its Taxonomy to include resilience investments, with the first version to be released in Q4 2024.

On the back of common definitions, national policies can drive investment frameworks and support the creation of a robust project pipeline. In Mexico, according to the National Adaptation Plan (NAPs) and the NDC, priority sectors for A&R investments are water, coastal zones, ecosystems and biodiversity, agriculture and livestock, and strategic infrastructure.¹²³ Climate adaptation bonds can facilitate the shift to sustainable agriculture by funding technologies and practices that improve water efficiency, soil health, and crop resilience to extreme weather. These measures are crucial for securing food supply and farmers' livelihoods in Mexico.

The adaptation component of the NDC was developed with a focus on gender equity and human rights. It prioritises the synergies between adaptation and mitigation actions, as well as specific actions that the country will undertake during the 2020-2030 period in the following three areas: adaptation of the social sector to climate change, ecosystem-based adaptation, and adaptation of strategic infrastructure and productive systems. Additionally, Mexico's National Climate Change Strategy establishes three strategic pillars around adaptation:¹²⁴

1. Reduce the vulnerability and increase the resilience of the social sector to the effects of climate change.
2. Reduce the vulnerability and increase the resilience of strategic infrastructure and productive systems to the effects of climate change.
3. Conserve and sustainably use ecosystems and maintain the environmental services they provide.

Local issuances for climate commitments

Embracing low-carbon transport is pivotal for Mexico's climate commitments, with ambitious targets set for a 51% reduction in carbon emissions by 2030. The government has taken proactive measures, such as standardising environmental regulations for vehicles in line with its NDCs, which signify a concerted effort towards sustainable urban mobility solutions that mitigate emissions and alleviate congestion while fostering economic growth. Mexico City has priced two green deals totalling USD104m to benefit low-carbon transportation in 2016, directing resources towards metro systems, expansion of metro lines, electric transportation, light rail, and BRT.



Another deal priced at USD11m under the sustainability label was issued by the local government of Mexico City in 2017, financing Renewable Energy, Pollution Prevention and Control, Water Management, Biodiversity

Conservation, Sustainable Transport, Climate Change Adaptation, and Energy Efficiency. These initiatives underscore investor confidence at the most micro-level of Mexico's sustainability initiatives and showcase the country's multiple impact approach towards sustainable development.

A particular aspect of Mexico's financial management is that subnational governments (states) can only issue bonds in local currency, Mexican pesos, to avoid foreign exchange risks and the costs of mitigating them. This system includes setting aside a portion of federal transfers into a debt service fund, which is used exclusively for repaying bond debt. This fund provides extra security for investors and regulates state borrowing, offering a structured and prudent way to manage state debt and ensure financial stability.¹²⁵

By aligning local development agendas with global sustainability goals, Mexico can achieve a greener and more prosperous future for the country.

Social impact

Social impact can be supported by issuers with projects in education, healthcare, affordable housing, and other facilities in underserved communities all of which can be aligned with the Mexican Sustainable Taxonomy, whose gender equality component also supports institutions with practices already in compliance and a transition plan on the way. **NAFIN** and **FIRA**, two of the major development banks in the country have been providing microloans to low-income entrepreneurs and increasing their provision of green credit lines for sustainable projects from MSMEs.¹²⁶

The country's sustainable finance market offers an opportunity for banks and issuers to prioritise green development, to increase the investable opportunity set and attract more investors to commit capital dedicated to green and sustainable investment strategies. As the market has evolved, demand has grown for labelled debt investments, presenting an opportunity to mobilise investments for energy transition, climate action, and environmental goals, through the allocation of funds to sustainable projects and activities or by supporting initiatives for sustainable finance regulation.

Similar to most developing countries, Mexico faces structural constraints such as limited access to finance, insecurity, informality, regulatory burdens, and infrastructure bottlenecks.¹²⁷ These obstacles must be addressed to enable the sustainable debt market to support decarbonisation at scale.

8. Conclusions

By the close of 2023, Climate Bonds had recorded cumulative GSS+ volume of USD55.7bn originating from Mexico. Following fluctuating issuance volumes from 2015 to 2019, Mexican GSS+ debt volumes surged notably in 2020, to reach annual aligned volume of USD14.4bn in 2023. This marked escalation underscores a positive stride in Mexico's commitment towards sustainable finance and climate-conscious investment.

Sustainability emerges as the predominant theme with 72% of aligned volume, closely followed by green at 13%, social bonds at 12%, and SLBs at 3%. The GSS+ market in the country exhibits continuous expansion, with GSS+ debt constituting approximately 8% of the total LAC bond market. This indicates the potential for sustainable finance to bolster climate-related and social objectives.

There is however more than can be done by Mexico's policymakers, financial institutions, development banks, and the private sector to further develop the country's GSS+ debt markets, and achieve its climate objectives aiming for a reduction of 35% in GHG emissions by 2030, with a conditional target of 40% if external support is secured; and maintain its black carbon reduction targets at 51% unconditionally and 70% conditionally, as well as other social objectives such as gender equality and sustainable housing.

1. Policymakers can further align the policy framework to support an adequate allocation of financial flows and encourage private sector issuance.

To achieve the country's climate objectives, concerted action from government bodies, the central bank, and financial regulators is essential. Together, they must establish clear and coordinated policy frameworks that guide and incentivise private finance toward sustainable investments, leveraging the strong economic opportunities provided by US nearshoring and a strong peso. Specifically, encourage more GSS+ deals from entities in hard-to-abate sectors, the decarbonisation of which is supported by the economic activities outlined in Mexico's Sustainable Taxonomy. GSS+ bonds can address the capital requirements of industries undergoing transition, while upholding credibility and alignment with sustainability objectives. There are several actions that Mexico can take to progress this:

- a. Mexico can continue to actively support the implementation of its national taxonomy, based on credible climate objectives, and ensuring that it outlines credible decarbonisation pathways for its economic activities. This can help support further private sector issuance, with a focus on the economic activities outlined that present an opportunity to advance the decarbonization of hard-to-abate sectors.

b. Mexico's policymakers can support enhanced disclosure and transparency. Within their existing mandates, regulators have a series of tools at their disposal to outline and encourage the use of established climate frameworks by corporates (financial and non-financial) and disclosures. The CINIF, for example, has developed reporting guidelines on general sustainability information disclosure to become mandatory for all listed companies by 2025. From a bond issuance perspective, issuers should be encouraged to meet the best practices for UoP disclosure to provide transparency and reassurance to investors and facilitate comparisons across deals. The use of standardised frameworks for post-issuance reporting can also support transparency and credibility, thereby supporting market development. As the market grows, it is also likely that investor demand for better and more disclosure will also grow. In the absence of regulatory guidance or requirements on disclosure, stock exchanges can also play an important role in encouraging the use of best practices with the Ministry of Finance (SHCP) providing clear guidelines on taxonomy-aligned reporting.

c. Mexico can also keep building on the existing momentum by continuing its work on sovereign issuances, and possibly local issuances, thereby contributing to developing the local debt market and attracting both domestic and international investors.

2. Accelerate effort to ensure an early and orderly transition, to mitigate and anticipate volatility.

Mexico's macroeconomic environment is susceptible to external shocks that have the potential for significant downside risks, such as fluctuations in GDP growth and foreign investment flows. Sustainable finance can contribute to building a more resilient financial system, thereby contributing to a more resilient macroeconomic environment, in which actors are better able to anticipate and manage volatility stemming from the impact of climate change. Beyond the financial system, Mexico's policymakers should

aim for an early and orderly transition to a low-carbon economy, which is key to protecting stability and prosperity. Real economy policies can both support the real economy transition as well as support the development of the GSS+ market. For example, deploying supportive policies such as fiscal incentives for low-carbon technologies and providing de-risking facilities and guarantees for sustainable debt can contribute to the pipeline of projects to be financed via the GSS+ market. Such measures also send clear signals of support and can effectively guide financial flows towards achieving sustainability targets.

Mexico has made significant progress in its sustainable finance journey.

This report outlines the actions required by all stakeholders to further advance the country's GSS+ debt markets and achieve its climate objectives.

Appendices

Appendix I - Methodology and scope

Methodology overview

This report draws on three Climate Bonds databases:

1. Green Bond Database (GBDB)
2. Social and Sustainability Bond Database (SSBDB)
3. SLB Database (SLBDB)

Bonds meeting the requirements outlined in Climate Bonds' screening methodology qualify for inclusion in the databases and are classified as aligned. Labelled bonds for which there is not enough information to determine eligibility for database inclusion are classified as pending until sufficient disclosure is available to decide. Bonds failing to meet the requirements of Climate Bonds' screening methodology are classified as non-aligned and are excluded from the databases.

Green, social, and sustainability bonds captured by Climate Bonds meeting the requirements outlined in its screening methodology qualify for inclusion in the databases and are classified as aligned. Labelled bonds for which there is not enough information to determine eligibility for database inclusion are classified as pending until sufficient disclosure is available to decide. Bonds failing to meet the requirements of Climate Bonds' screening methodology are classified as non-aligned and are excluded from the databases.

SLBs are assessed according to Climate Bonds Sustainability-Linked Bond Database Methodology (SLBDB Methodology) and classified according to four levels of alignment.

- 1. Fully aligned:** SLB targets cover all material sources of emissions and are aligned with the relevant pathway.
- 2. Strongly aligned:** SLB targets cover all material sources of emissions and will be aligned with the relevant pathway by 2030.
- 3. Aligning:** SLB targets cover all material sources of emissions, are aligned with the pathway on a % reduction basis, and the issuer has the basic tenets of a transition plan.
- 4. Not aligned:** SLB targets fail to meet any of the above criteria, or do not meet the other requirements detailed in the SLBDB Methodology.

As Criteria are developed, Climate Bonds will update its Green Bond Database (GBDB) methodology and then begin screening bonds from issuers in those sectors for inclusion, whether labelled as transition or as green. The Climate Bonds Taxonomy defines the assets and activities that are aligned with a 1.5-degree pathway, accepting financing with either label. In 2024, Climate Bonds will publish new sector Criteria for Electrical Utilities, Agri-food Deforestation- and Conversion-Free Sourcing, Hydrogen Delivery and Production, and Basic Chemicals. Climate Bonds Buildings Criteria will also be updated to reflect the differences between new and existing buildings.

Scope of analysis and label definitions

This report analyses the GSS+ debt market in Mexico since the country's market inception in 2015 up to December 2023, including four sustainable debt themes based on the projects, activities, and expenditures financed: green, social, sustainability, and SLB.

Green: dedicated environmental benefits.

Social: dedicated social benefits, e.g., health, employment, gender equality, affordable housing, etc.

Sustainability: green and social benefits combined into one instrument, e.g., renewable energy, low-carbon, transport, employment generation and gender equality.

Sustainability-linked bonds: SLBs raise general purpose finance and involve coupon step-ups or, occasionally, step-downs linked to the fulfilment of key performance indicators (KPIs) against time-bound entity level sustainability performance targets (SPTs).

Transition: Historically, Climate Bonds recorded but did not screen bonds bearing the transition label. As of January 2024, Climate Bonds stopped reporting transition bonds as a separate category but regards them as a sub-set of the green label. Climate Bonds now adds such bonds to the Climate Bonds Green Bond Database, and screens them against its Green Bond Dataset Methodology.¹²⁸

Appendix II - Relevant stakeholders in the Mexican Market

Multiple purpose banking institutions: BBVA Bancomer, Citibanamex, Santander Mexico, Scotiabank Mexico, Banorte, HSBC Mexico, Inbursa, IXE Banco, Banco Azteca, Banregio, etc.

Development banking institutions: Banco Nacional de Obras y Servicios Públicos (BANOBRAS), Fideicomisos Instituidos en Relación con la Agricultura (FIRA), Nacional Financiera (NAFIN), Banco del Ahorro Nacional y Servicios Financieros (BANSEFI), Fondo Nacional de Habitaciones Populares (FONHAPO), Banco Nacional de Comercio Exterior (BANCOMEXT), Sociedad Hipotecaria Federal (SHF), Banco Nacional del Ejército, Fuerza Aérea y Armada (BANJERCITO).

Popular sector: Sociedades Financieras Populares (SOFIPOS), Sociedades Financieras Comunitarias (SOFICOS), Sociedades Cooperativas de Ahorro y Crédito (SOCAPS), Cooperativas de Ahorro y Crédito.

Afores (Administradoras de Fondos para el Retiro): Afore Banamex, Afore Sura, Afore XXI Banorte, Afore Principal, Afore Profuturo, PENSIONISSSTE.

Associations: Asociación de Bancos de México (AMB), Asociación Mexicana de Instituciones Bursátiles (AMIB), Asociación Mexicana de Bancos de Alimentos (AMBBA), Asociación Mexicana de Entidades Financieras Especializadas (AMFE), Asociación Mexicana de Administradoras de Fondos para el Retiro, A.C. (AMAFOR), Asociación Mexicana de Instituciones Bursátiles (AMIB), Asociación Mexicana de Instituciones de Seguros (AMIS), Asociación Mexicana de Caoital Privado (AMEXCAP).

Insurance companies (Aseguradoras): AXA Seguros, Seguros Banorte, Seguros Inbursa, Zurich Seguros, Mapfre Mexico, GNP Seguros, Seguros Atlas, etc.

Stock exchanges: Bolsa Mexicana de Valores (BMV), Bolsa Institucional de Valores (BIVA).

Regulatory and supervisory institutions: Comisión Nacional Bancaria y de Valores (CNBV), Comisión Nacional de Seguros y Fianzas (CNSF), Comisión Nacional del Sistema de Ahorro para el Retiro (CONSAR), Secretaría de Hacienda y Crédito Público (SHCP), Banco de México (Banxico).

Non-bank financial intermediaries: Exchanging Houses, Exchange Centers, Money Remitters, Multiple Purpose Financial Companies SOFOMES E.R. and SOFOMES E.N.R., National Development Financial Entity Agricultural, Rural, Forest and Fisheries.

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Prepared by the Climate Bonds Initiative

Supported by LAGreen Fund

This document was produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union.

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Contributions from LAGreen Fund: Iraís Vázquez, Matias Gallardo, Diego Stapff and Camila Silva

Acknowledgements: We would like to thank BIVA for their cooperation in making this report and for continued support, insights, and effort in promoting sustainable finance in Mexico.

Suggested citation: Climate Bonds Initiative, Mexico Sustainable Finance State of the Market Report 2023, Climate Bonds Initiative, August 2024.

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