

# Sustainable Bonds in Panama: A Trend Consolidating the Capital Market

## Sustainable Financing as Part of the Natural Evolution of the Market

In recent years, Panama's capital markets have experienced a sustained evolution, driven by increasingly sophisticated financial instruments, the diversification of issuers, and stronger alignment with international standards. Within this context, sustainable bond issuances have consolidated as one of the most significant trends, reflecting the convergence of access to financing, corporate responsibility, and economic development.

Rather than reflecting a cyclical phenomenon, sustainable bonds evidence a structural shift in how companies and investors approach financing. Panama has actively participated in this transformation, positioning itself as an increasingly relevant jurisdiction for these transactions.

### What Are Sustainable Bonds?

Sustainable bonds are debt instruments whose proceeds are allocated to projects with verifiable environmental and/or social impact, in accordance with internationally recognized frameworks and standards. This category includes, among others:

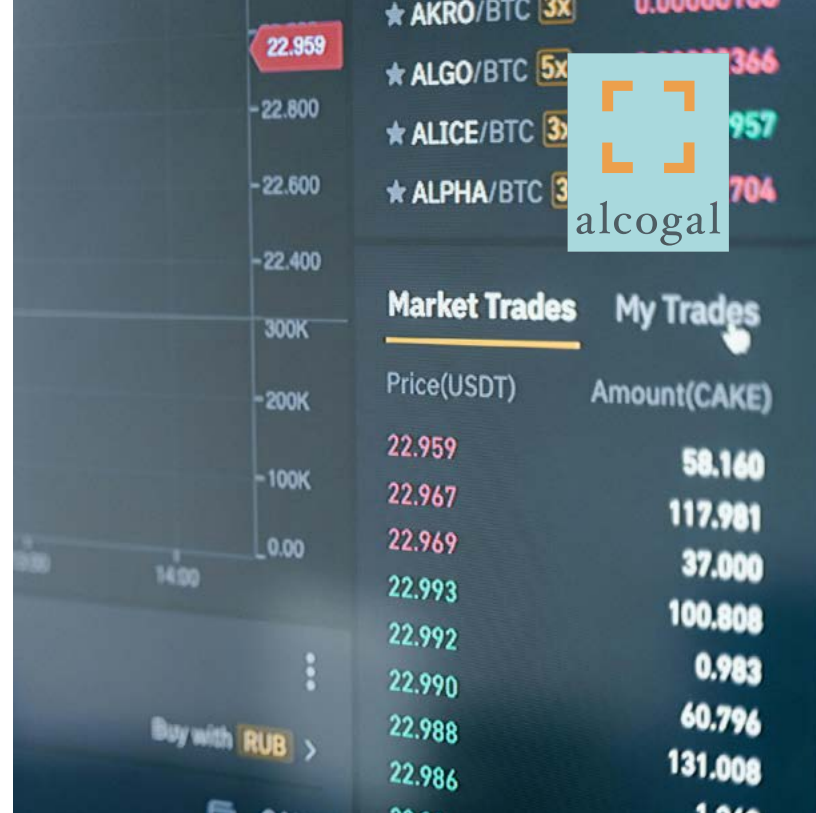
- Green bonds, aimed at environmental projects such as renewable energy, energy efficiency, water management, and sustainable infrastructure.
- Social bonds, intended to finance initiatives with social impact, including financial inclusion, housing, education, and healthcare.
- Sustainability bonds, which combine environmental and social objectives.
- Specialized thematic bonds, such as blue bonds, focused on marine ecosystem conservation and the development of the blue economy.

The growth of these instruments has been largely driven by institutional investor demand for assets aligned with environmental, social, and governance (ESG) criteria, as well as by the role of multilateral organizations and the strengthening of disclosure and reporting standards.

For the proper structuring of these instruments, the International Capital Market Association (ICMA, by its acronym in English) has established four core principles that serve as market references: (i) the use of proceeds, which must be allocated exclusively to eligible projects with clearly identified environmental and/or social impact; (ii) the evaluation and selection of projects to be financed, including eligibility criteria and applicable exclusion processes; (iii) the management of proceeds, with a recommendation that they be held in segregated accounts to facilitate their tracking; and (iv) periodic reporting to the market regarding the use of proceeds and the impact generated. Although voluntarily adopted, these principles constitute the international benchmark for sustainable issuances and promote transparency, disclosure, and market integrity.

### Development of Panama's Sustainable Bond Market

Since the first thematic issuances, Panama's market has recorded progressive growth in both volume and complexity. This development has been driven primarily by the private sector, particularly financial institutions and companies linked to strategic sectors such as energy, infrastructure, and financial services.



A distinctive feature of the Panamanian market is that, to date, sustainable issuances have been carried out exclusively by private issuers, reflecting the organic adoption of these instruments by the business community and financial system. The proceeds raised have been allocated to projects with tangible environmental and social impact, strengthening the connection between the capital markets and the Sustainable Development Goals.

In this context, Panama has served as a platform for pioneering transactions, including sustainable and social bond issuances, as well as the structuring and listing of the first blue bond in Central America and the Caribbean, issued by a regional issuer and targeting projects related to the blue economy.

In 2019, Bolsa Latinoamericana de Valores S.A. ("Latinex") published the Guide for the Issuance of Social, Green, and Sustainable Securities, developed in collaboration with the Climate Bonds Initiative (CBI), providing the market with best practice guidelines and parameters for these types of issuances. This initiative reinforced Panama's commitment to the United Nations Sustainable Development Goals and the Paris Agreement.

In February 2025, Latinex, in collaboration with BID Invest and the Climate Bonds Initiative, published the updated version of the Guide for the Issuance of Thematic Labelled Financial Instruments, constituting the second edition of the original 2019 guide. The updated version incorporates current ICMA principles, Panama's Sustainable Finance Taxonomy, and the requirements of the Climate Bonds Standard, adapting to the evolution of the global market and expanding coverage to new categories of instruments. To date, Latinex has recorded more than ten listed thematic issuances, with an accumulated volume exceeding US\$900 million, including green, social, sustainable, and blue bonds.

### Institutional Framework and Regulatory Environment

The growth of sustainable bonds in Panama has been accompanied by significant institutional developments. Among them is the adoption of a sustainable finance taxonomy, which establi-

shes clear criteria for identifying economic activities aligned with environmental and social objectives.

Panama's Sustainable Finance Taxonomy was published in March 2024 as the result of an interinstitutional effort led by the Sustainable Finance Working Group (GTFS), together with the Superintendencies of Banks, of the Securities Market, and of Insurance and Reinsurance, with technical support from the United Nations Environment Programme Finance Initiative (UNEP FI) and funding from the Green Climate Fund and the European Union. Complementing this institutional framework, in June 2024, the Ministry of Economy and Finance adopted the Sustainable Financing Framework of the Republic of Panama through Resolution No. 2024-1529, which authorizes the Panamanian State to issue thematic bonds and incur green, social, or sustainable loans intended for projects aligned with the eligible categories of the Taxonomy.

This type of tools contribute to market transparency, facilitate the structuring of thematic issuances, and reduce information asymmetry between issuers and investors. Likewise, coordination among regulators, the stock exchange, intermediaries, and multi-lateral organizations has fostered the adoption of best practices regarding the use of proceeds, disclosure, and impact reporting.

A key element of sustainable issuances is independent external verification or review, which validates the proper implementation of the principles described above. This may take different forms, including: specialized opinions issued by independent consultants regarding the objectives of the program and the sustainability of the selected projects; verification of the allocation and monitoring process for the proceeds raised; certifications granted by accredited institutions, such as the Climate Bonds Initiative; and ratings of the issuance structure by independent evaluators. External review constitutes a distinguishing feature of sustainable issuances as compared with conventional instruments and strengthens the credibility of the issuance before the investor community.

The result is an environment that reinforces market confidence and allows sustainable issuances to develop under standards comparable to those of other relevant jurisdictions.

### **Panama as a Platform for Sustainable Issuances**

Panama's use as a platform for sustainable bond issuances is supported by a combination of structural factors:

- A dollarized capital market with macroeconomic stability.
- Stock exchange and custody infrastructure aligned with international standards.
- Experience in cross-border transactions and issuances structured under international regulatory frameworks.
- Access to a local, regional, and international investor base.
- Openness to regional issuers seeking to diversify their sources of financing.

These elements have enabled Panama to be used not only by local issuers but also by foreign issuers seeking to structure and list sustainable bonds aimed at broader markets, taking advantage of Panama as an efficient and reliable jurisdiction.

### **Challenges and Market Outlook**

Although the progress of Panama's sustainable bond market has been significant, opportunities for further development remain. Among the principal challenges are the deepening of the secondary market, the strengthening of impact measurement and reporting mechanisms, and the expansion of the base of issuers and economic sectors accessing this type of financing.

In this context, implementing a specific regulatory framework for sustainable bonds in Panama—providing legal certainty and including tax incentives aimed at mitigating the additional costs associated with external verification and review—represents a concrete opportunity to expand the issuer base and further stimulate the market. Similar initiatives have proven effective in other jurisdictions within the region in incentivizing both public and private sector actors to access this type of sustainable financing.

Nevertheless, the outlook remains favorable. The convergence of regional demand for sustainable financing, the evolution of the regulatory framework, and Panama's strategic positioning create favorable conditions for the continued consolidation of this segment of the capital markets.

### **Conclusion**

The development of sustainable bonds confirms the evolution of Panama's capital markets toward more sophisticated financing structures aligned with global trends. These instruments broaden financing alternatives for issuers and contribute to strengthening the depth and resilience of the market.

Drawing on our experience in capital markets matters, we believe that specialized legal counsel plays a key role in the structuring of transactions that comply with increasingly demanding regulatory, market, and sustainability standards. The evolution of sustainable bonds in Panama reflects not only a growth in volume, but also a transformation in how the market integrates financing with long-term objectives.



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