

Green finance in Mexico: new funding opportunities

Green bonds and green loans have become one of the fastest growing financial assets in recent years. In Mexico, a new Supreme Court precedent and a congress proposed amendment will likely boost interest in green finance and securities in the years to come. This article looks at the green loans and bonds market in Mexico and the development of new funding opportunities for local governments to invest in sustainable and environmental projects.

Appetite for green bonds and loans in Mexico

Green bonds and loans market in Mexico

In the last decade, Mexico has seen a growing appetite for green bonds and loans. As of today, Mexico is the leading country in the Latin American green bond market, with 12 issues in the Mexican Stock Exchange (the **BMV**) (*Bolsa Mexicana de Valores*) for a total amount of US\$1.7b. The BMV was the first in Latin America to offer a segment dedicated to green bonds, which proved Mexico's commitment to green market development.¹

Ever since the BMV introduced green bonds in the country, the government of Mexico City, Nacional Financiera (**Nafin**), a state owned development bank, and other private companies, such as Rotoplas, Vinte and BBVA Bancomer, have used green bonds to finance projects related to renewable energies, management of water and waste, sustainable agriculture, recycling of water and clean transportation.²

In 2015 Nafin issued the first Mexican green bond for US\$500m. This was the first Latin American bond to gain Climate Bond Certification by the Climate Bonds Standard Board. The proceeds of the Nafin first green bond were allocated to financing wind energy generation projects in Mexico.³

The government of Mexico City in 2016 became the first local government in Latin America to launch a local green bond to finance climate-resilient infrastructure including access to potable water, wastewater systems, energy efficient public lighting and transport infrastructure.⁴

This issuance included funding for the reparation and maintenance of the Line 5 of Mexico City's bus rapid transit Metrobus (the **Metrobus**) (*Sistema de Corredores de Transporte Público de Pasajeros de la Ciudad de México*). The green bond was issued for a total amount of US\$50m and received an award by the Climate Bonds Initiative in London due to its success as the first local green bond in Latin America.⁵

In 2017, the government of Mexico City placed a second green bond for US\$80m for the construction of the Metrobus Line 7's road corridor, which financed the construction of terminals, and stations.⁶

The third local green bond in Mexico City was issued in 2018 for US\$57m for 27 projects related to energy efficiency projects and the maintenance of the Metrobus, as well as the improvement in drinking water and sewage infrastructure in certain communities in Mexico City.⁷

1 Mexican Stock Exchange, Bonos Verdes, Mexico City, Available online: [bmv.com.mx](https://www.bmv.com.mx/docspub/MI_EMPRESA_EN_BOLSA/CTEN_MINGE/BONOS%20VERDES_cambios_2018.pdf), National, https://www.bmv.com.mx/docspub/MI_EMPRESA_EN_BOLSA/CTEN_MINGE/BONOS%20VERDES_cambios_2018.pdf (Consulted: May 8th, 2019).

2 Zepeda, C. "México, el país con más bonos 'verdes' de la Alianza del Pacífico: BMV", Mexico City: March 19th, 2019. Available online: [elfinanciero.com](https://www.elfinanciero.com.mx/economia/mexico-el-pais-con-mas-bonos-verdes-en-latinoamerica-bmv), National, <<https://www.elfinanciero.com.mx/economia/mexico-el-pais-con-mas-bonos-verdes-en-latinoamerica-bmv>> (Consulted: May 8th, 2019)

3 Nacional Financiera, "Reporting on Green Bond", Mexico City: December 31st, 2015, Available online: [nafin.com](https://www.nafin.com/portalnf/files/secciones/piso_financiero/pdf/relacion_con_inversionistas/green_bond/Reporting_on_Green_Bond_20151231.pdf), National, <https://www.nafin.com/portalnf/files/secciones/piso_financiero/pdf/relacion_con_inversionistas/green_bond/Reporting_on_Green_Bond_20151231.pdf> (Consulted: May 8th, 2019).

4 MÉXICO2. "La ciudad de México emite el primer bono verde subnacional en América Latina", Mexico City: 2016, Available online: [mexico2.com.mx](http://www.mexico2.com.mx/noticia-finanzas-contenido.php?id=81), National, <<http://www.mexico2.com.mx/noticia-finanzas-contenido.php?id=81>> (Consulted: May 8th, 2019)

5 El Economista, "CDMX, premiada por emisión de bono verde", Mexico City: March 6th, 2017, Available online: [eleconomista.com.mx](https://www.eleconomista.com.mx/estados/CDMX-premiada-por-emision-de-bono-verde-20170307-0029.html), National, <<https://www.eleconomista.com.mx/estados/CDMX-premiada-por-emision-de-bono-verde-20170307-0029.html>> (Consulted: May 8th, 2019).

6 Secretaría del Medio Ambiente, "Financiamiento: Bonos verdes", Mexico City, Available online: [data.sedema.cdmx.gob.mx](http://www.data.sedema.cdmx.gob.mx/cambioclimaticocdmx/bonos-verdes.html), National, <<http://www.data.sedema.cdmx.gob.mx/cambioclimaticocdmx/bonos-verdes.html>> (Consulted: May 8th, 2019).

7 Comunicación Corporativa. "Lanza CDMX tercer Bono Verde", Mexico City: November 13th, 2018. Bolsa Mexicana de Valores, Available online: [blog.bmv.com.mx](https://blog.bmv.com.mx/2018/11/23/lanza-sedema-tercer-bono-verde/), National <<https://blog.bmv.com.mx/2018/11/23/lanza-sedema-tercer-bono-verde/>> (Consulted: May 8th, 2019).



New funding opportunities for governments

Landmark decision by the Mexican Supreme Court of Justice

Back in February 2019, the Mexican Supreme Court of Justice ruled on the validity of articles 6 to 36 under the Treasury Law of the state of Zacatecas (*Ley de Hacienda del Estado de Zacatecas*) (the **Green Tax Resolution**), in relation to the constitutional challenge filed by the executive branch of the federal government.⁸

Under this resolution, the state of Zacatecas is allowed to issue and collect green taxes on the following activities: (i) the soil and subsoil material extraction (ii) the gas and pollutants emissions into the atmosphere and (iii) the deposit or storage of waste.⁹

The Green Tax Resolution was approved by majority of the justices. According to the Constitution of the United Mexican State (the **Mexican Constitution**) when a constitutional challenge is ruled by majority, it becomes jurisprudential criteria or “*law of the land*”¹⁰, which means that every jurisdictional authority in Mexico must rule based on the terms of the jurisprudential precedent¹¹.

The Green Tax Resolution represents an opportunity for other local governments to include green taxes in their legislation, in terms of this landmark precedent and the Mexican environmental legal framework.

⁸ Jurisprudence. Constitutional Controversy. Plenary session of Supreme Court of Justice of Mexico. Record number: 56/2017, February, 2019.

⁹ Articles 6 to 36. Finance Act of the State of Zacatecas, (Enactment December 31st, 2016/ December 20th, 2017).

¹⁰ Article 105, Political Constitution of the United Mexican States, (Enactment February 5th, 1917/ April 12, 2019).

¹¹ Article 43, Regulatory Act of fractions I and II of Article 105 of the Political Constitution of the United Mexican States, (Enactment May 11th, 1995/ January 27th, 2015).

Mexican environmental regulatory framework.

The Mexican Constitution is the source of the Mexican environmental legal framework, which determines the obligation of the Mexican state to protect the environment and preserve the ecological balance. The Mexican environmental protection system is considered a concurrent power that must be exercised by the federal, state and municipal governments, within their jurisdictions.¹²

The General Ecological Equilibrium and Environmental Protection Law (the **Environmental Protection Law**) (*Ley General del Equilibrio Ecológico y la Protección al Ambiente*) is the primary environmental federal law and addresses the jurisdictional authority of federal and local governments.

According to the Environmental Protection Law, local governments can introduce economic measures for environmental protection that encourage compliance with policy objectives.¹³

These economic measures include the implementation of green taxes. Nevertheless, the Environmental Protection Law states that taxes shall not be issued for collection purposes solely. Hence, the resources obtained from green taxes must be used exclusively to finance projects for sustainable development or to prevent climate change.¹⁴

A simplified process for local governments to access funding through international organizations

As an example of the interest Mexican authorities have on this subject, last April, members of the Finance Ministry Commission in Congress introduced an amendment to the Law on Financial Discipline for Federal Entities and Municipalities (the **Law on Financial Discipline**) (*Ley de Disciplina Financiera de las Entidades Federativas y los Municipios*) to promote and facilitate the access to financing opportunities for sustainable development projects.¹⁵

If approved, this amendment will allow local governments in Mexico to access funding with international organizations, through development banks in Mexico, in order to invest in green projects in a simplified process.

This amendment is expected to promote green finance in local governments for the development of environmental projects. Under the amendment, local governments may procure financing with international organizations in which the Mexican State holds shares, through a development bank. Additionally, the resources obtained are used for sustainable productive public investment.¹⁶

Under this amendment, sustainable productive public investment is considered to be any expenditure for which a clear and defined environmental social benefit is generated directly or indirectly, for the following purposes: renewable energies, sustainable building, energy efficiency, clean transportation, water, waste management and, agriculture, forestry, bioenergy and food supply chain.¹⁷

Green Asset Backed Securities and Loans

Even without the amendment of the Financial Discipline Law, the resources obtained from green tax collection may be used by governments as payment source for green loans and green bonds.

Under the Law on Financial Discipline, local governments are able to issue debt when used for funding public productive projects. Local governments must comply with the requirements under this law such as obtaining an authorization from the local congress (if applicable) and registering the payment obligation on the Unique Public Registry (*Registro Público Único*).¹⁸

Therefore, financial institutions will be able to loan money to local governments with less risk and local governments will have access to better credit conditions and lower interest rates.

¹² Article 4 and 73, s. XXIX-G, Political Constitution of the United Mexican States, (Enactment February 5th, 1917 / April 12, 2019).

¹³ Article 21, Environmental Protection Law, (Enactment January 28th, 1988 / June 5th, 2018).

¹⁴ Article 22, Environmental Protection Law, (Enactment January 28th, 1988/ June 5th, 2018).

¹⁵ Proposed Amendment to Reform and Add Article 2 and 22 of the Financial Discipline Law of Federal Entities and Municipalities, Legislative power (Mexico City), Number 5265-VI, Parliamentary Gazette, April 29th, 2019, Available in: http://sil.gobernacion.gob.mx/Archivos/Documentos/2019/04/asun_3870188_20190429_1556574629.pdf, (Consulted: July 23rd, 2006).

¹⁶ Loc. Cit.

¹⁷ Loc. Cit.

¹⁸ Article 22, Financial Discipline Law of Federal Entities and Municipalities, (Enactment April 27th, 2016/ January 30th, 2018).

Outlook: Green future for Mexico

Mexico is a key leader in the development of a green finance market in Latin America. The implementation of green taxes represents a great advancement for Mexico to achieve its climate goals and commitments established under the Paris Agreement, through the Nationally Determined Contributions.

We are looking forward to further developments in the green bond market and the implementation of green local state taxes as we are certain that this will promote financing for local governments which will enable Mexico to transition into a low carbon economy.

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