How are Public Development Banks in LAC supporting the climate transition?

Results of the joint ALIDE-EIB Survey

Joana Conde (EIB)

European Investment Bank

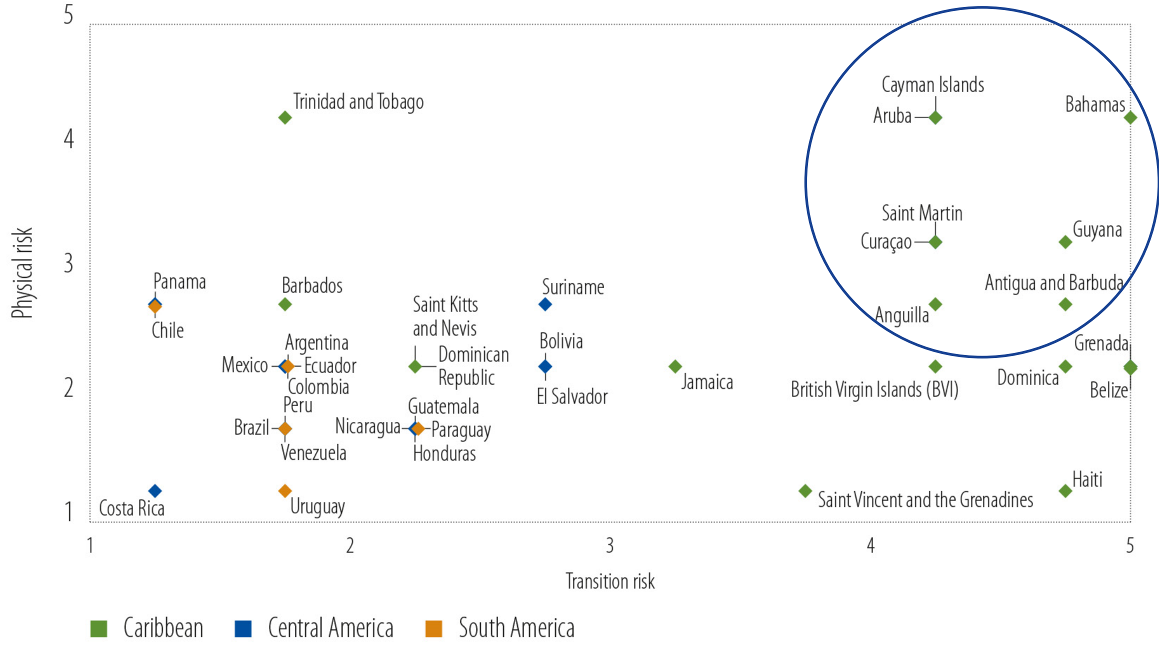
ALIDE

Climate risks at the country level

LAC countries are already paying a disproportionate price for climate change

- The EIB country climate risks scores are calculated for the 2 dimensions of climate risk – **physical and transition** – and cover a total of 180+ countries
- Caribbean countries are more exposed to physical risk via **extreme weather events**
- For LAC , the reduction of greenhouse gas **emissions** and further **investment in renewable energies** are the main risks

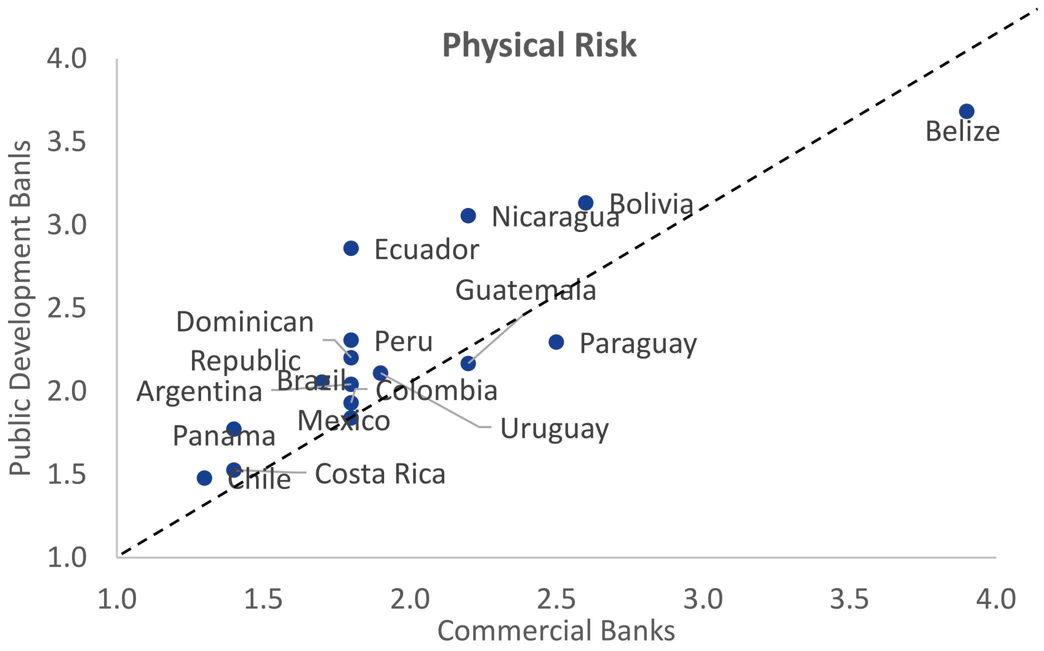
EIB climate risk country scores

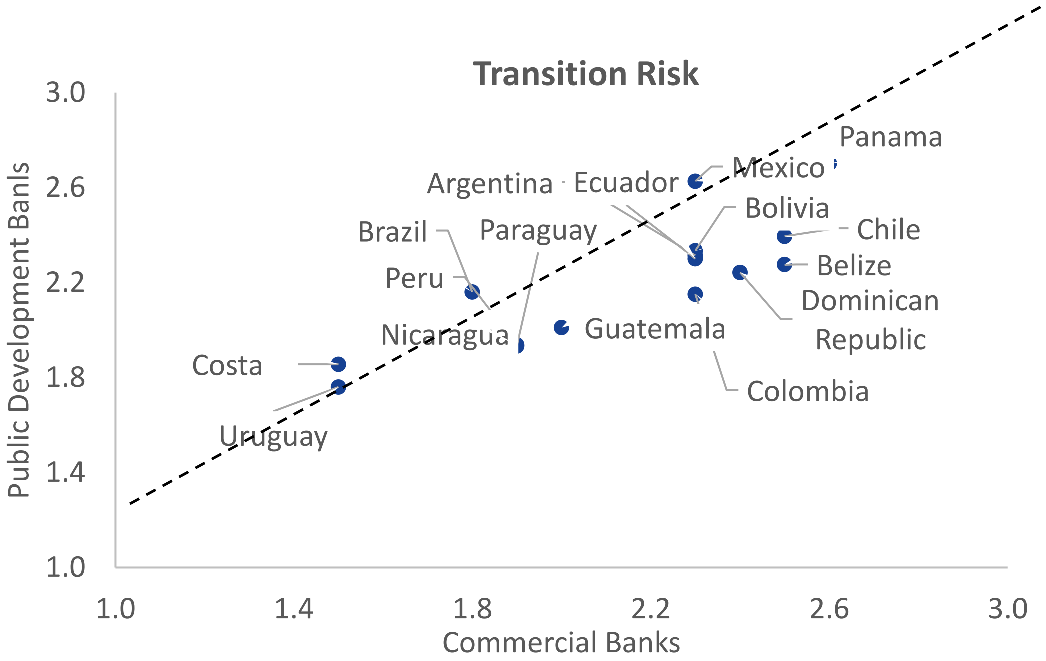


Source: *European Investment Bank.*

Climate risks: Commercial banks vs PDBs

PDBs are fulfilling their mandates by taking more climate (physical) risk than commercial banks





Source: European Investment Bank

- By applying to PDBs the same methodology we applied for commercial banks in 2023, we compute climate risk scores based on the **loan book** of **PDBs** in **16 LAC countries**
- PDBs are generally fulfilling their role **in mitigating physical risk, but less so in transition**

Joint ALIDE-EIB Survey

ALIDE and the EIB surveyed 24 PDBs in the region covering 14 different countries (49% of total assets)

- The **topics** covered included:
  - Risk management & Impact measurement
  - Regulatory
  - Strategy
  - Portfolio exposure
- The results will be the centre of an upcoming publication for the Finance in Common Summit in October 2024
- **If you would still like to participate, please do!**

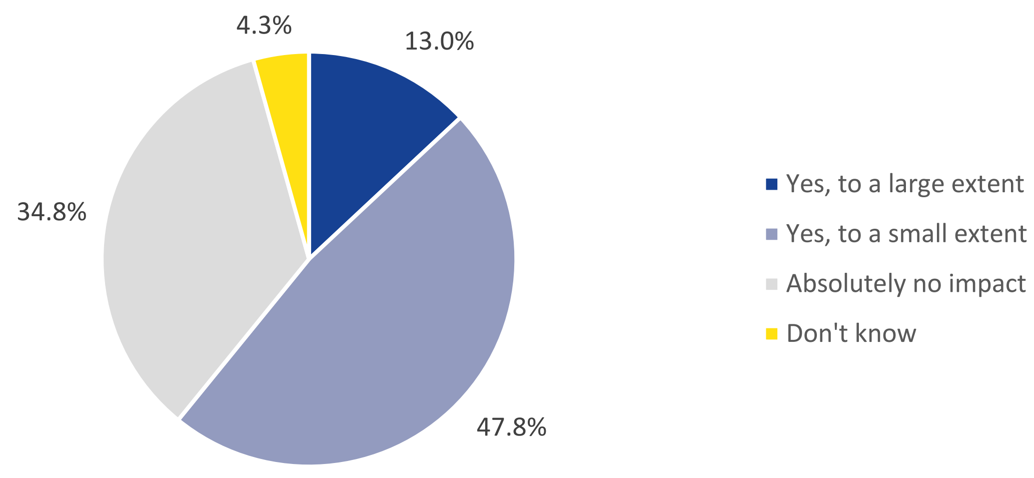
European Investment Bank ALIDE

Physical risk

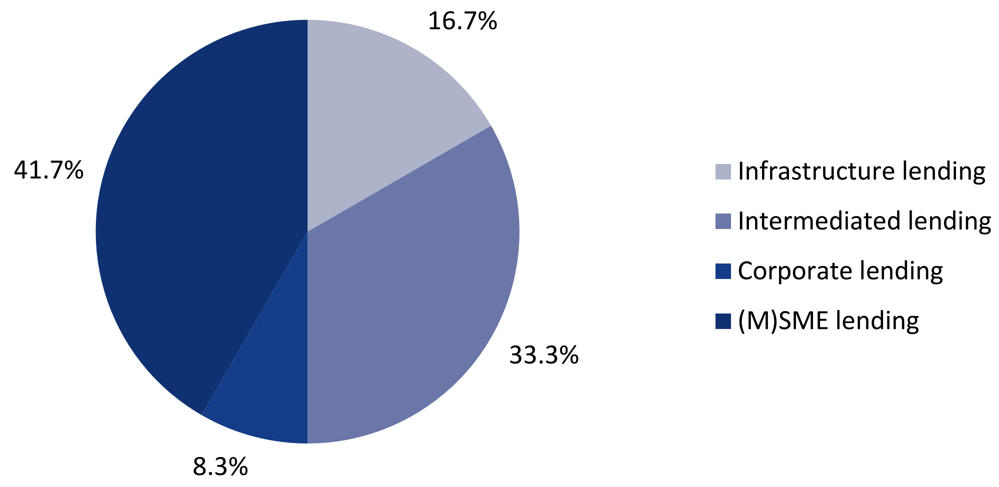
Impact of physical risk is already material for PDBs

- **42%** of PDBs have already felt the direct **consequences** of **physical risks** on their **own assets**
- **61%** of PDBs also report deterioration in their **asset quality** to some extent due to physical risk
- PDBs **with higher risk exposure through their loan portfolio** are those that report gradually **more deterioration in asset quality** due to extreme weather events
- Out of the sectors with *some* loss in asset quality, they identify **SMEs** as the most affected borrowers, followed by **intermediated lending**

In 2023, was the **asset quality** of you loan portfolio affected by **physical risks** due to extreme weather events?



If affected, which of the following **portfolio segments** has been affected by physical risks the most?

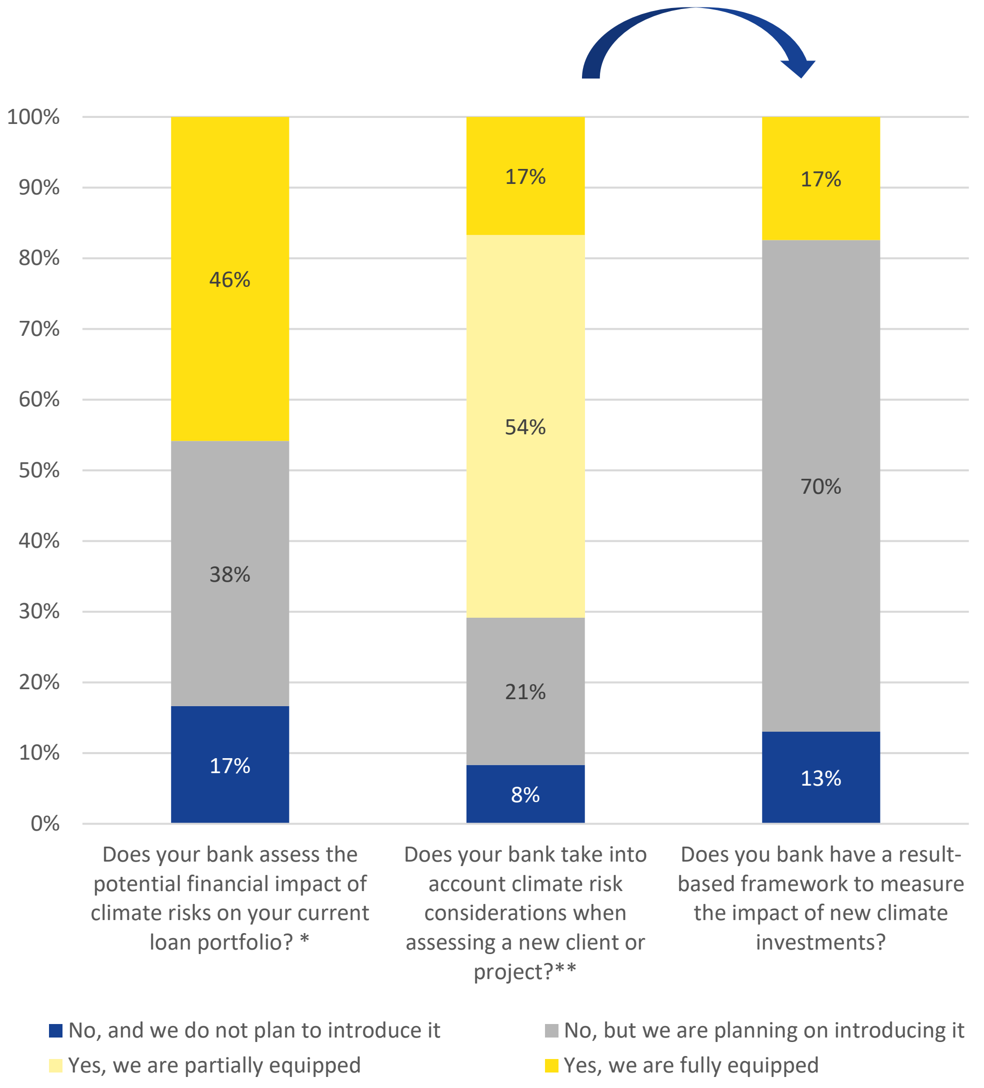


European Investment Bank ALIDE

Climate risk management & Impact

PDBs' toolkits for risk assessment, monitoring & impact measurement still have significant gaps

- PDBs seem to have the tools to assess risks at the **inception** of the **operational cycle** but **do not** follow up in the **monitoring** and **impact** measurement
    - **54%** of PDBs review a new project's **climate risk** ahead of disbursing
    - **Only 17%,** in addition to that, **monitor** risks throughout the project's lifetime
    - **Only 17%** have the tools to measure **impact**
- Still, a significant share of PDBs is putting in the resources to **develop such toolkits**
- **67%** is **not reporting** climate indicators but would **cooperate** if the **regulator/shareholders** asked to



* Toolkit (e.g. scenario analysis and stress testing)

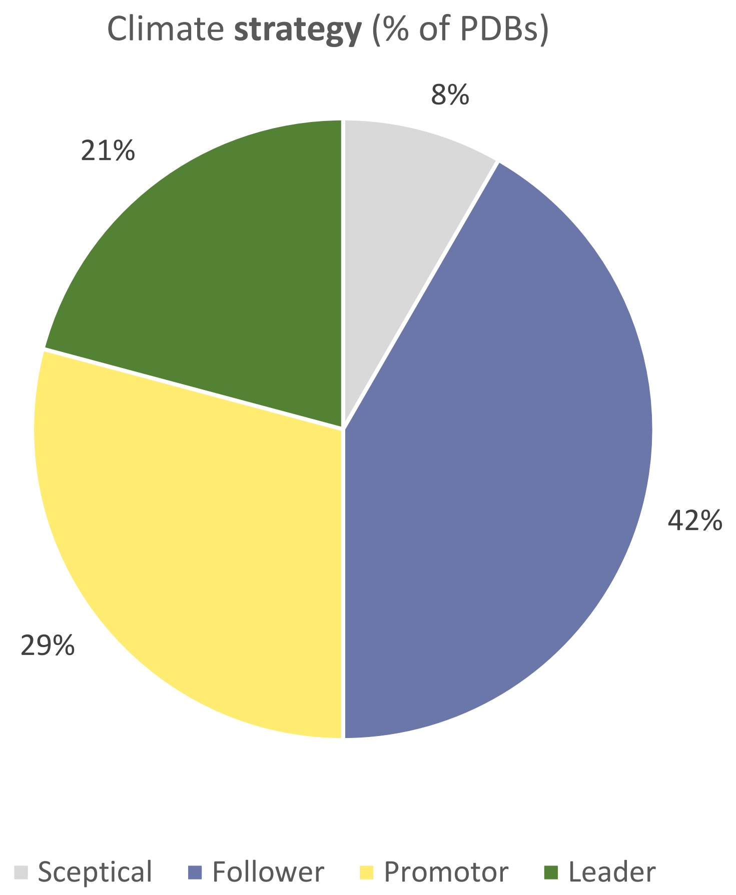
** Yes, we are partially equipped = reviews sustainability ahead, does not monitor

European Investment Bank ALIDE

PDBs' climate strategy

Large majority sees climate transition as an opportunity but is not a trend setter

- **77%** of PDBs follow **climate-related international standards** (e.g. UN's SDGs, Paris accords) and **92%** see the climate transition as an **opportunity**
- However, only **50%** of the banks see themselves as **leaders** or **promoters** of climate transition. **42%** are **followers** of industry practices and **8%** are still **sceptical** to the needs of a green transition



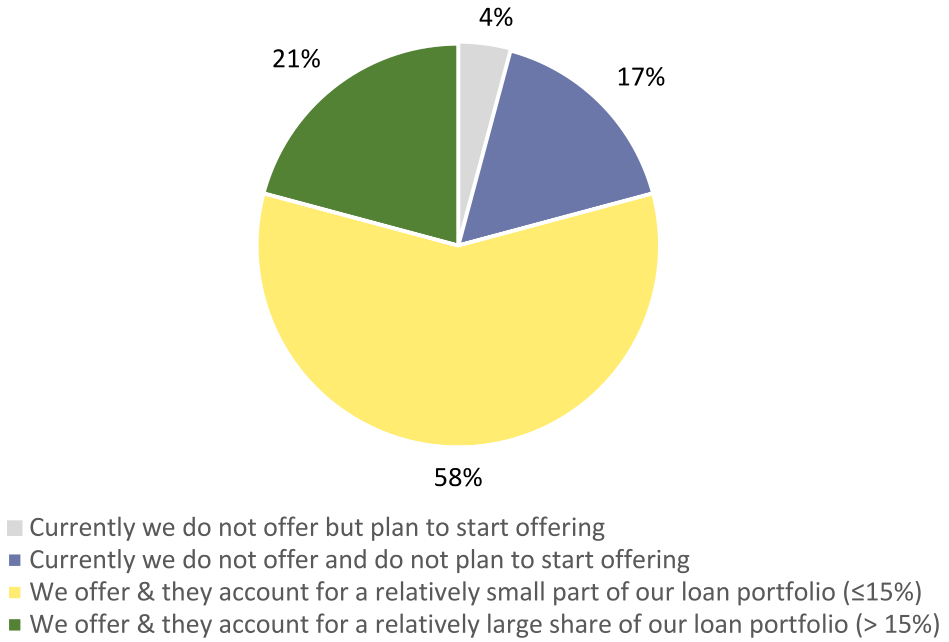
European Investment Bank ALIDE

(Green) lending

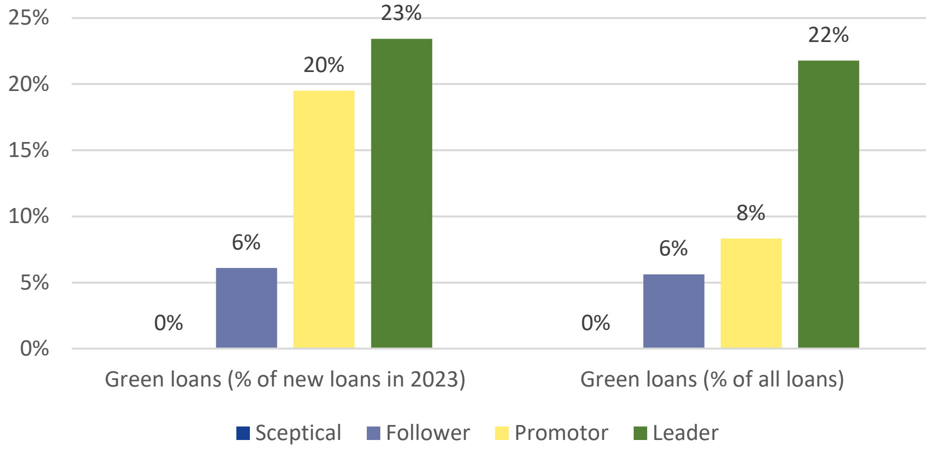
PDBs are already actively offering green financial products, especially to SMEs

- **79%** of PDBs already **offer green products**, while another **17% do not** but **plan to** in the near future
- The climate **strategy** they identify with **matches** the **scale** of **green lending**
    - sceptical < followers < promoters < **leaders**
- The majority of their **green portfolio** is allocated to **PYMES** > Corporates > Public sector

To what extent do you offer **green finance products** to your clients?



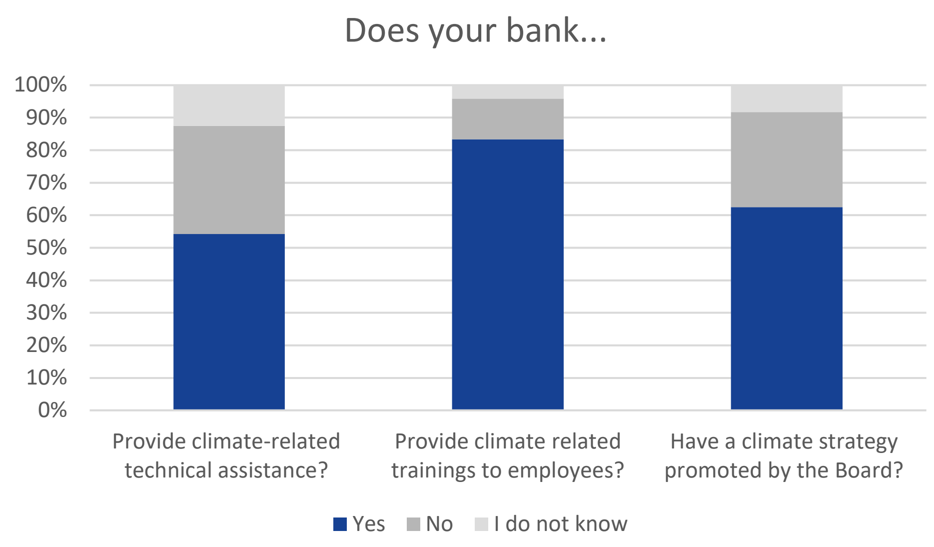
Given their self-proclaimed **climate strategy**, does the **green portfolio** match the claim?

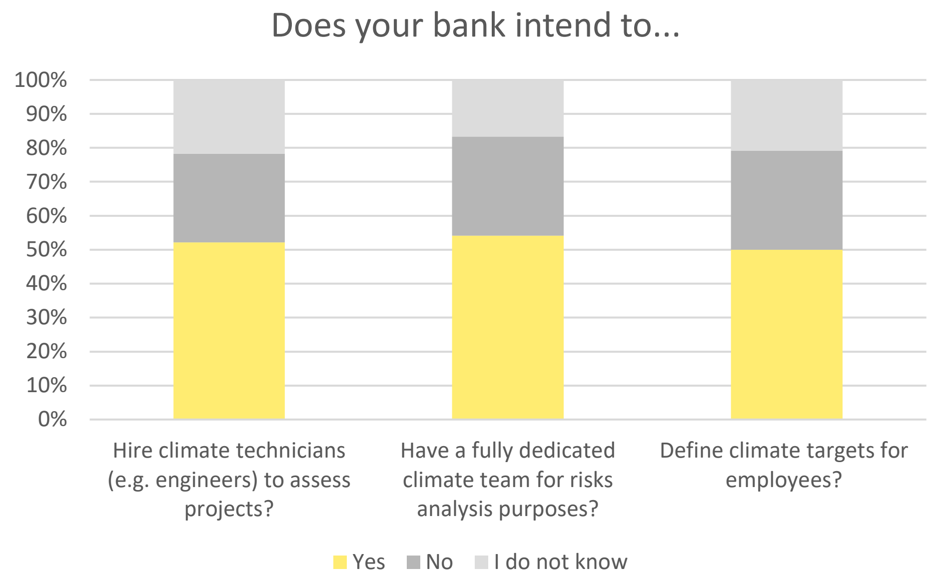


(Green) ambitions

Despite already offering green products, PDBs have wider ambitions to tackle climate risks

- PDBs are considerably advanced in "**established**" best-practices:
    - Providing TA - 54%
    - Training staff - 83%
    - Defining climate strategy - 63%
- But are still progressing in "**emerging**" trends, wanting to:
    - Hire climate technicians - 52 %
    - Have a dedicated climate risk team - 54%
    - Include climate as "KPI" - 50%
- Still, banks seem to be less proactive regarding *transition risk* with **74%** saying they **would not stop lending** to **sensitive sectors**



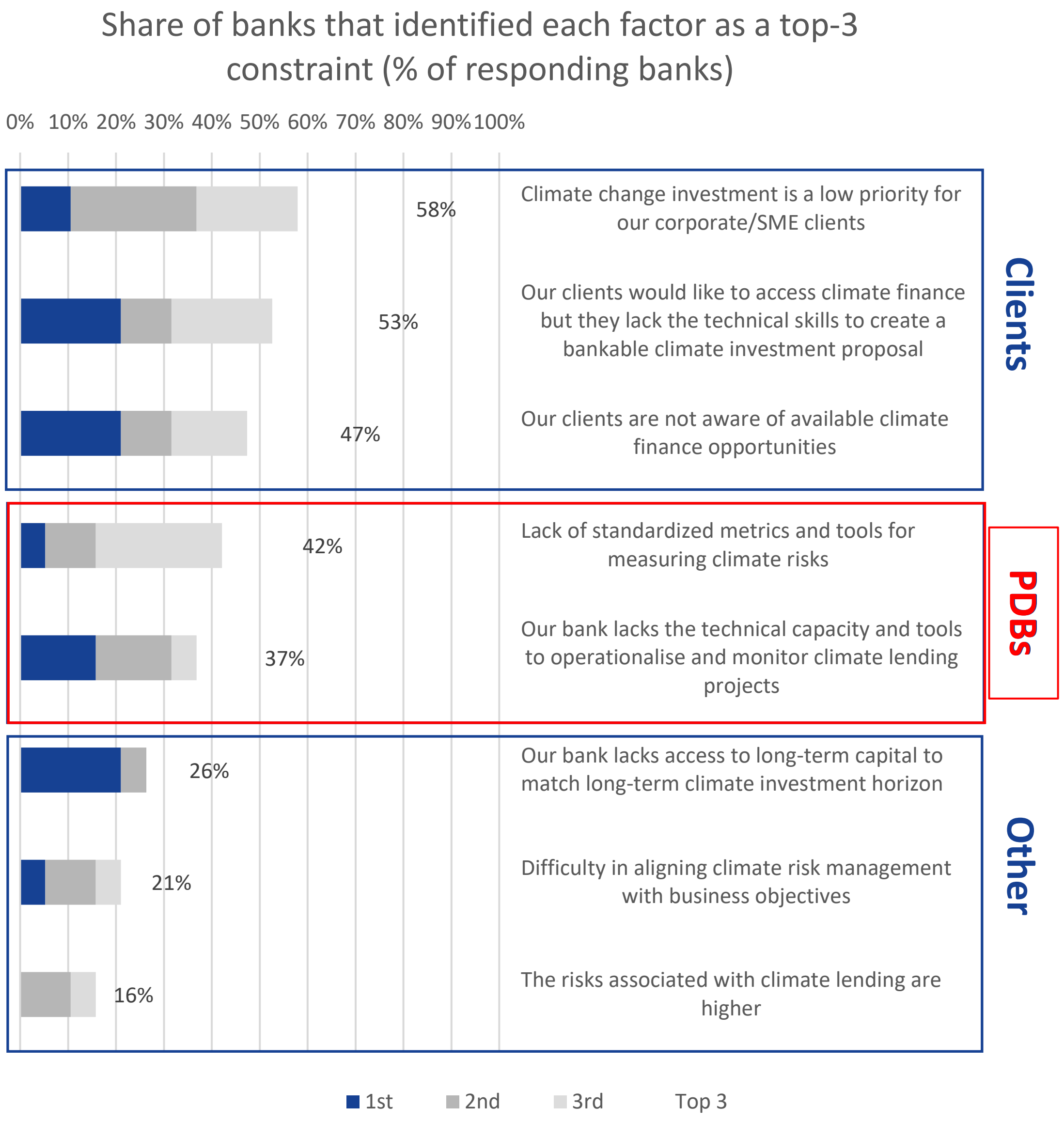


European Investment Bank ALIDE

Obstacles to lending

Banks identify factors coming from the clients' side as the biggest barriers to green lending

- Climate regarded as **low priority** from **clients'** POV is the largest constraint to green lending → why?
- After that, **clients' lack** of **technical capacities** or **knowledge** of **available products** & how to **apply**
- **PDBs'** own **shortcomings** concern their risk management, monitoring & impact measurement practices
- Lastly come other factors such as
    - Lack of access to long term capital
    - Misalignment of climate strategy vs commercial goals
    - The risks of climate lending
- "Followers" mention internal constraints as more relevant



European Investment Bank ALIDE

Conclusions & Next steps

- The main **action point** to scale up climate financing is to **build technical capacity** for both **clients** and **PDBs** themselves
- Next steps:
  - **Fiscal space** at the country level for climate financing
  - **Climate flows** to LAC **by type of issuer, investment and institutional sector**
  - Cross-survey analysis making use of **other EIB surveys** (e.g., EIB Investment Survey; Enterprise Survey and Finance in Africa) and other surveys on PDBs (e.g. World Bank)


Obrigada!
ALIDE
European
Investment Bank