Scaling up Sustainable Financing in Latin America and the Caribbean

As a consequence of the development finance gap, there has been a growing interest in sustainable finance around the world as a way to activate the financial sector, capital markets and the various markets that contribute to finance, in order to achieve the SDGs as well as environmental commitments.

An increasing number of States, regulatory bodies, banking associations and financial institutions have promoted and/or adopted policies, regulations and practices to manage ESG principles in financial sector activities. This includes managing the risk related to climate change and stimulating the flow of capital to assets, projects, sectors and companies that generate environmental and social benefits. In this regard, it is worth highlighting the efforts that various development banks are promoting in sustainable finance to mobilize their own resources, as well as those of the private sector, and to capitalize on the opportunities that arise in this area. It is also important to highlight the complementarity of actions carried out by entities such as the French Development Agency (AFD), the European Investment Bank (EIB), the Inter-American Development Bank (IDB) and the European Development Fund, among

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others. Coordination among these entities demonstrates the need to work together to address the region's common challenges in terms of sustainable development and financing.

Compared to other areas of the world, LAC countries are particularly vulnerable to extreme weather events. This scenario is further exacerbated in the small Caribbean islands, which face additional challenges in terms of infrastructure. To address these challenges, the development of economic actors in the region is crucial. Preliminary results of a study show that, regarding the climate strategy of banks in LAC, significant progress has been made in considering climate risk during initial stages of projects, with some 54% of banks analyzing climate risk compliance before starting a new project. However, only 17% monitor the project once it has started, and the same proportion claims to have the tools to measure the impact of the projects. Despite these challenges, there is motivation and ambition on the part of banks to develop tools and improve their practices.

Besides, 79% of development banks already offer green products in their portfolio, while the remaining 17% intend to do so in the near future. This reflects a widespread commitment to sustainability, although there is

still work to be done. Regarding the proportion of green loans in the total loan portfolios of banks, significant differences are observed among different types of financial institutions. While so-called "skeptical" banks do not offer any green loans on average, "followers, promoters and leaders" have up to 20% or 22% of their portfolio in green loans. This disparity reflects the diversity of approaches taken to sustainability in the banking sector.

The factors hindering the release of more green financing, in most banks, are mainly related to customer concerns. Many of them still do not consider climate as a priority and lack the technical capabilities to propose sound green investments. In addition to these factors, there are also the limitations inherent to these institutions, such as technical capacity and access to long-term capital. This suggests an opportunity to strengthen collaboration between public banks and other institutions to overcome these limitations by means such as the development of training, education and knowledge transfer programs to close existing gaps in both banks and clients in relation to sustainable finance. This collaborative approach can lead to significant progress in promoting more responsible and sustainable financial practices in LAC.

Climate change is an undeniable reality and adaptation has become crucial. Complete avoidance of its consequences is practically impossible at this point, so mitigation alone is no longer sufficient. In this regard, the European Investment Bank (EIB), whose primary focus is on climate, works in partnership with other institutions, especially development banks, to support projects, particularly those on a smaller scale. The IDB considers it crucial to substantially increase resource mobilization in a complementary manner with other multilateral banks and public development banks in LAC, which have a deeper knowledge of local needs as they are closer to the clients or final beneficiaries. AFD, to this

end, adopts a comprehensive approach, not only as a traditional public development entity, but as a conglomerate that coordinates various activities. Its strategy is based on effectively articulating these activities to offer integrated responses, both for the general public and in close collaboration with public banks that are key for the execution of development projects. KfW works closely with local governments and organizations to support initiatives related to biodiversity, sustainable urban development, water supply and the transition to a low-carbon economy. Recognizing the importance of development banks as allies in promoting sustainable finance in the region, KfW also seeks to improve the risk situation of its partners, e.g. by obtaining state guarantees.

As for the Caribbean region, the Caribbean Development Fund (CARICOM) noted that States are often affected by disproportionate climate change, involving hurricanes and drastic fluctuations in high temperatures, as well as social challenges. In all cases, the importance of support from development funds is highlighted to help small Caribbean States make investments adapted to the individual needs of each country.

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