



# Green Finance Latin America 2017 Report:

What is the Latin American  
banking sector doing to mitigate  
climate change?



**Green Finance**  
Latin America 2017  
Report



# Abstract

---



## Abstract

This report describes the current panorama of sustainable banking in eighteen Latin American countries. To gain a comprehensive picture, the research focuses only on the private banking sector.

Sustainable banking refers to an area of the financial markets that aims to promote a positive environmental impact from its operations, including mitigating climate change.

Recognizing the threat of climate change to economic development and the climate-related vulnerability of Latin America, many countries in the region are proactively prioritizing low-carbon and climate-resilient growth through environmentally sustainable development principles in their planning and green growth strategies. Furthermore, under the 2015 United Nations Climate Change Conference, otherwise known as the Paris Conference of Parties 21 (COP 21), most Latin American countries have made commitments to climate change mitigation.

Since 2009, COP has demonstrated there is willingness to raise significant resources to finance climate investments and increase the flow of climate finance from developed to developing countries, which should be allocated by governments and the private sector. Since the private sector undertook an important role in climate finance in 2015, it has become crucial to understand

how the financial sector perceives itself in this new landscape, the actions it is taking to meet its objectives, and the potential gaps to meet climate change mitigation goals.

This report describes the current panorama of sustainable banking in eighteen Latin American countries. To gain a comprehensive picture, the research focuses only on the private banking sector, as its role is crucial, and it concentrates in four main dimensions that involve different business and administrative units within the bank: (i) green products and services, (ii) sustainable finance strategic commitment, (iii) environmental risk management, and (iv) eco-efficiency practices. The findings of this report are based on data collected through theoretical framework, market research and a special-purpose survey that reached a varied sample comprising 101 private sector banks in Latin America.

Researching what banks are doing in the sustainable banking arena to unveil the challenges and opportunities to increase the adoption of sustainable banking practices, as well as what is needed to achieve meaningful change in

the banking sector towards climate change mitigation. This report concludes about some of the main barriers to mainstreaming sustainable banking, such as lack of knowledge and technical capacity of banking staff and customers, and some of the main benefits gained from adoption of green initiatives, such as increased bank reputation, new business opportunities, and sources of revenue.

**Keywords:**

Sustainable finance, Green Banking, Latin America, climate change mitigation, climate finance.



**Disclaimer:**

This report is based on the dissertation “Sustainable Banking: What is the banking sector in Latin America doing to mitigate climate change?” undertaken by Marcela Ponce as part of her Master of Studies at the University of Cambridge Institute for Sustainability Leadership (CISL).

# Contents

<b>Abstract</b>	<b>2</b>	<b>6. Conclusions and Recommendations</b>	<b>54</b>
Disclaimer	4	<b>7. Bibliography</b>	<b>59</b>
List of Tables	6	<b>8. Appendices</b>	<b>62</b>
List of Figures	6	Appendix 1: Latin American Countries	63
Acronym List	7	Appendix 2: Sample Representativeness	64
<b>1. Foreword</b>	<b>8</b>		
<b>2. Introduction</b>	<b>10</b>		
2.1. Key Concepts	15		
2.2. Climate Change	16		
<b>3. Theoretical Framework</b>	<b>18</b>		
<b>4. Methodology</b>	<b>24</b>		
4.1. Data Analysis	25		
4.2. Design and Preparation of Questionnaires	28		
4.3. Collection of Information	28		
<b>5. Findings and Analysis</b>	<b>29</b>		
<b>5.1. Findings</b>	<b>30</b>		
5.1.1. Green Products and Services	31		
5.1.2. Products Related to Sustainable Agriculture	37		
5.1.3. Green Strategic Commitment	40		
5.1.4. Environmental Risk Management	43		
5.1.5. Eco-Efficiency Practices	46		
<b>5.2. Main Analysis Conclusions</b>	<b>49</b>		
<b>5.3. Perspectives for Sustainable Finance Development in Latin America</b>	<b>50</b>		
<b>5.4. Follow-up Interviews</b>	<b>50</b>		

# Contents

## List of Tables

Table 1:	Sustainable Finance Definitions	13
Table 2:	NDCS – Latin America	20
Table 3:	Green Economy Sectors	21
Table 4:	Green Product Characteristics	31
Table 5:	Bank 1 – Success Factors and Main Barriers	51
Table 6:	Bank 2 – Success Factors and Main Barriers	52
Table 7:	Bank 3 – Success Factors and Main Barriers	53

## List of Figures

Figure 1:	Changes in Temperature, Sea Level and Snow Cover	16
Figure 2:	Bank Distribution by Asset Size	26
Figure 3:	Bank Distribution by Geographic Coverage	26
Figure 4:	Bank Industry Focus	26
Figure 5:	Survey Responses by Country	28
Figure 6:	Survey Results (by Adoption Rate)	30
Figure 7:	Green Products and Services Interest	32
Figure 8:	Interest in Green Products and Services Offerings	32
Figure 9:	Reductions in CO2 Emissions by Technology Area	33
Figure 10:	Green Portfolio – Growth	33
Figure 11:	Green Financial Products and Services – Non-Performing and Profitability	34
Figure 12:	Areas for Potential Green Products and Services Offerings	35
Figure 13:	Green Bonds – Awareness and Interest	36
Figure 14:	Main Agri Product Themes Financed by Banks	38
Figure 15:	Main Agriculture Crops Financed by Banks	38
Figure 16:	Main Stakeholders of the Value Chain Financed by Banks	38
Figure 17:	Agro Segment Growth Strategies	39
Figure 18:	Green Commitment – Status and Plan Ahead	41
Figure 19:	Environmental Risk Management – Current Practices	44
Figure 20:	Differentiated Credit Conditions based on ERMS Rating	44
Figure 21:	Benefits and Challenges of ERMS	45
Figure 22:	Eco-Efficiency – Practices and Responsible Areas	47

# Acronym List

**COP21:** Conference of Parties 21

**EBF:** eco.business Fund

**ESG:** Environmental, social, and governance

**ERMS:** Environmental Risk Management System

**Febraban:** Brazilian National Banking Federation

**FELABAN:** Latin American Federation of Banks

**IEA:** International Energy Agency

**IFC:** International Finance Corporation

**IPCC:** Intergovernmental Panel on Climate Change

**GHG:** Greenhouse Gas

**NDC:** Nationally Determined Contributions

**OECD:** Organization for Economic Co-operation and Development

**SBN:** Sustainable Banking Network

**SDG:** Sustainable Development Goal

**TCFD:** Task Force on Climate-related Financial Disclosures

**UNEP:** United Nations Environmental Program

**UNEP-FI:** UNEP Financial Initiative

**UNFCCC:** United Nations Framework Convention on Climate Change

**WBG:** World Bank Group



# 1. Foreword

---





The report was based on a survey in which one hundred and one (101) financial institutions participated from eighteen (18) countries in Latin America, and where the practices associated with environmental sustainability in the banking sector were analyzed.

In mid-2017, the International Finance Corporation (IFC) and the Latin American Federation of Banks (FELABAN), alongside eco. business Fund (EBF), established an alliance with the common objective of preparing a report on the state of green finance in Latin America. The report was based on a survey in which one hundred and one (101) financial institutions participated from eighteen (18) countries in Latin America, and where the practices associated with environmental sustainability in the banking sector were analyzed.

This report's intention is to provide inputs for a better understanding of the current state, challenges and opportunities in the development of green finance by commercial banks. It hopes that the results and conclusions obtained from it open the door to discussion on the actions and initiatives to massify and improve these practices in the region.

**The banking sector is in a privileged position to significantly influence the protection and care of the environment through the direction of capital flows toward greener projects and companies.**

The banking sector is in a privileged position to significantly influence the protection and care of the environment through the direction of capital flows toward greener projects and companies. In spite of the above, the results found by this report show that greater commitment and investment are required by financial institutions in environmentally friendly sectors or projects such as sustainable agriculture, renewable energy, energy efficiency, green buildings and infrastructure, among others, to achieve a greater positive impact on sustainable development. Financing and investment in these sectors represent a business opportunity in growing markets for financial institutions and the three entities of this alliance will continue to be strategic partners for the materialization of this opportunity in increasingly sustainable businesses. Similarly, this report aims to serve in raising awareness amongst the different stakeholders about the importance of joint efforts to encourage demand, improve technical capabilities and achieve significant progress in this matter.

From all the actions carried out by financial institutions to contribute to sustainable development and climate change, the development, promotion and implementation of green products and services in their portfolio are, without a doubt, the type of initiatives that generate greater positive impact on the environment.

Amongst the portfolio of green products and services, the report briefly emphasizes the analysis of the financial supply side in the agriculture sector. In Latin America, agriculture is one of the pillars of economic and social development, making it a sector with tremendous growth potential and impact on the environment. However, the number of financial institutions offering products and services in sustainable agriculture is low and still much remains to be done. In this sense, the document wants to highlight that investing and financing projects in sustainable agriculture is a business opportunity still to be seized.

On the other hand, it is noteworthy that a significant number of banks are committed to the inclusion of environmental criteria in credit and investment decisions, which, although not being a standardized practice, represents a step forward for the region with respect to previous years. In this regard, it is important to bear in mind that one of the benefits for financial institutions resulting from the inclusion of environmental criteria is the improvement in the behavior of loan payments: the quality of the portfolio increases when environmental and social criteria are included in the analysis of credit risks. Lastly, the report makes a call to action for the different financial institutions of the region on the importance of incorporating green finance within their business strategies, as a generator of financial returns and, at the same time, a driving force of conservation and environmental protection.





Financing for climate change is one of the top priorities of the United Nations, with former president Ban Ki-moon tirelessly urging investors to lend their support for climate change initiatives to provide solutions to climate-affected communities around the world (*United Nations, 2010*). Sustainable banking, green finance and climate finance are just samples of the diverse terms given to practices related to financing climate change and reallocating financial capital towards environmentally conscious practices. Additionally, to these concepts, a few working definitions and sets of criteria have been developed in the context of the global financial system, national financial systems, financial institutions and financial instruments (*M.Forstater, 2016*).

It is important to have these definitions to provide a universal understanding of current sustainable banking developments and how to accelerate them to support the growth of low carbon economies, which in turn shall help mitigate climate change. This report presents the status of the sustainable private banking sector in Latin America, as well as its current barriers and opportunities, drawing on responses from a survey, follow-on interviews and market research.



Sustainable banking is a rapidly evolving area, and many global institutions have researched and assessed specific initiatives linked to sustainability in the financial sector, aiming to accelerate the development of good practices. For example, the United Nations Environmental Program (UNEP) has been working on finance and sustainability for two decades and is tracking a range of green finance measures, including mobilized green finance, policies, regulations, standards, guidelines, principles and fiscal incentives, etc., relating to the promotion of this type of financing.

UNEP informs that more measures related to green finance have been introduced since June 2016 compared with any other one-year period since 2000 (*G20 Green Finance Study Group, 2017*). The UNEP survey initiated the design of a Sustainable Financial System to advance policy options to improve the financial system's effectiveness in mobilizing capital towards a green and inclusive economy. This work started back in 2014 and finished in early 2018, demonstrating the benefits of a holistic view towards sustainable finance and enabling nations and financial institutions to participate in addressing environmental, social and governance (ESG) challenges from a systemic point of view.



According to the World Bank Group (WBG), the term climate finance broadly refers to resources that catalyze low-carbon and climate-resilient development (*World Bank Group, International Monetary Fund, OECD, Regional Development Banks, 2011*). Green or sustainable banking also has different meanings used by diverse stakeholders in the banking sector (See Table 1: Sustainable Finance Definitions). For example, global stakeholders, such as the G20 Green Finance Study Group<sup>1</sup> and learning networks, such as the Sustainable Banking Network<sup>2</sup>, focus mainly on green investment and environmental risk analysis, while local initiatives are even broader in their definitions, incorporating areas such as dissemination and knowledge sharing, and eco-efficiency practices, amongst others. Green finance is often considered part of green banking, which is understood as a component of a global initiative to protect the environment. This concept is well reflected in the Policy Guidelines for Green Banking issued by the Bangladesh Central Bank in 2011<sup>3</sup> or the Green Protocols<sup>4</sup> signed in six Latin American countries since 2012 (Brazil, Colombia, Peru, followed by Mexico, Ecuador and Paraguay).

These various definitions are detailed in Table 1 below.


<sup>1</sup> G20 Green Finance Study Group: Working group established to explore options for addressing the challenge of scaling up green financing, in support of the G20's strategic goal of strong, sustainable and balanced growth. Available at: [http://unepinquiry.org/wp-content/uploads/2016/09/Synthesis\\_Report\\_Full\\_LEN.pdf](http://unepinquiry.org/wp-content/uploads/2016/09/Synthesis_Report_Full_LEN.pdf)





<sup>2</sup> Sustainable Banking Network: Unique community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice. Available at: [www.ifc.org/sbn](http://www.ifc.org/sbn)

<sup>3</sup> Bangladesh Policy Guidelines for Green Banking are available at: <https://www.bb.org.bd/mediaroom/circulars/brpd/feb272011brpd02e.pdf>

<sup>4</sup> Green Protocols are voluntary initiatives signed by financial institutions as a commitment to greening banking practices.

Table 1:  
Sustainable  
Finance Definitions

Term	Definition	Source
<p><b>Sustainable Banking</b></p>	<p>Banking Initiatives directed at integrating risk management to include ESG considerations and participation in financing of investment that provides environmental benefits. As capital providers, banks are ideally placed to help the private sector adapt to new economic realities linked to environmental and social sustainability, such as climate change, changing communities, and increased resource scarcity, and to contribute to national sustainable development agendas.</p> <p>Banking activities that aim to converge a country's environmental objectives, incorporating voluntary practices that could scale up and serve as a demonstration effect for the financial sector such as (i) financial instruments that promote the development of sustainable projects (projects with positive environmental impact); (ii) sustainable procurement and efficient use of resources; (iii) environmental and social risk management systems, starting with compliance of local environmental and social regulations; and (iv) dissemination of good practices and knowledge sharing.</p>	<p><i>International Finance Corporation's Sustainable Banking Network</i></p> <p><i>Multiple Green and Sustainable Protocols Launched since 2012:</i></p> <div style="display: flex; flex-wrap: wrap; justify-content: space-around;"> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; width: 40%;"> <p><b>GREEN PROTOCOL COLOMBIA</b></p> </div> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; width: 40%;"> <p><b>SUSTAINABLE FINANCE PROTOCOL ECUADOR</b></p> </div> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; width: 40%;"> <p><b>SUSTAINABILITY PROTOCOL MEXICO</b></p> </div> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; width: 40%;"> <p><b>SUSTAINABLE FINANCE ROUNDTABLE PARAGUAY</b></p> </div> </div>
<p><b>Climate Finance</b></p>	<p>Financing that enables the world to meet the climate challenge and provides resources for projects that increase resilience to climate impacts and reduce emissions, in an orderly transition to a low carbon, climate resilient global economy.</p> <p>The mobilization and provision of scaled up, new, additional, adequate, and predictable financial resources necessary to address the climate change adaptation and mitigation needs in developing countries. These funds may come from a wide variety of sources, public and private, bilateral and multilateral, including innovative sources.</p>	<p><i>World Bank Group</i></p>  <p><i>Secretary General's High-level Advisory Group on Climate Change Financing</i></p>

Term	Definition	Source
<b>Conservation Finance</b>	Conservation finance is a mechanism through which a financial investment in an ecosystem is made, directly or indirectly through an intermediary, which aims to preserve long-term ecosystem values.	<p><u>Credit Suisse</u><sup>5</sup></p> 
<b>Finance for sustainable development</b>	Short-term investments for long-term sustainable development to reach a green economy. A green economy in the context of sustainable development and poverty eradication requires major structural and technological changes in key sectors such as infrastructure, industry, agriculture and transportation.	<p><u>United Nations</u><sup>6</sup></p> 
<b>Green Finance</b>	Investment mobilization in environmentally sensitive areas such as agriculture, forestry, energy, mining and waste. In addition, green finance seeks to direct Indonesia's economy onto a green and sustainable development pathway.	<p><u>Indonesian Financial Services Authority</u></p> 
<b>Green Banking</b>	An ethical, socially responsible and sustainable bank. A green banker is more than a banker, it is not an individual but a unit or a group or a team. Green or sustainable banking is not limited only to in-house green activities, but extends to facilitating green financing. Environmental Risk Management guidelines are a part of green banking to assess environmental risks and not intended to squeeze investment; rather it is for sustainable finance.	<p><u>Bangladesh Bank</u></p> 

Finally, the COP 21 Accord serves as a catalyst, launching a new concept referring to climate finance as the resources that should be allocated by each country's government and private sector to finance activities that can mitigate the impact of climate change. With this new approach, the financial sector is called to undertake new thinking on how to ease the financing required for this agenda.

There are several examples like the People's Bank of China (*Ma Jun, 2016*) or the Bank of England, leading in their trials to respond to local and international environmental and climate change challenges. Also in Europe, Switzerland, and Italy are deemed as leaders in sustainable banking, having advanced in sustainable financial system roadmaps (*Federal Office for the Environment, 2015*) (*Italian Ministry of Environment and UN Environment, 2016*). Furthermore, the European Union itself recently completed a comprehensive strategy for sustainable finance (*Robins & Sweatman, 2017*).

In Latin America, the governing bodies of the financial system have commissioned several studies to understand the current state of green finance (Colombia), to assess the alignment of banking assets with the green economy (Brazil), and to develop a strategic stock take on sustainable finance (Argentina). FELABAN, on the other hand, as the umbrella association for the regional banking associations from 19 Latin American countries and representing more than 600 financial institutions, has committed to sustainable banking since 2012, supporting the launch of the first sustainability report, produced by UNEP FI, and becoming a member partner of the Sustainable Banking Network in 2016. Such commitment is also reflected by the several sessions and events, targeted to banks, held to raise awareness about sustainable banking and its support to produce this report in conjunction with the International Finance Corporation. Latin American countries have displayed extraordinary commitment to sustainable development, however, they still need to lead the way in making this vision a reality (*Barcena, 2016*), addressing policy constraints that render an unstimulated financial sector, forcing sustainability as a preference rather than a core banking feature.

With this in mind, and to set the framework for this report, key concepts have been defined to refer to sustainable banking for private institutions in Latin America, despite asymmetries in the financial system per country. Such key concepts have shaped the scope of work for both the research as well as the data collection and analysis.

<sup>5</sup> <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/responsibility/environment/conservation-finance-en.pdf>

<sup>6</sup> <https://sustainabledevelopment.un.org/content/documents/649brief16.pdf>  
[https://sustainabledevelopment.un.org/content/documents/nairobi\\_meeting.pdf](https://sustainabledevelopment.un.org/content/documents/nairobi_meeting.pdf)



## 2.1



### Key Concepts

For the purposes of this report, green finance is referred to as the group of actions and practices performed by a bank in the following areas:



#### 1) Green Products and Services:

A bank's value proposition to service its clients' needs, which incorporate environmental benefits and/or are allocated to economic activities that are part of the green economy, understood as the transition to economies that are low carbon, resource efficient and socially inclusive (UNEP, 2018).



#### 2) Green Strategic Commitment:

A bank's top management commitment to green banking practices and environmental sustainability, also a pledge to have a holistic sustainability approach within the its business lines, environmental risks, eco-efficiency, etc.



#### 3) Environmental Risk Management:

Tools and practices that a bank has in place to manage environmental risks from its clients and mitigate transferring these risks to the bank itself.



#### 4) Eco-Efficiency Practices:

Actions and initiatives to reduce and/or mitigate the bank's environmental footprint and/or optimize the use of resources through their own facilities and networks, or through its suppliers and customers.



## Climate Change

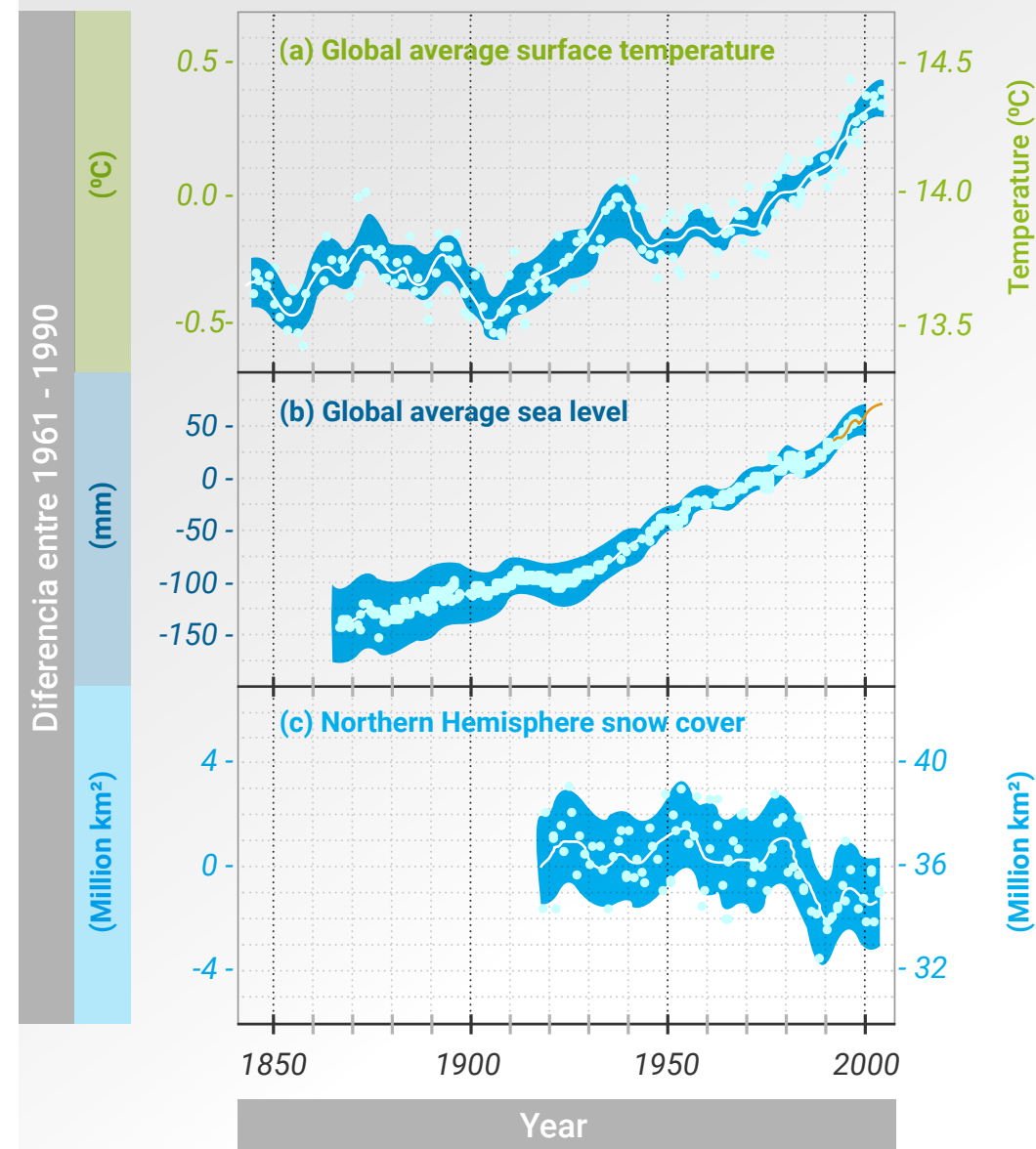
According to the Intergovernmental Panel on Climate Change, climate change refers to a change in the state of the climate that can be identified and persists for an extended period, typically decades or longer; it refers to any change in climate over time, whether due to natural variability or as a result of human activity (*Intergovernmental Panel on Climate Change, 2007*).

There is evidence that from the period between 1970-2004, Latin America suffered fifty-three (53) significant physical changes that have been found to be 98% consistent with warming. As seen in Figure 1 below, numerous long-term changes in climate have been observed, with higher frequency and intensity, resulting in weather events, such as heat waves, heavy precipitation and extreme high sea level.



Figure 1:  
**Changes in Temperature, Sea Level and Snow Cover**

(*Intergovernmental Panel on Climate Change, 2007*)



In Latin America, climate change consequences are seen in floods, droughts and other natural disasters. In the last years, Colombia, Peru and the Caribbean, amongst others, witnessed serious damages, with losses in billions of dollars. Such was the case of the “La Niña” phenomenon in 2010, a rainy season derived from climate change that affects countries on the Equatorial line, which left damages in Colombia alone estimated at US \$6 billion, arising from flooding and road closures, amongst other evidenced impacts (ECLAC, 2011).

Thus, climate change is an undisputable reality with which nations and the private sector at global level must face. Countries and businesses produce a carbon footprint that negatively affects the environment, and there are mitigation actions that can and should be taken to reduce the impact of human activity.

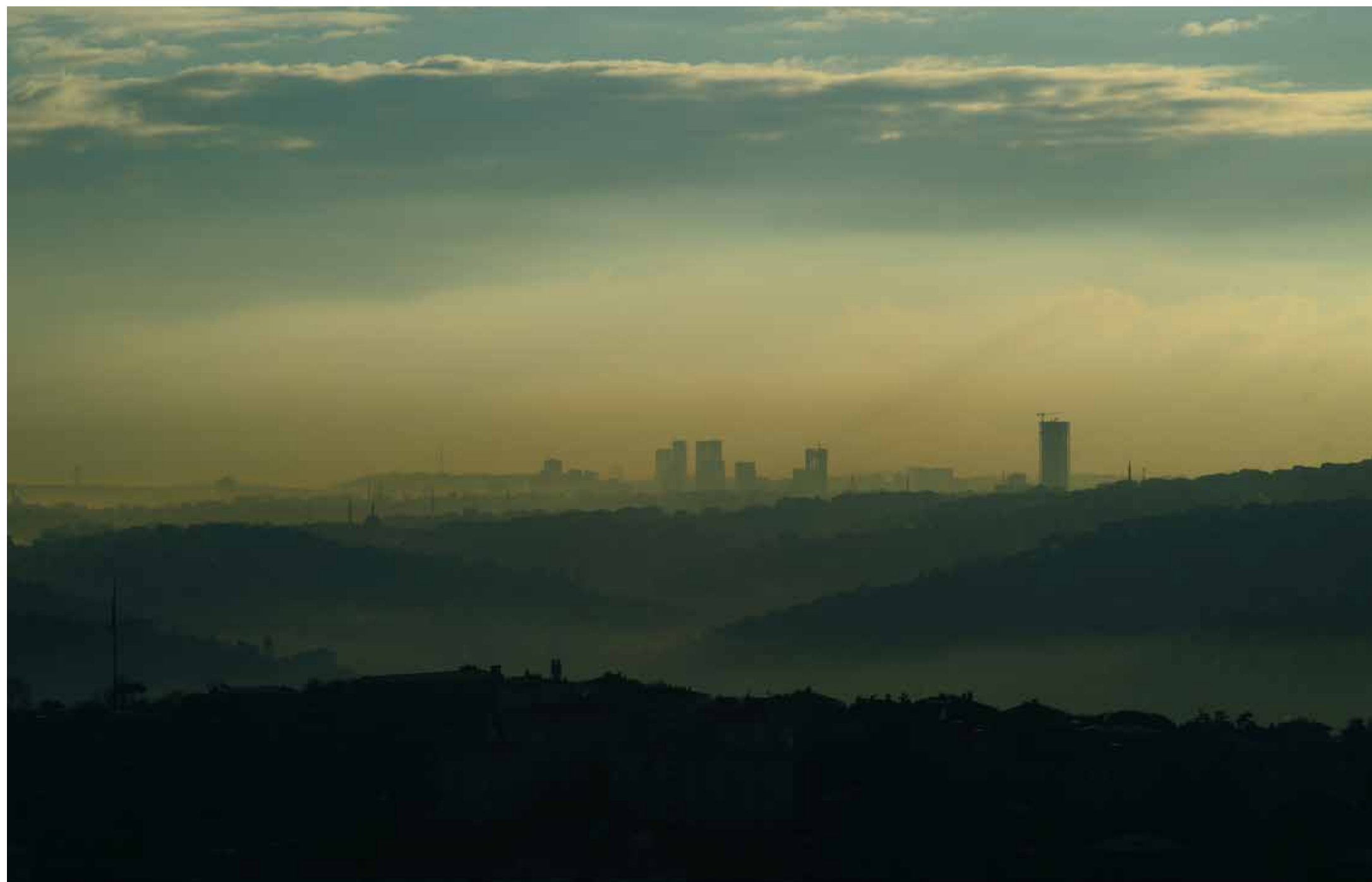


A WBG study shows that if not properly mitigated, climate change could push more than 100 million people back into poverty over the next 15 years (Hallegate, 2016). Furthermore, according to an IFC study, mitigation and adaptation of emerging markets to climate change will require US \$26 billion globally by 2020, of which almost 2,6 billion are expected to be needed in Latin America<sup>7</sup> (*International Finance Corporation, 2016*). It is expected that the identified investment potential will go towards agriculture, transport, infrastructure, green buildings, renewable energy, waste management and industrial energy efficiency.

To address climate change, other global organizations have stated mitigation measures or goals. For example, the United Nations Framework Convention on Climate Change (UNFCCC) has set the goal of stabilizing greenhouse gas concentrations in the atmosphere, as a means to “allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner” (*United Nations Framework Convention on Climate Change, 1992*).

**Is an urgency to bridge the yet-to-be defined sustainable financing gap and deliver the capital flows needed for low-carbon, climate-resilient, sustainable projects.**

On the other hand, the Intergovernmental Panel on Climate Change (IPCC), since its fourth assessment<sup>8</sup>, has worked on proving the human influence on the climate system. For IPCC, “it is extremely likely that more than half of the observed increase in global average surface temperature from 1951 to 2010 was caused by the anthropogenic increase in GHG concentrations and other anthropogenic forces together” (*Intergovernmental Panel on Climate Change, 2014*). In line with this scientific research and assessments, one of the main goals reached during COP21 was stated as “holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels” (*United Nations Framework Convention on Climate Change, 2016*).



In line with the 2-degree scenario set by COP 21 and the already identified investment needs in specific sectors for the current climate trajectory, the financial sector (along with governments and private sector) must play an important role to provide access to finance for climate positive projects.

While Latin American financial institutions wait for clear guidance from government entities around policy frameworks and sustainable development, there is an urgency to bridge the yet-to-be defined sustainable financing gap and deliver the capital flows needed for low-carbon, climate-resilient, sustainable projects. To this end, it is imperative to understand what financial institutions are doing in the region, what are the benefits and opportunities from sustainable banking despite the lack of policies and clear national priorities, and finally, what the barriers are to advance sustainable banking.

<sup>7</sup> Based on IFC analysis of climate pledges in Argentina, Brazil, Colombia and Mexico.

<sup>8</sup> IPCC Fourth Assessment report: Climate Change 2007. Available at: [https://www.ipcc.ch/publications\\_and\\_data/ar4/wg1/en/spmsspmp-projections-of.html](https://www.ipcc.ch/publications_and_data/ar4/wg1/en/spmsspmp-projections-of.html). Accessed on 3rd July 2018.



The Latin American region comprises of 20 emerging economies that range from small countries like Belize to large economies such as Brazil and Mexico. In reviewing the background behind the developing stage of Latin American countries, infrastructure services were found as one key area for economic development, defining the difference between developed and developing countries, as they are essential to achieving economic growth and improving the quality of life. Infrastructure adequacy also helps determine a country's success or failure in diversifying production, expanding trade, coping with population growth, reducing poverty, and/or protecting the environment (*G. Ingram, 1994*). Billions of people in developing countries lack access to clean water, energy, and other fundamental services, and failure to invest in infrastructure services is a detriment to addressing poverty, as well as environmental concerns.

Despite enormous efforts over the last several years, Latin American infrastructure demand remains below supply, with a huge shortfall and a population with high growth and urbanization, which corresponds to increases in carbon dioxide (CO<sub>2</sub>) emissions and the energy footprint (*Richard York, 2003*). Box 1 below shows further details of this and the sustainable infrastructure opportunities in the region.

Additionally, Latin America has experienced an era of record-low interest rates, controlled fiscal deficits, stable currencies, and a large pool of liquidity, yet a chronic infrastructure deficit persists (*Serebrisky, Suarez-Aleman, Margot, & M., 2015*). This deficit, coupled with the region's profound economic inequality (*De Ferranti, 2004*) has significantly impeded development in Latin America.

A new financial, institutional, and technological framework is required, as is capacity building to dramatically scale up access to modern energy services at the local and regional levels (*Kaygusuz, 2012*). In this report, financial frameworks are analyzed in more detail, unveiling current banking sector trends around the universal climate change challenge.

## Box 1: Infrastructure: Sustainability and Business Opportunity in Latin America

Given governments' decreasing ability to finance infrastructure, private spending and financing for infrastructure must at least double to overcome the investment gap. Current infrastructure spending across the public and private sectors does not reach half of funds needed to meet the estimated demand. A range of studies estimate that Latin America needs to invest at least 5% of GDP in infrastructure per annum to meet demand, which equates to an additional infrastructure investment of about 2.5% of annual GDP (*Inter-American Development Bank, 2015*).

This funding gap reflects the barriers facing private-sector financing of sustainable infrastructure, such as the lack of clarity around the pipeline of bankable projects; lack of standards for sustainable infrastructure that could increase transaction costs; uncertainty regarding regulations and policies; and lack of long-term banking financing. There is enormous demand for infrastructure in Latin America, a large part of which could be built using sustainability criteria. The greatest potential for additional financing lies with the private sector, banks and institutional investors (pension funds, investment managers, insurance companies, etc.).

### The greatest potential for additional financing lies with the private sector, banks and institutional investors.

To align with the Paris Accord and Sustainable Development Goals (SDGs), most infrastructure investments must consider social, economic and environmental sustainability at their core. The imperative for incorporating sustainability considerations into related investment decisions is a timely one.

Sustainable infrastructure financing presents a good business opportunity with a huge pipeline of potential demand for banking. If banks have a greater understanding about sustainability, they can enjoy a competitive advantage by participating in the business. Development banks such as IFC play a key role in accelerating investments in sustainable infrastructure, convening clear long-term signals to investors and providing effective tools and instruments to mobilize capital.

Overall, Latin American economies contribute relatively little to global CO2 emissions. Based on the latest CO2 emissions global data available, Brazil and Mexico are the largest emitters in the region, with 2,33% and 1,68% of global green-house gas emissions, with energy, agriculture and waste being the main contributors (World Resources Institute, 2017). Even so, most countries in the region have formally adopted an ambitious framework for sustainable development and combating climate change by signing the Paris Agreement in 2015. At the time this research was conducted, and as seen in Table 2 below, most countries had committed to specific climate change mitigation targets in comparison to a business as usual scenario, through their Nationally Determined Contributions (NDCs).

It is worth noting that even though a representative sample of Latin American countries have been analyzed, the theoretical framework excludes very small economies, based on population below 1 million in 2017, which basically leaves out Guyana, Surinam and Belize.

Table 2:  
NDCs – Latin America<sup>9</sup>

Country	Target Year	Commitment
Argentina	2030	15%
Bolivia	N/A	N/A
Brazil	2025	37%
Chile	2020	20%
Colombia	2030	20-30%
Costa Rica	2030	44% - intention to become carbon neutral by 2021
Dominican Republic	2030	25%
Ecuador	2025	24-25% constrained to energy sector emissions
El Salvador	N/A	N/A
Guatemala	2030	11%
Honduras	2030	15%
Mexico	2030	25%
Nicaragua	N/A	N/A
Panamá	N/A	N/A
Paraguay	2030	10%
Perú	2030	20%
Uruguay	2030	25%

<sup>9</sup> This NDC list reflects only Latin American countries that participated in this research.

The next task for the region to transition to low-carbon economies through implementation of the SDGs (*Sustainable Development Goals*) and NDCs requires involvement of the public and private sectors, as well as of society in general. Governments need to engage with the private sector to develop a sustainability agenda that meets both global objectives and local needs.

The banking sector plays an important role in building up and financing the sustainability environment, 'it is impossible to establish a green and inclusive economy without mobilizing sufficient capital for financing the long-term needs of a resource-efficient future' (*Federal Office for the Environment, 2015*). Sustainable financing is a global trend that is quickly evolving with growing demand from stakeholders ranging from employees and customers, to investors.

In 2012, UNEP FI jointly with FELABAN, analyzed the financial trends relative to sustainability, with emphasis on environmental management (*United Nations Environmental Program Finance Initiative, 2012*). The report was based on a survey performed to 85 financial institutions that included national and international developments banks, public and private banks, as well as funds in Latin America, Spain and the United States of America. According to it, one of the most recurrent barrier identified by financial institutions to advance in sustainability management at that time was the 'lack of understanding and/or knowledge' about sustainable financing.

**Sustainable financing is a global trend that is quickly evolving with growing demand from stakeholders ranging from employees and customers, to investors.**

However, since UNEP FI's 'Sustainability Integration in the Latin American Financial Institutions' report (2012), which scope is dissimilar to this report, the information on what the Latin American banking sector is doing to mitigate climate change has been inexistent, therefore, a comprehensive research was needed to understand the status of sustainable banking in the region, with the goal of detecting the gaps preventing banks to mitigate climate change through their operations.

Other more recent studies have come out to assess similar topics, as is the case of the 'Banking on Low-Carbon Future' Impact Report launched in 2018, which examines the progress in the banking sector's response to climate change, with a particular focus on the 59 world's largest banks (*Boston Common Asset Management, ShareAction, 2018*). Another case is the SBN's 'Global Progress Report' that assesses sustainable finance initiatives across emerging markets at a global level (*Sustainable Banking Network, 2018*), and prepared based on 15 SBN member countries that are already implementing sustainable finance policy initiatives.

In line with this objective, the first step was to assemble the existing definitions of sustainable banking and related terms to frame bank performance in the required sustainability environment<sup>10</sup>.

In Table 3 below, when it comes to financing the Green Economy and its respective economic sectors, according to the UNEP, these refer to:

Table 3: Green Economy Sectors	
Green Economy	Sectors
Results in improvements in well-being and social equality, while significantly reducing environmental risks and ecological scarcity, and has the following main pillars: low carbon emissions, efficient use of resources and social inclusion.	Renewable energy, energy efficiency, green buildings, sustainable transport, sustainable tourism, water, fisheries, forestry, sustainable agriculture, waste, as well as specific agribusiness activities and some social sectors such as education, health, productive inclusion and local and regional development.

The Organization for Economic Co-operation and Development (OECD) has also developed its own series of green finance and investment guidelines, which are directed at achieving economic growth while reducing pollution and greenhouse gas emissions, minimizing waste, and improving efficiency in the use of natural resources (*The Organization for Economic Co-Operation and Development, 2018*).



<sup>10</sup> See for example von Wolff, S. and Phalpher, K. (2014). Green Finance Successes and Challenges – A Landscape Overview. Finance in Motion / KfW. [https://www.kf-w-ntwicklungsbank.de/PDF/Entwicklungsfinanzierung/Sektoren/Finanzsystementwicklung/Veranstaltungen/2014\\_Symposium\\_Landscape-Study-Final-Version.pdf](https://www.kf-w-ntwicklungsbank.de/PDF/Entwicklungsfinanzierung/Sektoren/Finanzsystementwicklung/Veranstaltungen/2014_Symposium_Landscape-Study-Final-Version.pdf). Inderst, G., Kaminker, Ch., and Stewart, F. (2012). Defining and Measuring Green Investments: Implications for Institutional Investors Asset Allocations. OECD Working Papers on Finance, Insurance and Private Pensions, No.24, OECD Publishing. [http://www.oecd.org/environment/WP\\_24\\_Defining\\_and\\_Measuring\\_Green\\_Investments.pdf](http://www.oecd.org/environment/WP_24_Defining_and_Measuring_Green_Investments.pdf).

Also, the OECD provides policy analysis to scale up financing of technologies, infrastructure and companies that will be critical in the transition to a low-carbon, climate-resilient and resource-efficient economy, such as the green investment policy framework that analyses the case of low-carbon, climate resilient infrastructure (Corfee-Morlot, J. et al, 2012).

In Latin America, the banking sector is implementing voluntary or regulatory frameworks for sustainable development. This is the case of Brazil, Peru, Colombia, Ecuador, Mexico, Panama, and Paraguay, with support by multilateral institutions. Peru, for instance, having incurred in billions of dollars in costs due to environmental degradation and climate change events, the financial regulator issued a social and environmental risk management regulation in 2015 (Superintendencia de Banca y Seguros y AFP de Peru, 2018). This measure responded to the findings of a local survey performed in 2012, where the ten largest banks in the country (99% of total corporate loans in Peru) considered socio-environmental risks as very relevant to their operations.

The aim of this regulation in Peru is to encourage financial institutions to implement best practices and prudent decision-making process to manage environmental and social risks. Along the same line, the Peruvian government has been working on several actions to mainstream sustainable development principles, particularly in sectors and areas experiencing high growth, utilizing natural resources, and/or relying on exports (World Bank, 2017).

Brazil is one of only two G20 countries that is using regulatory measures (utilizing pillar three of Basel III: Internal Capital Adequacy Assessment) to require that banks use sustainability criteria in their governance and risk management frameworks (Kern, 2016). In 2014, the National Banking Federation of Brazil (Febraban) adopted voluntary standards to enhance banks' assessments of environmental risks. The Central Bank of Brazil followed, aiming to promote good practices for the mitigation of environmental and social risks and developing a Social and Environmental Responsibility Policy (Brazilian Monetary Council, 2014). This policy makes financial institutions adopt their own social and environmental responsibility principles and guidelines that direct the socio-environmental actions of their businesses and in their stakeholder relations.

Both from mandatory and voluntary aspects, since 2014 Brazilian institutions have (i) been seeking to identify best practices for environmental risk management, which is reflected in the banks' strategic commitment with sustainable financing through the design and implementation of internal policies and guidelines; and (ii) been measuring their progress in green lending, through the identification of bank balances allocated to developing a low carbon economy.



**Climate finance has been key in international negotiations, beyond the G20.**

Climate finance has been key in international negotiations, beyond the G20 conversations previously mentioned. Prior to the Copenhagen COP 15 in 2009, it was calculated that US \$97 billion per annum of climate finance was being provided to support low-carbon, climate-resilient development activities, and at least US \$72 billion was provided by the private sector (*Climate Policy Initiative, 2011*). The COP 15 Summit demonstrated that there was willingness to raise larger sums to finance investments in new low-carbon technologies, energy efficiency improvements, and renewable energies generally; however, this initiative had an emphasis on public financing, rather than private. In 2010, the Cancun COP 16 Summit brought a climate finance concept, with commitment to increase the flow of climate finance from developed to developing countries, yet still with an unexplored role for the private sector. Finally, the COP 21 agreement launched a refined climate finance concept, defining the resources that both governments and the private sector should allocate to finance activities that can mitigate the impact of climate change.

These new advances set the scenario to assess what the private sector, and more specifically the banking sector, is doing to increase climate finance and the impact of banks in the broad sense of enhanced risk management and responsible and sustainable behavior. The manner in which several global and regional banking initiatives have addressed this evaluation is outlined as follows:



Some researchers suggest that US \$12 trillion in investment is needed globally by 2030 in renewable energy power generation alone to limit global warming to 2oC (*Boston Common Asset Management, ShareAction, 2018*), while others estimate such investments for developing countries could reach around US \$23 trillion. For this report, this research dimension is referred to as **Green Products and Services.**



The G20 Task Force on Climate-related Financial Disclosures (TCFD) developed climate-related disclosures to measure and respond to climate change risks. These recommendations were finalized in June 2017, calling for companies and financial institutions to organize climate-risk disclosure around governance, strategy, risk management and targets, and using scenario analysis to assess how climate risk may affect them. Banks' commitment to combatting climate change in alignment with global Accords and TCFD recommendations is referred to as **Green Strategic Commitment.**



A 2015 study estimates that the value at risk for investors from climate change under a business-as-usual scenario may be equivalent to a permanent reduction of up to 20% in portfolio value in just over a decade (*Covington, 2015*). This risk can be substantially lowered if the banking sector takes climate change seriously from a business and reputational standpoint. Actions taken by banks in this sense are referred to as **Environmental Risk Management.**



Resource efficiency and a reduced carbon footprint give companies the opportunity to be more efficient in their operations, especially for large projects. Using less energy, or producing more with the same energy, incurs lower electricity costs, which could also have a positive impact on the bottom line for financial institutions, whilst also contributing towards climate change mitigation. The analysis of this sustainable banking dimension is referred to as **Eco-Efficiency Practices.**

# 4. Methodology

4.1. Data Analysis	26
4.2. Design and preparation of questionnaires	29
4.3. Collection of information	29



The methodology for carrying out this report was divided into three major stages, described below:

## 4.1. Data Analysis



- Banks were classified according to country and asset size.
- The databases were consolidated and input into business intelligence tools and other data processing programs.
- A descriptive statistics analysis of the survey responses was carried out to obtain conclusions about the state and challenges of Green Finance in the region.

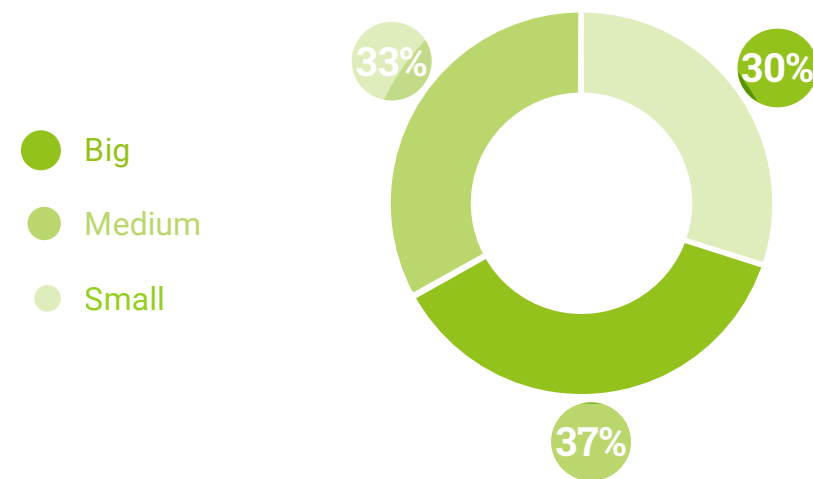
# Respondant Profile

For this purpose, banks were ordered from smaller to larger and classified by the percentiles within each country: from the 0 to 50th percentile it was classified as a "Small" bank; from 51th to 90th, as a "Medium" bank; and from 91th to 100th as a "Large" bank (see Appendix 2).

### Asset Size

As mentioned above, the sample of banks is balanced at the level of the banks' asset sizes. In relation to size, 37% of the banks surveyed are classified as large banks, 33% as medium-sized banks and 30% as small banks.

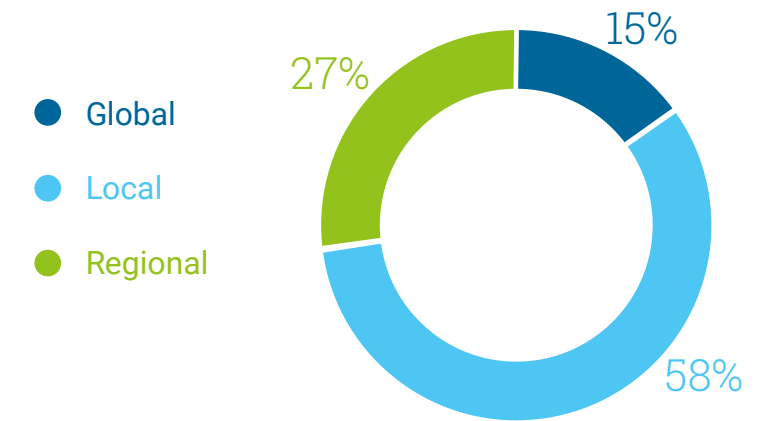
**Figure 2: Bank Distribution by Asset Size**



### Geographic Coverage

Of the 101 banks surveyed, 58% are local banks, that is, they only cover the country in which they are located. 27% are banks that have expanded their operations to other countries in the region, and 15% correspond to banks with coverage beyond the Latin American region.

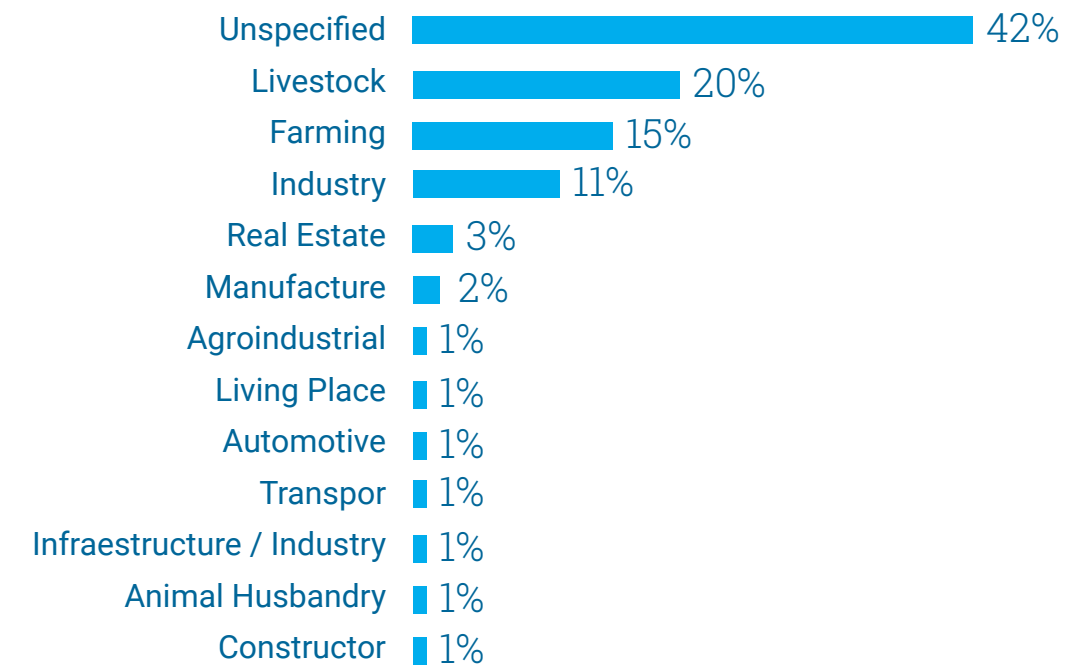
**Figure 3: Bank Distribution by Geographic Coverage**



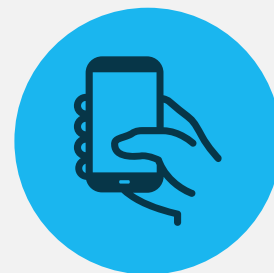
### Industries

42% of the surveyed banks do not specify a particular industry in which they are focused. That is, they provide their services regardless of the sector that demands them. For its part, 20% of the banks surveyed are focused on providing their services to the agricultural sector and 15% to agriculture.

**Figure 4: Bank Industry Focus**



## 4.2. Design and Preparation of Questionnaires



- For the development of the questionnaires, a structure was defined that contemplates the four green dimensions to characterize Green Finance, and specific topics within each dimension. The survey could be answered by four types of staff within each bank:  
**i. Responsible for the bank's senior management, ii. Business/commercial area, iii. Risks and iv. Administrative area, efficiency, sustainability or procurement.**
- For the design of the specific questions within the survey, a compendium of practices was carried out in each of the four defined dimensions and themes, in order to establish questions that would allow to identify the application and maturity of these practices in Latin American banks. The survey was directed to commercial banks, so the questions were designed taking into account the particular practices of this type of entity.

A consulting firm was hired for the management, anonymity and control of the answers. As part of the process of designing the questionnaires, a pilot test was conducted in order to receive feedback regarding the structure, size and wording. This test was done in person for one bank and virtually for another. Based on the feedback received from these banks in the pilot test, the questionnaires were reviewed and adjusted.

- The survey was translated into Portuguese and English to be sent to each bank in their primary language.

## 4.3. Collection of Information



- The questionnaires were sent via email to 375 banks in 18 Latin American countries.
- The selection of entities to which the survey was sent to was done by taking the database of financial institutions supplied by FELABAN (banks belonging to the regional banking associations, members of FELABAN) and the data of the banks suggested by IFC and the eco. business Fund.
- Reminder emails were sent, as well as follow-up telephone calls in a strategic manner to maintain a balanced response sample.
- The data was collected between July 21 and September 30, 2017 and a response was obtained from 101 banks in 18 Latin American countries.



Figure 5: Survey Responses by Country

Respondant Profile

**101 Banks**

18 Countries



# 5. Findings and Analysis

---

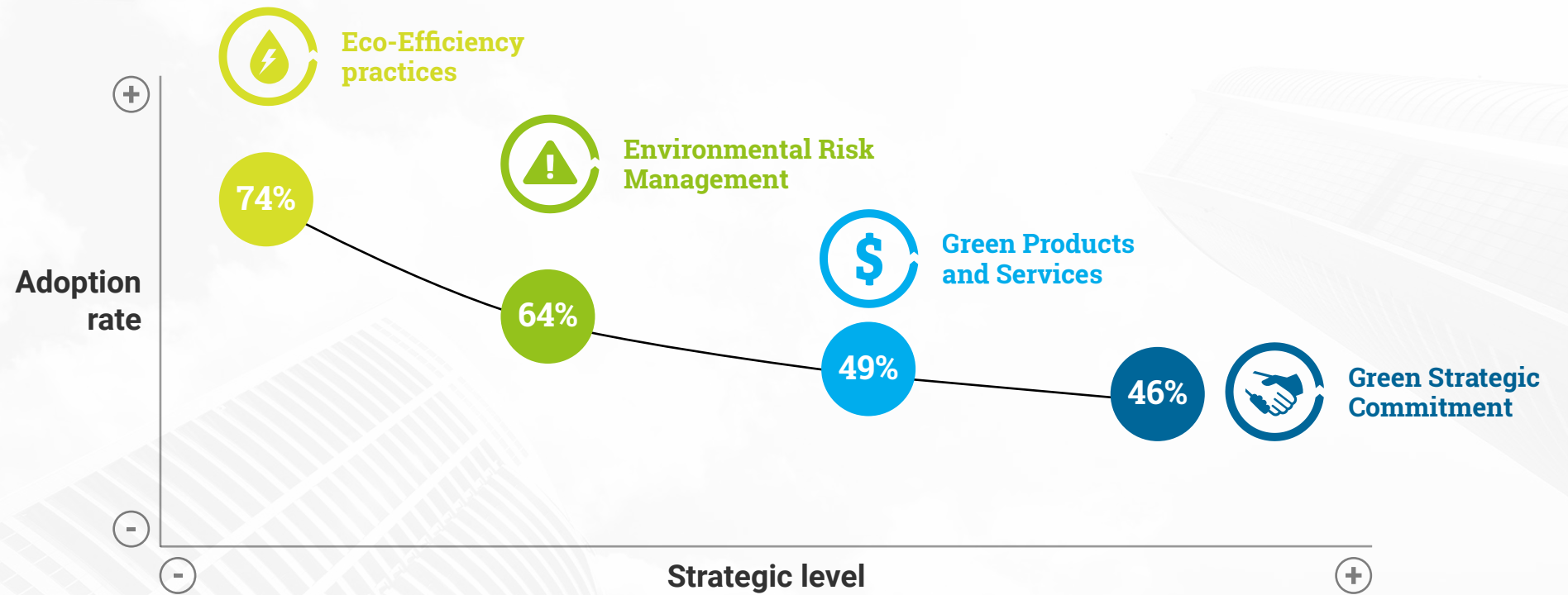
<b>5.1. Findings</b>	<b>30</b>
5.1.1. Green Products and Services	31
5.1.2. Products Related to Sustainable Agriculture	37
5.1.3. Green Strategic Commitment	40
5.1.4. Environmental Risk Management	43
5.1.5. Eco-Efficiency Practices	46
<b>5.2. Main Analysis Conclusions</b>	<b>49</b>
<b>5.3. Perspectives for Sustainable Finance Development in Latin America</b>	<b>50</b>
<b>5.4. Follow-up Interviews</b>	<b>50</b>

## 5.1. Findings

Figure 6 summarizes the results of the survey in Latin America by comparing the adoption rate of banks carrying out the dimensions of green banking analyzed, with the strategic level of each measure. As illustrated in the graph, progress towards sustainability begins in many cases from the adoption of eco-efficiency practices (74% of the banks surveyed), to reaching strategic green commitments (46%).

Figure 6:  
Green Finance Adoption Degree

From Corporate Social Responsibility (CSR) to strategic business pillar.



Through the theoretical framework and survey responses, it was revealed that there are challenges with implementing sustainable practices and mainstreaming green finance in the Latin American banking sector. One of the main findings from analyzing the survey results, is that bank staff perceive both insufficient support from top management and low client demand. Staff also feel they lack sufficient technical knowledge and capacity to understand the sustainable banking business and its implementation cost and benefits. These barriers and challenges are in line with a prior similar research conducted in the region by UNEP FI<sup>11</sup>.

On the benefit side, as will be further detailed in this section, the survey also demonstrates that sustainable finance in Latin America offers a remarkable business opportunity for banks. Several surveyed banking institutions have quantified the investment potential, which demonstrates a growing market that needs lending, financial, and non-financial services for which they have a responsibility beyond capital facilitation. Sustainable banking is also perceived by surveyed banks as an opportunity to innovate and differentiate themselves in very competitive markets.

<sup>11</sup> UNEP FI's 'Sustainability Integration in the Latin American Financial Institutions' report (2012).

## 5.1.1.

# Green Products and Services



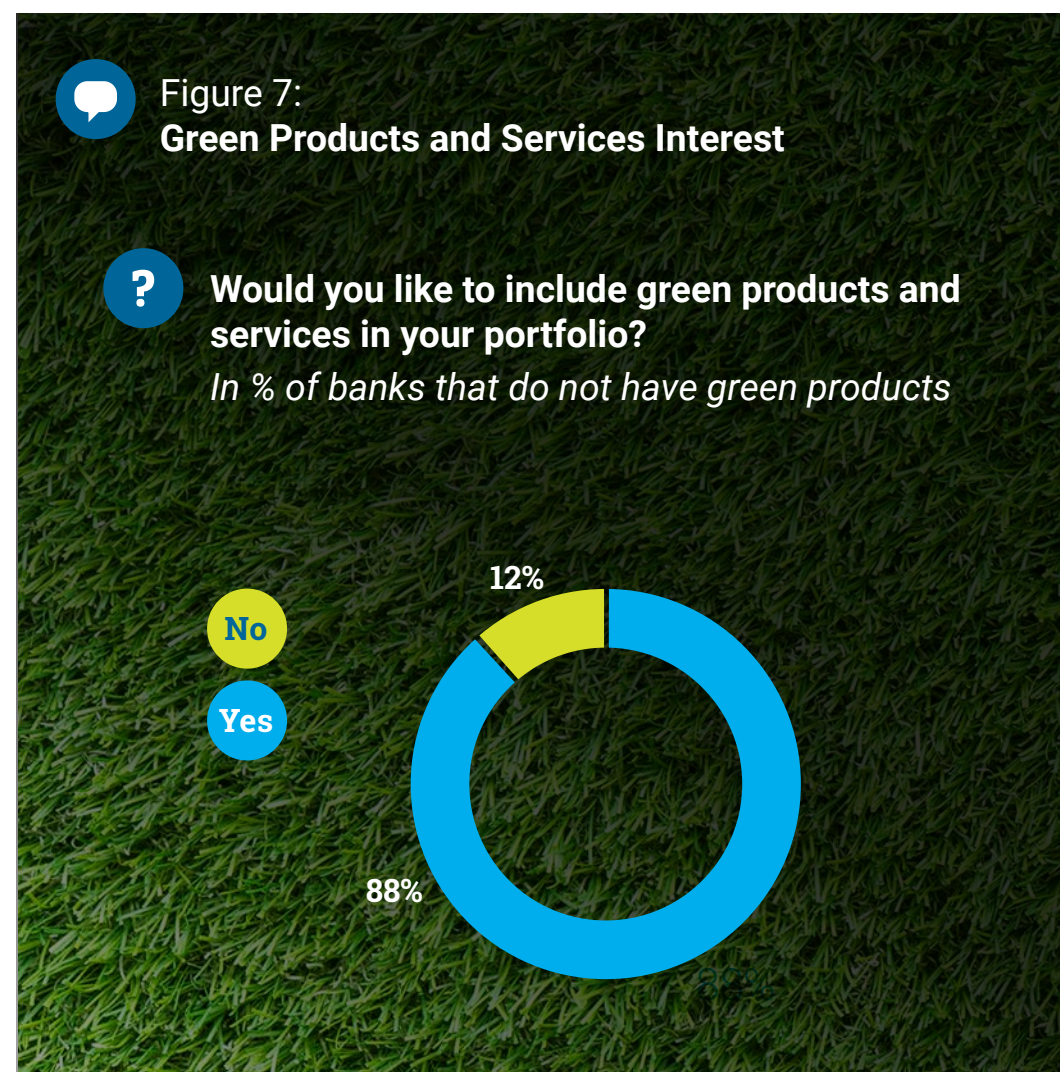
This area, which refers to the green value proposition that banks offer to their clients, including solutions that incorporate environmental benefits, flags products and services that contain environmental benefits or attributes, which are intentionally and differentially marketed as green to the bank's client base. Green credit products include, among others, green loans, green mortgage, green leasing, green credit card green trade finance, etc., as defined in Table 4 below.

Table 4:  
Green Product Characteristics

Financial Product	Description
Green Loan	A loan that finances assets linked to energy efficiency solutions, renewable energy projects, climate-smart agriculture activities, green buildings, etc., amongst other green assets that generate a positive environmental impact.
Green Mortgage	Mortgages linked to real estate assets that have green building certifications, such as LEED, BREEAM, or EDGE, or that comply with some efficiency criteria such as reduced energy, water consumption and/or low carbon materials.
Green Leasing	Financial leases of assets qualified as green, typically equipment, such as efficient motors, solar panels, electric vehicles, etc.
Green Credit Card	Credit cards that incorporate some sort of environmental benefits, such as offering to invest administrative fees (monthly maintenance fee charged to the cardholder) in green/sustainable initiatives (e.g. tree planting to offset CO2 emissions) or that offer differential interest rates for green products purchased.
Green Trade Finance	Trade finance solutions linked to the importing/exporting operations of assets that qualify as green, such as equipment and projects that clearly generate a positive environmental impact.

Other investment or transactional green products include green investment funds, green accounts, green insurance, climate intelligent agribusiness financing, etc. Green non-financial services refer to the assistance and advisory services provided by the bank to its clients, on green practices and operations in the different industries.

Out of the 101 banks surveyed, 49% were already marketing and commercializing some type of green product or service to their clients, revealing that Latin-American banks are aligning their product offering to market trends towards the greater demand for environmental friendly products. Of the 51% not formally offering green products and services, 88% of the banks expressed interest in doing so in the future. This interest may be the result of various factors, such as an improved regulatory environment, public commitment to sustainability, more environmentally conscious investors and financiers, as well as a demonstration effect generated by leading banks in the region.



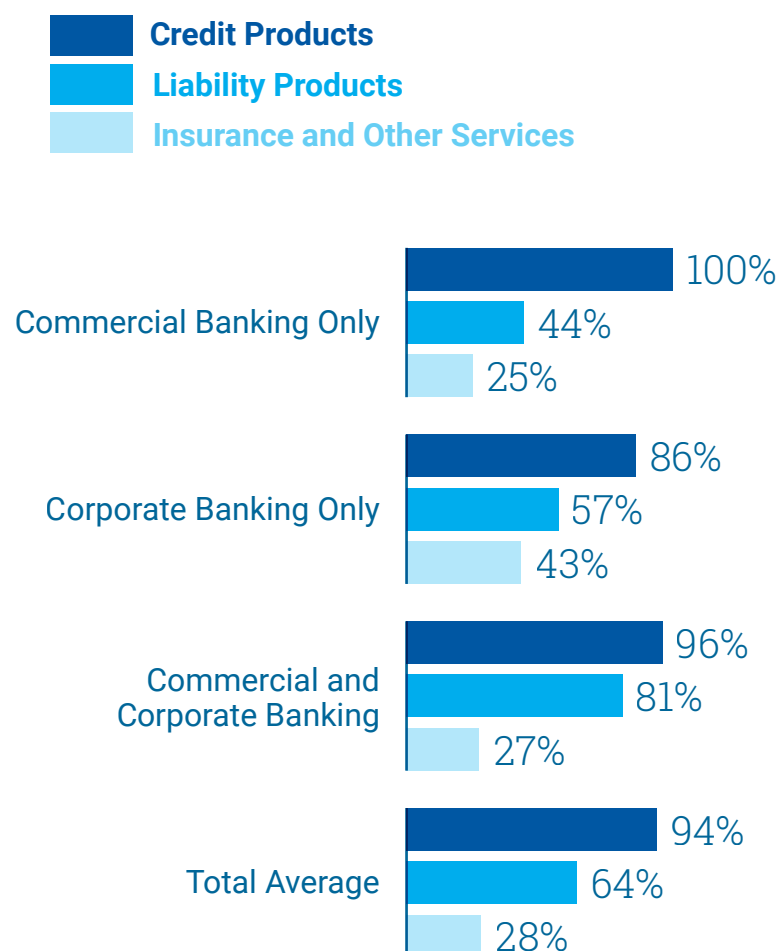
In its Climate Business Opportunities Report (International Finance Corporation, 2016), IFC estimated that there is US \$2.6 trillion in investment opportunities in the region, nearly 60% of which is related to transport infrastructure, and one third to green buildings.

Other investment or transactional green products could include green investment funds, green accounts, green insurance, climate intelligent agribusiness practices and models, etc. Green non-financial services, on the other hand, refers to assistance and advisory services provided to bank clients regarding green practices and operations in/for different industries.

**Figure 8: Interest in Green Products and Services Offerings**

**Types of green financial products and services offered**

% over banks that have green products and services within each segment



As seen in Figure 8, among the banks that already are marketing green products and services, green credit is the most widely offered product (94%). This includes not only green finance and lending facilities, but also green leasing.

**The highest demand for green products is still concentrated in the corporate banking segment in comparison with the commercial banking segment.**

When it comes to products other than credit, 28% of the banks offer green insurance, mainly related to climate risk coverage, and green non-financial services or advisory services on sustainability practices. The third most popular green product offered is green investment funds, followed by green savings accounts. Green savings refers to transactional accounts that typically reduce carbon footprints, function online, and avoid paper usage. In many banks, these accounts incorporate other environmental features, such as allocating some of the account fees to environmentally beneficial activities such as reforestation.

The highest demand for green products is still concentrated in the corporate banking segment in comparison with the commercial banking segment. This means that the largest bank clients, i.e., a limited number of corporations, are still driving the demand for green products, mostly related to project financing or corporate lending to large renewable energy projects, such as hydro power plants, photovoltaic farms, etc. This reveals the lack of sufficient financing for other green asset classes, such as energy efficiency financing where the largest potential remains with mid-sized enterprises, small companies, and even individual entrepreneurs and households.

There is a strong urgency to mainstream green products beyond corporates to the commercial banking segment. With most commercial banks around the world, including Latin America, the largest bank segment in terms of number of clients and aggregated lending portfolios is the commercial banking segment that serves mid-size and small enterprises, as well as individuals. Thus, focusing on the commercial banking segment with green products and services would allow for increased market reach and scaled up climate financing in the region.

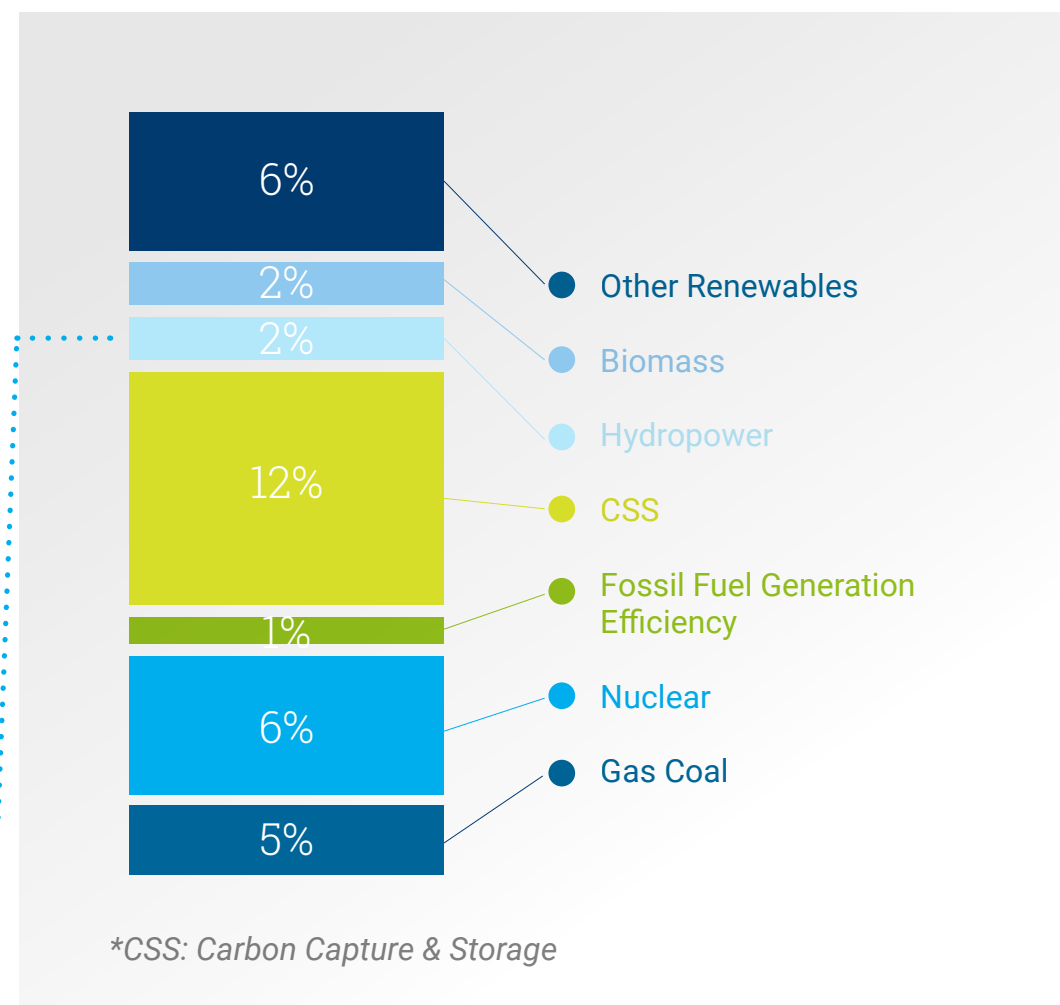
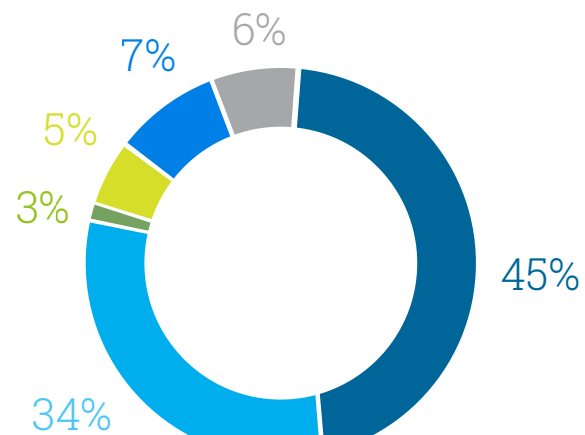


According to the International Energy Agency, energy efficiency is a major contributor to strategic objectives across five main themes: enhancing the sustainability of the energy system, economic development, social development, environmental sustainability, and increasing prosperity (*International Energy Agency, 2014*). Energy efficiency financing is indispensable for reducing CO2 emissions, accounting for 45% of emissions reductions as presented in Figure 9 below (Kaygusuz, 2012), as seen in technology and equipment substitutions, retrofits, and adopting best practices in several sectors (e.g., industry, transportation, waste, water, construction, and lighting). Energy efficiency financing is a key opportunity for banks serving small, medium, and large enterprises, through commercial banking.

**Figure 9: Reductions in CO2 Emissions by Technology Area**

(Kaygusuz, 2012)

- End Use Efficiency
- Energy Generation
- CCS\* | Fuel Transformation
- CSS in Industry
- Fuel Mix in Buildings and Industry
- Transport Biofuels



Furthermore, according to IFC's Climate Business Opportunities Report, industrial energy efficiency and resource efficiency in buildings represent an investment opportunity of almost US \$1 trillion by 2030, based on climate change commitments and policies in place in Argentina, Brazil, Colombia, and Mexico. The International Energy Agency report also estimates that there were aggregate annual investments in energy efficiency valued at US \$300 billion in 2011 only, equal to aggregate investments in coal, oil and gas power generation, while also becoming the surest source of energy supply. These figures reflect not only a huge opportunity for banks to engage with their clients, but also a rapid means to realize a large, positive environmental impact.

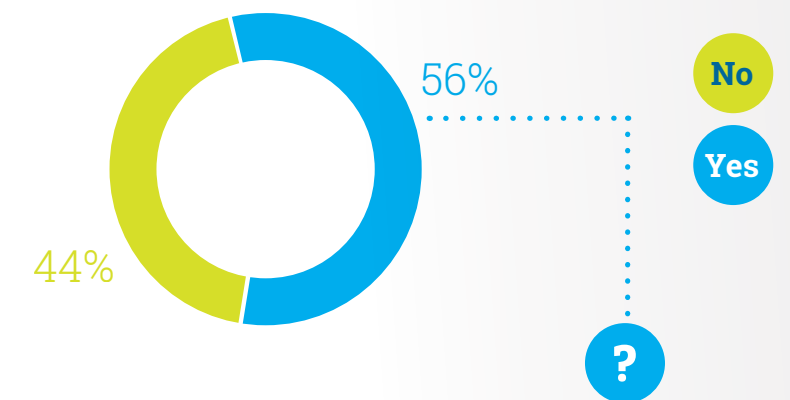
In terms of the expected profitability of green products for commercial and corporate banking, the surveyed banks estimated that profitability would be the same for the corporate and commercial banking segments. That being said, only 56% of the banks currently offering green products and services, are quantifying and measuring returns on their green portfolios. As seen in Figure 10, of these banks that are monitoring their

green portfolio, 54% reported green portfolio growth between 1% and 50%, while 35% of banks saw growth greater than 50%. These positive green portfolio growth rates reflect a growing demand for green products. These positive growth rates of the green portfolio reflect a dynamic demand for green products and services.

In addition, the survey shows that the growth in the portfolios of green products and services is accompanied by greater profitability.

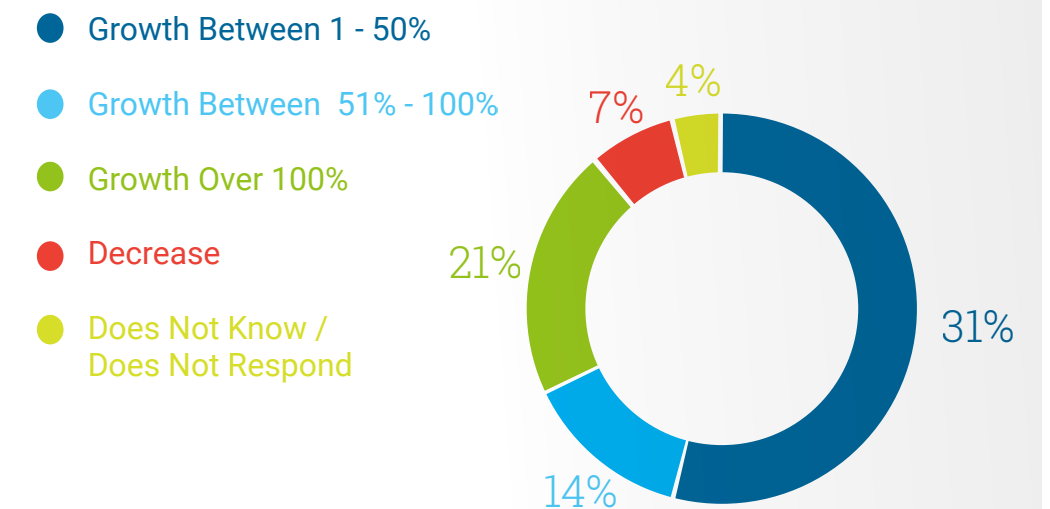
**Figure 10: Green Portfolio – Growth**

**Does your bank quantify its green portfolio?**  
% over banks with Green Products



**What growth has your green product portfolio obtained last year?**  
% over banks who quantify their green portfolio

% over banks who quantify their green portfolio



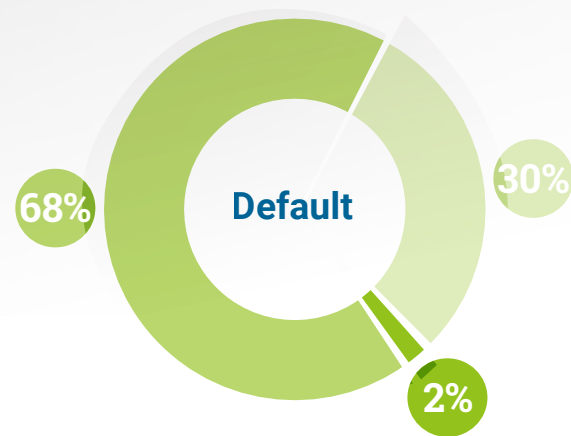
When looking at green portfolio credit quality, 68% of surveyed banks state that non-performing loan levels behave similarly for both green and non-green traditional products, while 30% of banks consider that their green portfolios perform better than the traditional non-green portfolios. Regarding profitability of both loan portfolios (traditional and green), 62% of banks consider that it is similar in both portfolios, while 22% report that green portfolios yield lower profitability than traditional portfolios (see Figure 11 below).

**Figure 11:**  
**Green Financial Products and Services –**  
**Non-performing and Profitability**

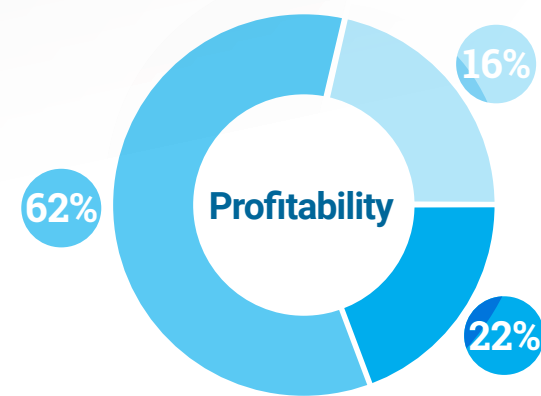
**?** Regarding your portfolio of traditional products, what has been the behavior of green products in terms of default and profitability rates?

*% over banks with Green Products*

Higher Same Lower



Higher Same Lower



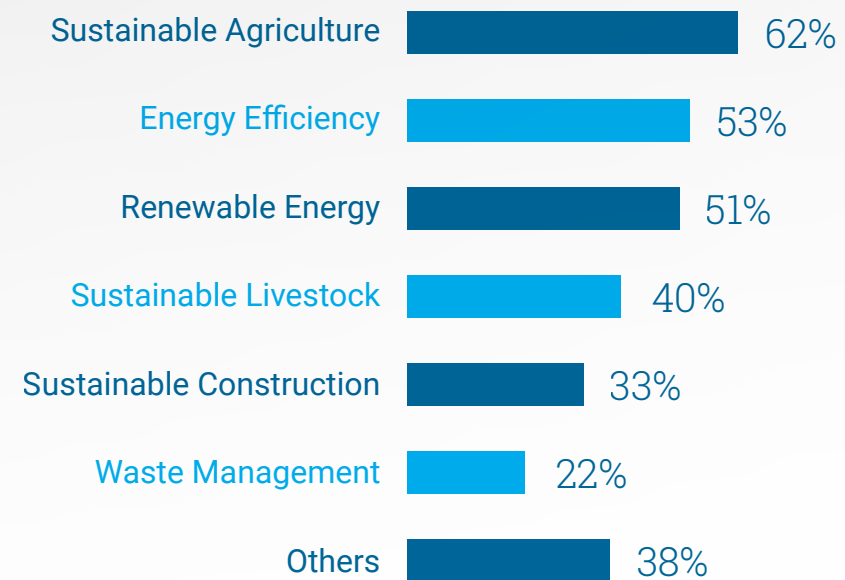
For banks that are not formally commercializing green products and services, 62% indicated that sustainable agriculture is a future priority area for green product development (see Figure 12). This is not surprising, as agribusiness is a chief productive activity in the region and one of the most relevant for the region's economies, followed by energy efficiency, renewable energy, and sustainable cattle.



**Figure 12:**  
**Areas for Potential Green Products and Services Offerings**

*Topics in which banks would be interested in developing green products*

*% over banks with no Green Products*



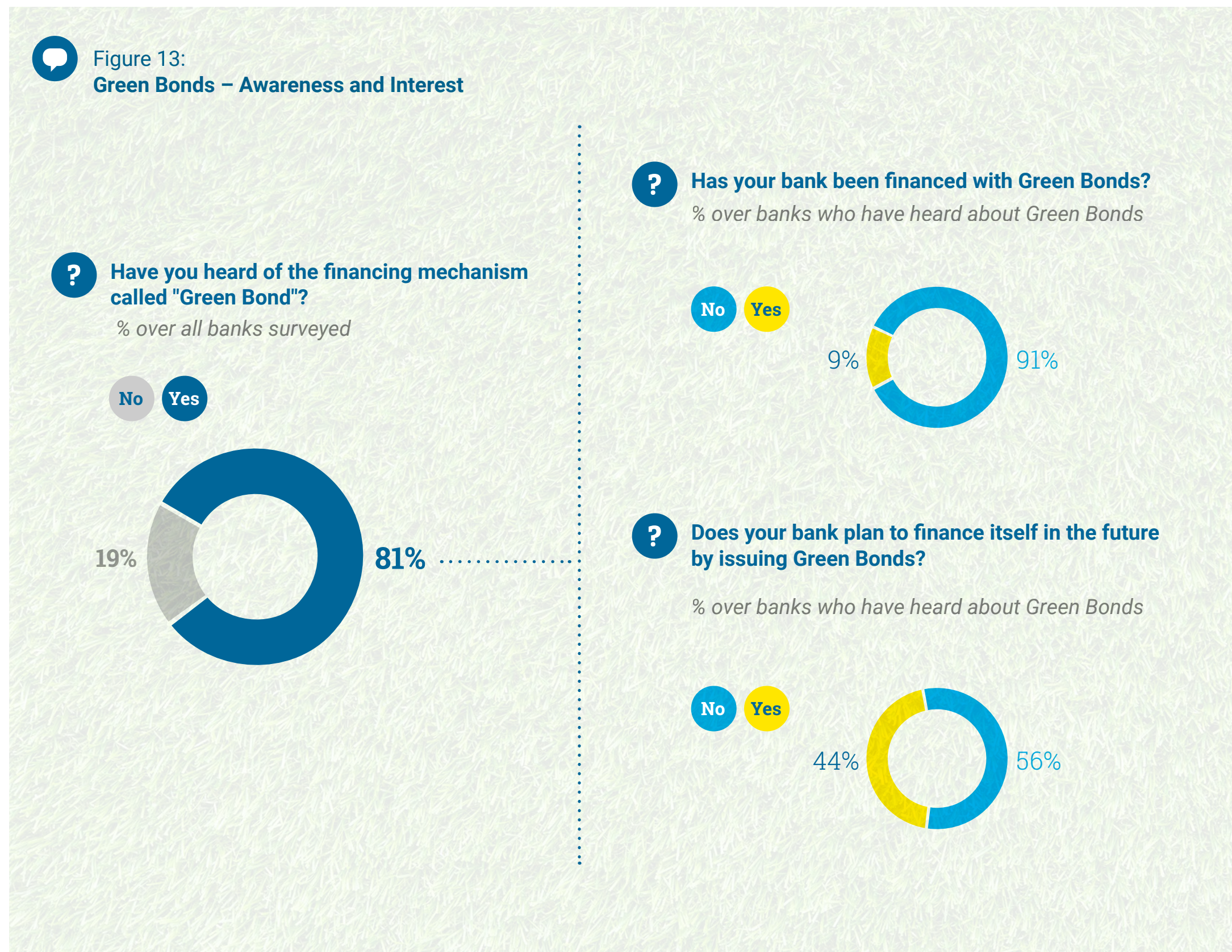
Banks identified the following barriers for offering green products and services to their clients:

- Lack of bank knowledge and technical capacity to understand and identify green opportunities in their client bases;
- Limited range of green product offerings currently available;
- Accessible international green financing to market green products;
- A regulatory framework that is not yet supportive for green product offerings; and
- Inability to correctly identify and measure green demand.

The benefits for surveyed banks to have a green value proposition (products and services) include:

- + Possibility to increase market share through new innovative business lines;
- + Improve banks reputation and image;
- + Can facilitate access to international green financing facilities;
- + May improve the overall credit quality of the bank portfolio.

One of the fastest growing green products is 'use of proceeds' green bonds to finance eligible green assets, as per the green bond principles. From the 101 banks surveyed, 81% have heard about this type of asset and almost half of those banks are considering issuing a green bond in the months to come (see Figure 13 below).



Emerging markets, particularly Latin America, are well positioned to scale up green finance, given the strong prospects and rising demand for green products, with green bond issuance at a global level predicted to reach US \$250 billion in 2018 (Moody's, 2018). A green bond is a debt instrument that enables capital-raising and investment for new and existing projects with environmental benefits (International Capital Market Association, 2018), for which the Green Bond Principles (GBP) have been created, as voluntary process guidelines, to provide direction on the key components involved in launching a credible green bond.

The green bond market is growing across Latin America, including Brazil, Colombia, Costa Rica, Mexico, and Peru (Climate Bonds Initiative, Bloomberg, 2018), with Argentina as a new participant in 2018 (Periodico La Nacion, 2018). These trends demonstrate that the underlying green business of banks is rapidly consolidating. With nearly US \$8 billion of issuances in 2017, Latin America's green bond market has doubled the total bond issuance in the region (Climate Bonds Initiative, Bloomberg, 2018).

5.1.2.

## Products Related to Sustainable Agriculture



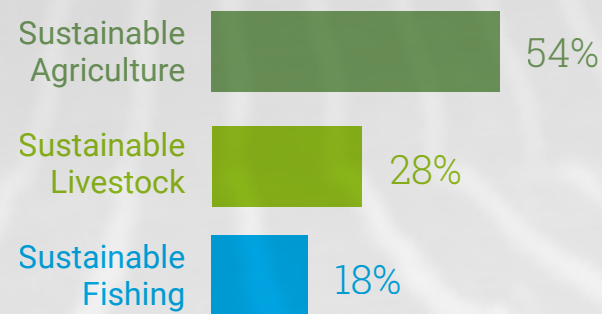
In line with this chapter, the surveyed banks selected the topics with which their green products and services were related. From this question, it was revealed that more than half of the banks relate their green portfolio to the topic of sustainable agriculture (54%).

At the same time, given that banks could choose between several topics, 28% and 18% of the banks surveyed said they had a relationship with sustainable livestock and fisheries, respectively.

**Figure 14: Main Agri Product Themes Financed by Banks**

**Does your bank currently offer green products and services related to any of the following topics?**

*In % of banks that have green products*

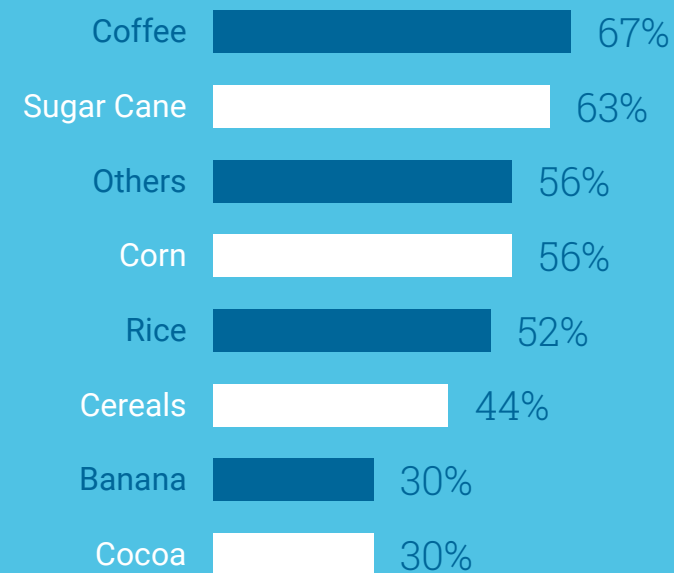


Out of the agricultural products that are mostly financed by banks in Latin America, coffee, sugar cane, corn and others (soybeans, bananas, peanuts and pineapples) are the most relevant. However, the above results vary according to the region and country in which the bank operates.

**Figure 15: Main Agriculture Crops Financed by Banks**

**What are the main agricultural products that your bank finances?**

*In % of banks that have green products of sustainable agriculture*

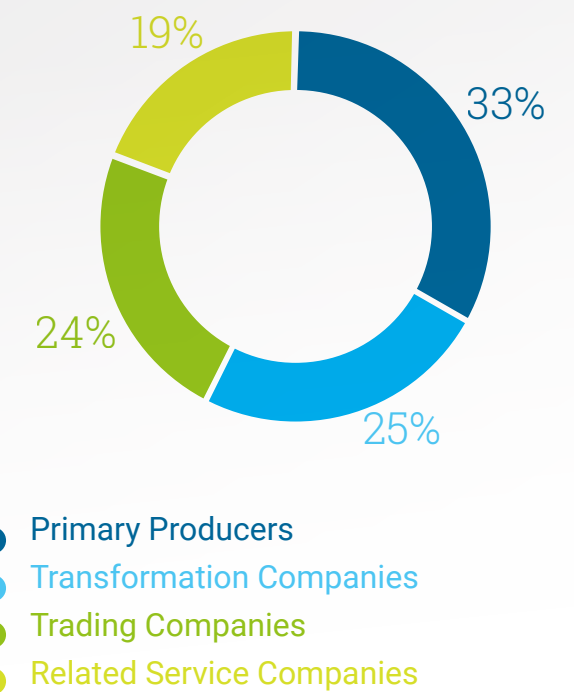


On the other hand, according to Figure 16, of the main actors in the value chain that banks finance on sustainable agriculture issues, there is no significant difference between them in their financing. This range is between 19% (transforming companies) and 33% (primary production).

**Figure 16: Main Stakeholders of the Value Chain Financed by Banks**

**Main actors of the agricultural value chain that your bank finances**

*In % of banks that have green products of sustainable agriculture*



On the other hand, to know about the financial products offered by the banks on sustainable agriculture, they were asked to choose the respective products according to the classification by assets, liabilities, insurance and other services.

Of the results obtained, the assets (credit) products are the most offered type. The loans of productive investment, agricultural machinery and sustainable agriculture (Smart-Agri) solutions are those that are found with greater frequency in the market. Secondly, working capital loans are grouped for campaign in local currency and in USD, and destined for green uses.

Of the results obtained from the classification, the liability products stand out, as they are the products that most of the banks surveyed offer, the sustainable savings accounts, green deposits and green current accounts. In addition, within "other" products are green bonds and institutional fund resources.

Of the results of insurance and other services, agricultural insurance/ derivatives that cover climate risks are those that are offered most by the banks surveyed. Less important are the advice to manage environmental risks and opportunities for energy savings and transactional information.

Once again, it is evident that the green credit products that banks offer, even when they are related to sustainable agriculture issues, are the most offered in the market.

Figure 17 shows that leveraging through suppliers, the commercial network specialized in the segment and the cross-selling of associated products are the main tools on which banks leverage to achieve the growth of this green portfolio.



**Figure 17:**  
**Agro Segment Growth Strategies**

*In % of banks that have green products of sustainable agriculture*



The previous analysis reveals an important interaction between the growth strategies of the portfolio and the retention of clients in the agro segment. In particular, when tracking how much do agricultural products retain their customers, 70% of financial institutions claim to have a high level of retention, while the remaining 30% consider it to be moderate. No bank considers that there is a low level of retention of clients for this portfolio segment.

This interaction becomes relevant when considering the incentives that can be created in banks by having effective growth strategies, together with a portfolio of agricultural products with a high level of customer retention.

The measurement of the performance of green products in the agribusiness segment is mainly carried out on the portfolio growth metric, the acquisition of new clients and the average profitability per client. This means that, if growth strategies are effective, the indicator of attracting new customers should be positively affected.

In turn, of the metrics to measure performance within the "other" category, the indicators of social and economic impact on customers and mitigated CO2 tons stand out.

On the other hand, regarding the growth prospects of the agro segment for the next 3 years, it is found that the expectation is moderate, since 63% consider growth to be between 0 and 15%, while a smaller proportion of banks (26%) expects to obtain portfolio growth of around 16% and 30%.

5.1.3

## Green Strategic Commitment



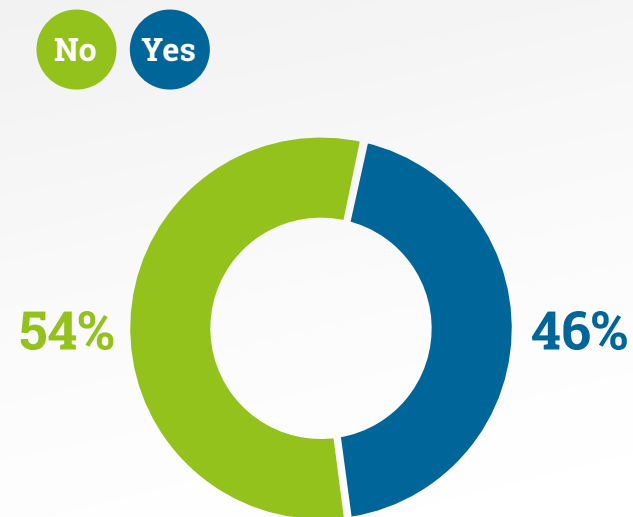


This dimension aims at identifying overall bank commitment to sustainable banking in terms of assessing whether: (i) green vision and green objectives are embedded into bank strategies; (ii) environmental policies and/or practices are in place; (iii) resources and budget are allocated to promote green finance within the bank; (iv) dedicated staff are positioned to handle green business; and (v) capacity and knowledge to promote green finance are being developed and provided. Based on the survey responses, this is the least mature dimension, with only 46% of the surveyed banks reporting to have some kind of green institutional commitment (see Figure 18 below).

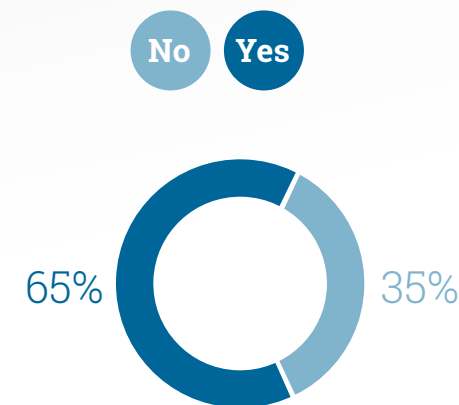
When asked if banks actively promote sustainable financing by leveraging any of the four research dimensions, in all cases, responses revealed limited actions towards a formal corporate commitment to sustainability. Most banks do not incentivize green finance, do not have specific budgets allocated, and are not providing the necessary capacity building or communications (internally or externally).

**Figure 18:**  
**Green Commitment – Status and Plan Ahead**

**?** Does your bank integrate strategic objectives related to green financing  
*% over all banks surveyed*



**?** Does your bank plan to integrate/increase its strategic objectives for Green Finance within the coming years?  
*% over banks that do not integrate Green Finance within their strategic vision*



The main challenges for surveyed banks to have a strong institutional commitment to green finance include:

- Perceived lack of stakeholder interest;
- Lack of economic incentives and individual rewards;
- Lack of information and resources;
- Lack of management support.

The perceived benefits and opportunities of having a strong institutional commitment to green finance include:

- + Differentiation within a competitive market;
- + Strengthened reputation and branding;
- + Environmental benefits;
- + Better relationship with clients and society,
- + New source of business and revenue.

In the search to encourage green financing as part of the operation of banking, central banks and banking associations of Latin America have looked for ways to incorporate environmental factors in credit decisions. This is how both mandatory policies as voluntary green protocols have been adopted by several countries since 2012 (Sustainable Banking Network, 2018). Brazil, Colombia, Mexico and Peru launched and successfully implemented green or sustainability protocols that incorporate measures linked to the bank's disposition to design and launch green products and services and other dimensions of sustainable banking evaluated in this report, such as internal policies (green strategic commitment), environmental risk management, eco-efficiency practices and dissemination or commercialization.



5.1.4.

## Environmental Risk Management



This dimension reflects the policies, tools, mechanisms, procedures, and frameworks that banks use to identify, assess, and manage environmental (and in most cases also social) risks, as generated by bank clients that can impact the bank itself. The survey has focused principally on their environmental risk management systems (ERMS).

As seen in Figure 19, of the 101 banks surveyed, 64% have an ERMS in place, and those that do not have one, apply one or various good environmental risk management practices. Among the banks with an ERMS in place, IFC standards are the most widely adopted initiative, with 72% bank application. Also, banks apply risk management frameworks and guidelines, such as the Equator Principles<sup>12</sup>, IFC Exclusion List (Appendix 3), guidelines from the Principles for Responsible Investment<sup>13</sup> and national protocols.

Among the banks using ERMS in their businesses, 91% apply the social and environmental assessment to their corporate banking segment, mainly to large corporates, followed by public borrowers. Other banks also apply ERMS to their commercial banking segment, but most assessments still concentrate on large and middle-sized clients.

<sup>12</sup> The Equator Principles can be defined as a risk management framework adopted by financial institutions specifically, for determining, assessing and managing environmental and social risk in development projects.

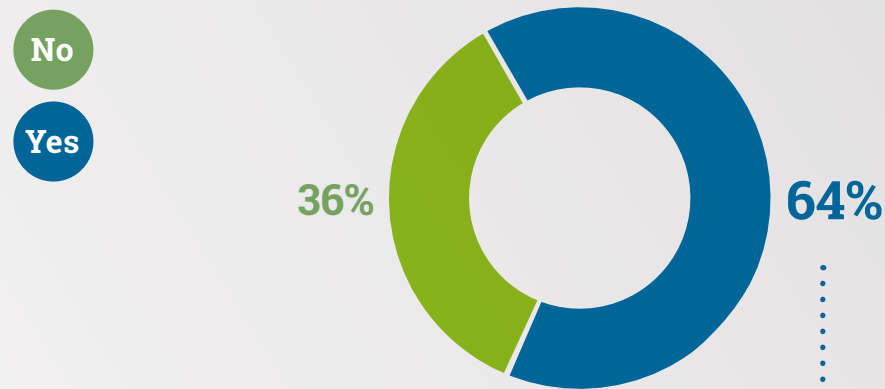
<sup>13</sup> The Principles for Responsible Investment can be defined as an initiative as well as a set of guidelines investors, who want to consider environmental, social, and governance (ESG) issues as part of their investment process, can sign up to.



**Figure 19:**  
**Environmental Risk Management – Current Practices**

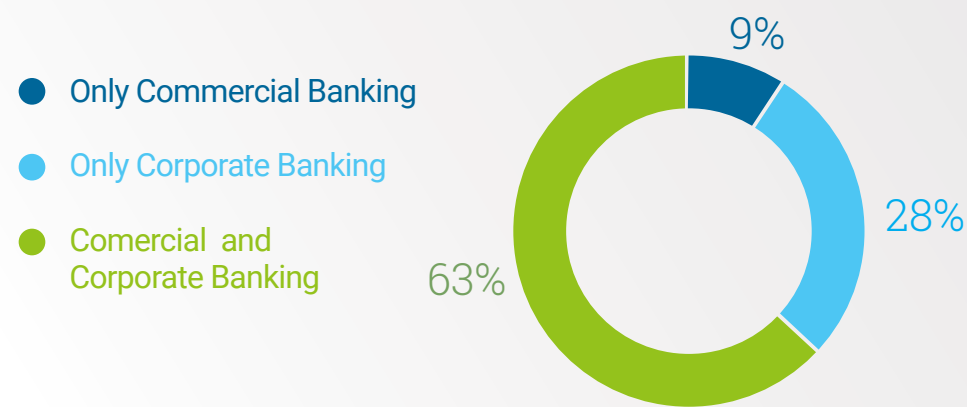
**? Does your bank have an environmental risk management system (ERMS)?**

*% over all banks surveyed*



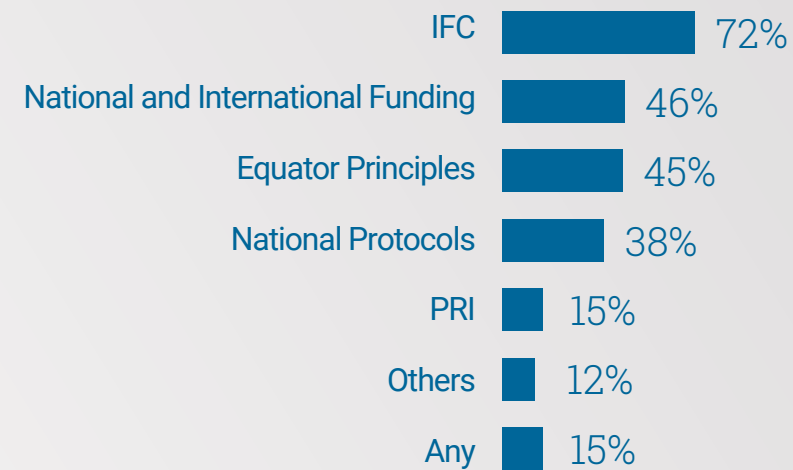
**? On which banking segments do you apply the ERMS?**

*% over banks that do implement ERMS*



**? Is your ERMS aligned with any of the following initiatives?**

*% over banks that do implement ERMS*



From survey responses, for 64% of banks, applying an ERMS to their lending operations translates into an impact in terms of the spread, the credit conditions, and/or the level of guarantees required. Thus, environmental issues are important components of the loan's final conditions. On the other hand, 36% of the banks that apply an ERMS do not consider the environmental performance of their clients as a characteristic influencing credit conditions (e.g., loan amount, tenor, etc.).



**Figure 20:**  
**Differentiated Credit Conditions based on ERMS Rating**



**Does the bank differentiate credit conditions, according to the risk assessment?**

*In % of banks with ERMS*

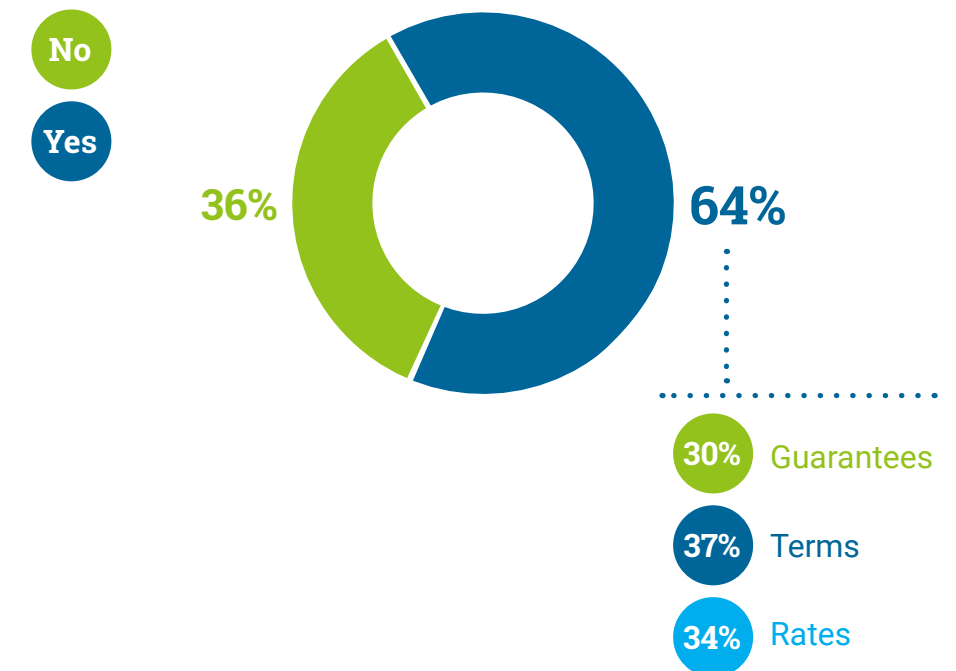
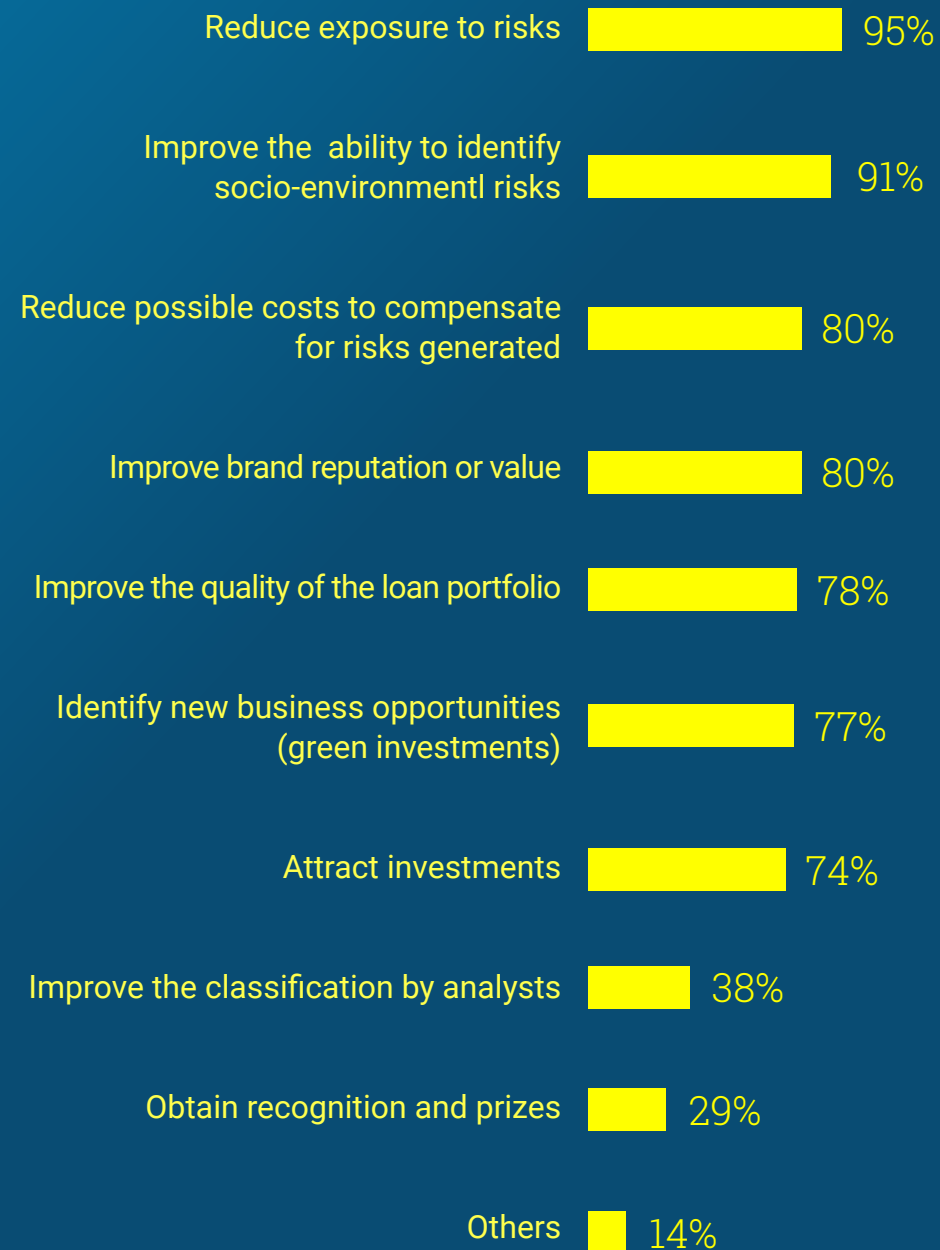
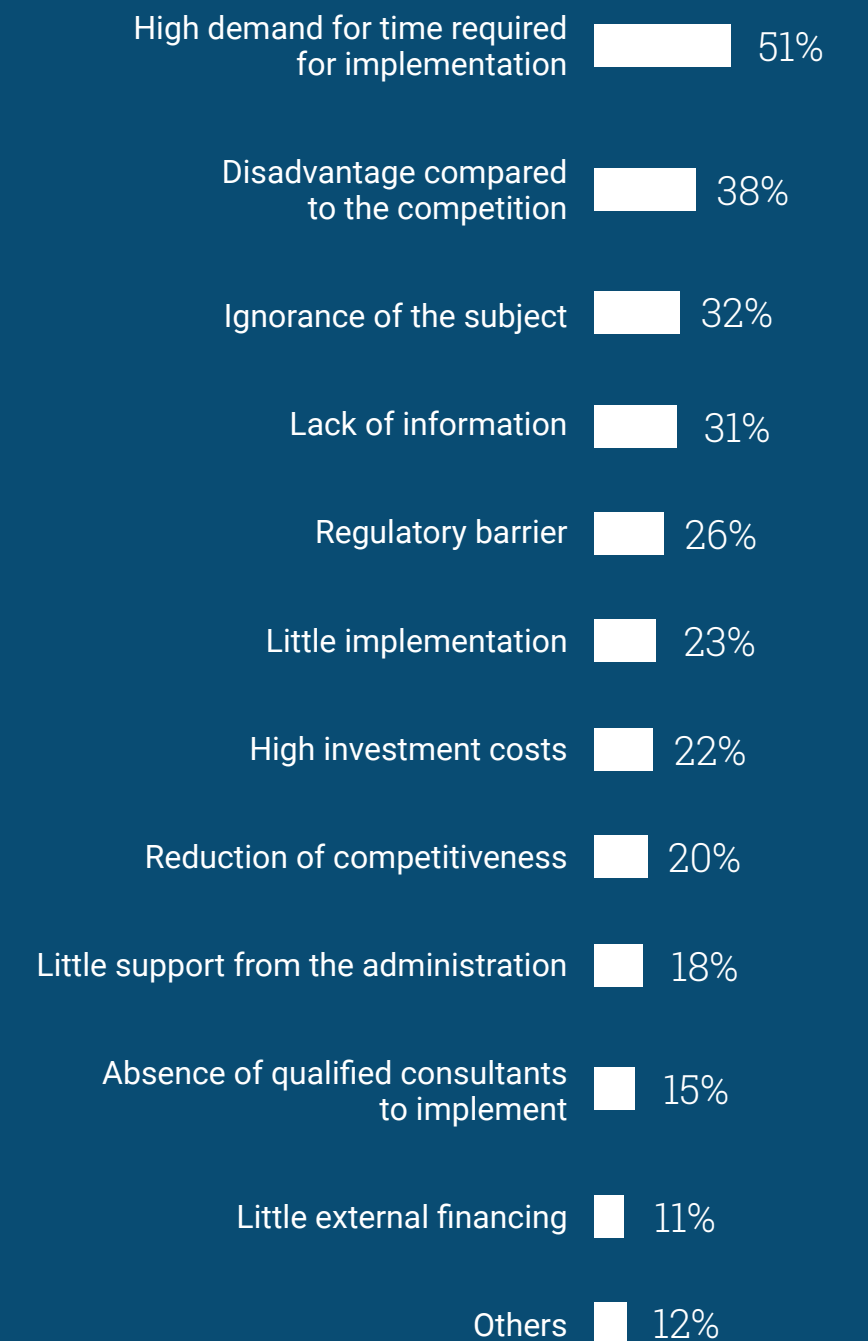


Figure 21:  
Benefits and Challenges of ERMS

**ERMS Benefits**  
In % of banks with ESRM



**ERMS Challenges**  
In % of banks with ESRM



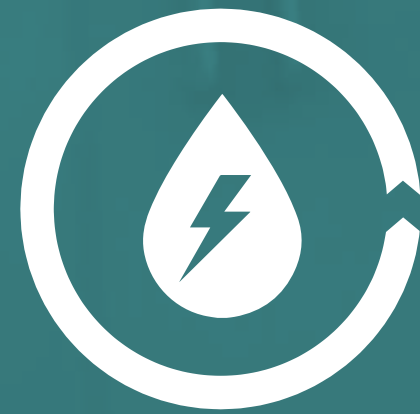
According to survey results, the main barriers for banks to implement an ERMS include:

- Lack of resources and knowledge;
- Resistance to change in the corporate culture; and
- Lack of management support.

The acknowledged benefits and opportunities of having a ERMS in place are several:

- Reduced risk exposure;
- Improved capacity to identify environmental risks;
- Improved brand and reputation; and
- Reduced costs associated with generated risks.

## 5.1.5. Eco-Efficiency Practices



Eco-efficiency practices are the actions and initiatives that banks take to reduce and/or mitigate their environmental footprint and/or to optimize resource usage, directly across their own premises and network, and indirectly across their value chains with providers and clients. Examples of these measures include green building certifications for corporate buildings and/or branches, use of photovoltaic panels to generate solar energy for self-consumption, requirements for providers to follow sustainable practices, and/or paperless accounts for clients, amongst others.

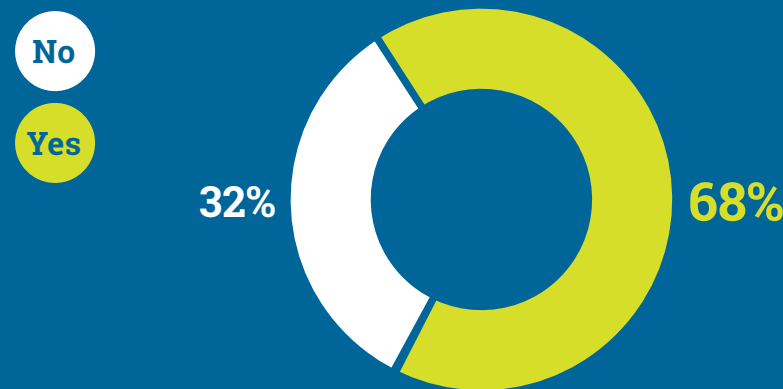
Out of 101 banks surveyed, 74% apply, to some extent, eco-efficient practices, making this dimension the most widely adopted out of the four sustainable banking dimensions analyzed in this report. Banks are trying proactively to optimize their use of resources, and to a lesser extent to reduce their carbon footprint.

Most clean practices are through energy efficiency programs that promote efficient resource use, including electricity, water, and paper, followed by waste management programs and carbon footprint compensation/offsetting.

One interesting fact is that of all the banks with eco-efficiency practices, only 68% measure their impact in environmental and financial terms; however, the banks conclude that most of these initiatives contribute to cost savings, except for waste treatment and carbon footprint compensation/offsetting. The bank unit that is typically responsible for measuring this dimension is either the administrative or the sustainability function. The most measured initiatives are electricity, water, and paper consumption (see Figure 22).

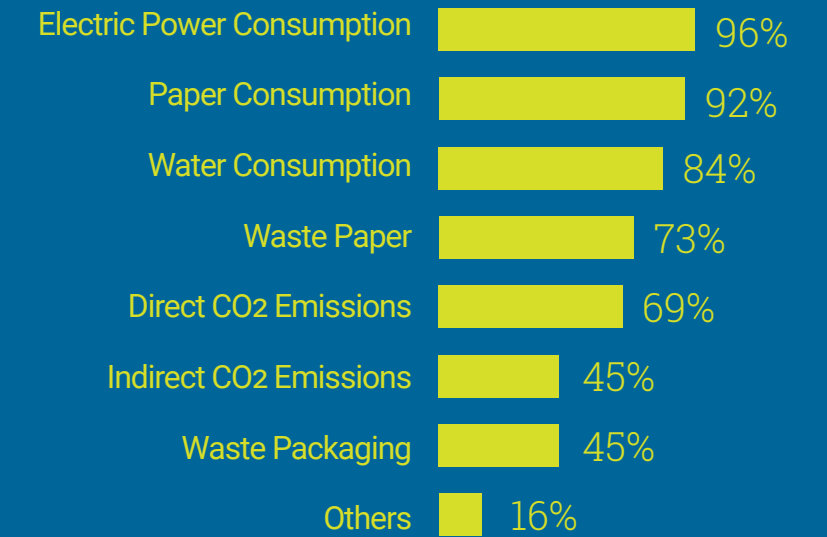
**Figure 22:**  
**Eco-Efficiency – Practices and Responsible Areas**

**?** Does your bank use efficiency indicators that allow you to measure the results of eco-efficiency practices in terms of reducing environmental impacts?  
*% over banks that implement eco-efficiency practices*



**?** Indicate which of the following indicators you employ  
*% over banks that use efficiency indicators*

*% over banks that use efficiency indicators*



**?** Which area is in charge of measuring these indicators?  
*% over banks that use efficiency indicators*





Banks report the following main challenges with implementing eco-efficiency initiatives:

- Lack of sufficient resources;
- Insufficient knowledge and expertise; and
- Anticipated technical complexity.

Most banks that have proactively adopted eco-efficiency practices declared that their main benefits and opportunities are:

- + Positive contribution to the environment;
- + Economic benefits; and
- + Strengthened brand and reputation.



## 5.2.

# Main Analysis Conclusions

The level of adoption of green finance in the Latin American banking sector, as measured through the adoption of the four dimensions of this research, reveals a bottom-up learning curve with lesser strategic actions, most under implementation, and administrative management driving corporate commitment. This is evidenced by eco-efficiency practices with the highest rate of implementation amongst the investigated sustainable banking dimensions. Corporate sustainability frameworks, which are typically led by the highest bank leadership, are the least implemented sustainability green banking dimensions. According to survey results, Latin American banks are not yet embracing a vision for green finance nor promoting environmental sustainability as a crosscutting strategic pillar throughout the bank. The sustainability adopted, based on these research results, has been mainly focused on improving resource efficiency and managing environmental risks, and in a lower extent to offering green financial products and services.

This research reveals that management commitment with a green banking business model is being adopted by banks that have previously embedded the remaining three sustainable banking dimensions (i.e., green products and services, eco-efficiency, and environmental risk management). This is evidenced by the survey responses and confirmed by the follow-on interviews (detailed later in this section), where the three interviewed banks shared their willingness to either design green financial products or develop green business models, after successfully implemented ERMS and eco-efficiency practices.

As banks start to become familiar with sustainability, green finance, and environmental management, they will realize the business opportunity in developing green value offerings, in terms of both environmental responsibility and profitability. Banks are devoted to their shareholders, clients, employees, and other stakeholders, and climate finance is an opportunity for banks to diversify their business, innovate, and differentiate themselves in very competitive markets.

### Facilitating Drivers

There are multiple drivers for banks adopting of green finance initiatives, some of which are highlighted below:

- Multilateral financial institutions, such as IFC, which provide technical support to strengthen internal frameworks, provide capacity building, facilitate green funding, etc.
- Banking associations that support sector initiatives and promote voluntary initiatives.
- Knowledge platforms, such as the Sustainable Banking Network, where banking regulators and associations share sustainable banking experiences and collectively propose solutions to sustainability challenges.
- Technological innovation is key, as the reduction of final prices in most clean technologies is fast, particularly photovoltaic components, and opens business opportunities and facilitates the green banking business.

### Challenges

The main challenges for adopting and mainstreaming green finance found from this survey are perceived insufficient support from top management, low client demand, lack of technical knowledge and capacity, and unknown costs of implementing green finance as a new business line.

According to survey findings, green finance in Latin American markets is starting to provide business opportunities for banks. By committing to sustainable banking, banks are taking responsibility for global needs by supporting climate change mitigation, while also seizing a business opportunity that can contribute to profitability through superior performance and portfolio growth.

## 5.3.

# Perspectives for Sustainable Finance Development in Latin America

For banks to immerse themselves in sustainable banking, a new business model is required that integrates sustainability into all business activities using a strong framework that involves key internal stakeholders from top management to sales force and administrative areas. Implementation of sustainable banking measures and practices will in turn support climate change mitigation, as well as establish reputational benefits considering demands by shareholders, customers, employees, and other stakeholders.

Awareness, knowledge, and capacity building with banks and their clients will be key to the implementation and mainstreaming of sustainable practices in the banking sector. As part of awareness raising, it is especially important to address among banks the benefits of implementing these practices, in terms of opportunities as well as risk mitigation.

To more quickly advance the climate change agenda, it will also be necessary to encourage demand and recognize it publicly and repetitively in different stakeholders per sector, which means moving beyond the financial sector and aligning with other sector initiatives and stakeholders, such as the government, industrial sectors, regional institutions, etc. By encouraging demand and recognizing the implication of sustainable banking towards global and local environmental objectives, greater interest and commitment from banks can be generated, producing a virtuous cycle that will positively advance mainstreamed sustainable banking.

To be able to exemplify the way in which some banks in the region have responded to the challenges and opportunities of green finance, present below the testimonies of some banking entities interviewed during the development of this report.

**As part of awareness raising, it is especially important to address among banks the benefits of implementing these practices, in terms of opportunities as well as risk mitigation.**

## 5.4.

# Follow-up Interviews

According to the confidentiality agreement with the three private banks that accepted to disclose more information regarding their sustainable banking journey through an interview, this section reveals the details of the banks' experience without revealing their identity.



## Bank 1, Central America

This financial group has operations in various Central American countries, with services offered to all market segments. In recent years, the Group has been assessing the environmental and social risks of its operations through a proper Environmental Risk Management System (ERMS). More recently, the Group has launched a green value proposition for its commercial business units, through financial and non-financial services, focused on financial solutions for energy efficiency, recycling, waste management, and renewable energy. According to the Group, this green product offering followed implementation of the ERMS, as it was a natural continuation of the internal understanding and commitment to more sustainable banking practices.

The Group's leadership started in Costa Rica, where the bank is well positioned in green finance and there is an enabling environment, including a solid regulatory framework to move towards a low carbon economy. Also, the operation in El Salvador has progressed dramatically in the last years. One of the main reasons for the Group's progress in El Salvador, has been the support of international consultants and multilateral institutions in implementing the ERMS, as well as training internal staff and building of the sustainable banking culture inside the institution. Such support has generated both visibility and credibility with the green finance program and was this pilot program that was later replicated in other Central American branches. Currently, the Group is aiming at increasing its portfolio of green products and services, which would be achieved by duplicating funding sources for green finance.



### Main Barriers

The Group has reported a lack of funding, linked with the political context of the countries they operate in, which limits the growth of the banks' green products and services portfolio. To implement these green initiatives, it is key for the Group to have special funding sources, as it is believed that green products and services require special lending conditions or technical assistance. Table 5 below summarizes the Bank's success factors and main barriers encountered particularly in El Salvador.

Table 5:  
Bank 1 – Success Factors  
and Main Barriers

Success Factors	Main Barriers
<ul style="list-style-type: none"> <li>- High level (top management) commitment, part of the corporate culture, and continuous capacity building for all the bank staff.</li> <li>- Access to international funding for green finance, to have enough resources to implement green programs in the bank.</li> </ul>	<ul style="list-style-type: none"> <li>- In El Salvador, there are no requirements for companies to implement efficiency measures or technological changes.</li> <li>- Lack of knowledge around the regulatory framework, which is extensive for environmental protection, but has no monitoring or compliance measures.</li> </ul>

## Bank 2, Panamá

Bank 2 is one of largest private banks in Panama, with a diversified portfolio serving all market segments and specialization in construction development and lending. The Bank has rapidly progressed into the green finance arena, starting with implementation of an ESRM in 2014. This came as a result of a requirement from a multilateral agency, aimed at strengthening the banks green strategic mission and vision.

The close collaboration between the two parties, as well as additional multilateral institutions, jointly helped the Bank to develop the necessary tools and mechanisms to address its environmental and social risk management gaps. The Bank created a new committee to monitor all sustainable banking initiatives, including green funding, green products and services, and its internal green finance culture, which involves training, awareness raising, and other dissemination activities.

Looking ahead, the Bank seeks to take advantage of the Panamanian government's plans to reduce carbon emissions and put in place new energy and water management regulations. As the Bank has already identified some of its clients that are already addressing these government plans, it is starting to work on financial and non-financial solutions for particular interest areas, such as waste management, biogas, and other renewable energy technologies (e.g., photovoltaic panels, etc.).



### Main Barriers

The main gap identified by the Bank is the design and offering of green products and services. The Bank reported that to take actions in this area, it is fundamental to identify the market demand for financial and non-financial products to meet funding or technical needs, respectively. In this same vein, it is key that the government incentivizes the development of green projects, whilst the Bank's clients recognize the existence of specialized green products and services offered by Bank that help them meet their sustainability needs. Table 6 below summarizes the Bank's success factors and main barriers.

Table 6:  
Bank 2 – Success Factors  
and Main Barriers

Success Factors	Main Barriers
<ul style="list-style-type: none"> <li>- Organizational and top management willingness to develop a new green banking business model.</li> <li>- Building strategic partnerships to cooperate in the different business areas and support the design and roll out of new green products and services.</li> </ul>	<ul style="list-style-type: none"> <li>- Regulatory: Lack of incentives for positive environmental impacts, preventing end users from acquiring green products and services from banks.</li> <li>- Market: Peer banks don't ask for the same environmental requirements, leaving the Bank excluded from the market or less competitive.</li> </ul>

## Bank 3, Argentina

This Argentinian bank has activities in all business sectors and market segments: retail (individuals), large enterprises and SMEs, and are the financial system leader with salary plans, among others.

The Bank has recently started a sustainable banking model with implementation of an ERMS. It is using three tools to assess environmental and social risks and has an eco-efficiency plan. To progress work on green finance, the Bank recognizes the need to collaborate with the government and the private sector to raise awareness around the benefits of sustainable practices. Overcoming market barriers will take time and requires alignment among policies, incentives, and banking activities. In recent years, Argentina has seen good government initiatives, which although not clear, show important national commitment.



### Main Barriers

As the Bank starts to adopt sustainable banking practices to catch up with leading banks, it also realizes the need to provide technical capacity to the market and raise awareness about what is considered a green asset or project, the benefits of investing in these, and the need to consider them as part of core business to be more efficient and/or meet regulations. Table 7 below summarizes the Bank's success factors and main barriers.

Table 7:  
Bank 3 – Success Factors  
and Main Barriers

Success Factors	Main Barriers
<ul style="list-style-type: none"> <li>- Organizational and top management willingness to develop green finance projects.</li> <li>- A sensitized financial sector aware of the needs to offer green financial products and services.</li> </ul>	<ul style="list-style-type: none"> <li>- Internal: Resources to invest in new tools, systems and new products (e.g., investment, assessment, and training). Top management commitment transferred to key performance indicators and/or corporate targets.</li> <li>- Market: There is an identified but still limited demand for energy-related products, which in many cases is not necessarily recognized as green.</li> <li>- Regulatory: Underdeveloped public policies.</li> </ul>

# 6. Conclusions and Recommendations

---



## Conclusions



**This research has aimed at unveiling, and addressing the research question, with respect to what the Latin American banking sector is doing to mitigate climate change,** by examining approximately 24% of the regional banking sector around four dimensions of sustainable banking. Compared to the previous research carried out by UNEP FI in Latin America in 2012, the findings suggest that, in general, Latin American banks are indeed moving their financing models in alignment with worldwide trends/needs. Specifically, banks are (i) adopting efficiency plans in their own use of resources; (ii) adopting environmental risk management frameworks and policies to mitigate environmental risks, preserving the financial and reputational soundness of their respective organizations; and (iii) advancing, although in a more gradual way, towards green business models, with incipient offers of green products and services that incorporate environmental benefits. However, evidence reveals that Latin American banks still need to catch up to their peers in other regions, who are rapidly advancing towards robust climate-related strategies, according to recent reports<sup>14</sup>. The greatest challenges to address advancing further are in the areas of capacity building regarding the business case and costs vs. benefits of sustainable banking, as well as securing top management support to invest in and incentivize staff to focus in these areas.



**The business environment of the regional banking sector also continues to present important challenges in some countries,** compounded by the latest financial crisis in terms of non-performing loans and provisions that affect profitability of the sector. In addition, banks are working with historically low interest rates, thus obtaining lower returns; they are also facing challenges with the move to digital and new entrant competition not exposed to the same requirements demanded by banking supervisors and regulators. Despite not having formal offerings for green products, services, and bonds, banks are considering to be more active in the sustainable banking market in the short or medium term.



**Banking regulators and central banks will be key actors in the scale up of climate finance,** as found in the theoretical framework and supported by the follow-on interviews. Regulators are increasingly interested in promoting a transition to more sustainable economies and models, with lower GHG emissions, using a gradual approach. To the extent that incentives are aligned among governments, supervisors, and financial operators, a transition that preserves financial stability will be ensured. To the extent that the financial sector is a lever to support sustainable growth models, a system of incentives, bonuses, and penalties must be incorporated.



**In the results of the survey, many banks mentioned that sustainable finance models need access to new sources of financing,** in particular for growing responsible investors that exercise a strong demand for assets classified as green. In this context, institutional investors are catalysts for change, promoting green banking and actively influencing the decisions and strategies adopted by companies and banks on climate change. These investors and asset managers, who do not renounce financial profitability and have advanced climate awareness, are at the heart of promoting green banking models in Latin America. Progress in this sense can be seen in Latin America, where for example, financial sector stakeholders in Colombia are joining the Banking Association's Green Protocol initiative, committing to take specific actions towards climate financing.

<sup>14</sup> Boston Common Asset Management Impact Report 2018.

## Conclusions

- ✓ **The rapid development of a green financial market is also one of the results displayed in the survey results**, in particular the green bond market with bank liabilities that support project financing with a positive impact on the environment. Most surveyed banks are interested in being part of the green bond market in the short or medium term. Although at an incipient phase, this market has investor demand which far exceeds existing supply, precisely encouraged by responsible institutional investors. Some of the leading banks in the region have already begun to access this new financing mechanism, in parallel with the development of their business models and green portfolios, in many cases, supported by multilateral institutions such as the IFC.
- ✓ **Of the surveyed bank results, it can be concluded that Latin American banks are taking steps to transform towards a more sustainable banking model and adopting green banking strategies.** This transformation is being supported by the combined effect of the private sector, including the financial sector, as well as banking regulators, governments, and society itself. A summary of the four dimensions of research is as follows:
- ✓ **Firstly, this research demonstrates that eco-efficiency is at the highest level of implementation and to generate environmental benefits** such as reduced energy and water consumption, paper waste, and to a lesser degree, packaging waste. Almost half the banks that implement these measures do it for economic profits, good reputation, and market differentiation. The research suggests that there is a strong relationship between economic returns and bank commitment to climate change mitigation.
- ✓ **Second, most interviewed banks apply at least one environmental risk management system or practice.** This area is at a relatively high level of development, with most Latin American banks using international or local standards, such as the IFC Performance Standards, Equator Principles, or National Policies and Principles of Responsible Investment. These results demonstrate strong progress of the banking sector when compared with a prior UNEP 2012 assessment (United Nations Environmental Program Finance Initiative, 2012), which identified that only 70% of the surveyed institutions consider environmental factors in their risk management process. This research has identified that 98% of banks are applying the environmental and social risk exclusion list (See Appendix 3: IFC Exclusion List) and 64% of the surveyed banks have an environmental and social management system in place.





## Conclusions

✓ **Third, in terms of green products and services, Latin American banks are lagging well behind global banks.**

While only 49% of Latin American banks have green products and services offering, 95% of international banks, as surveyed by BCAM, participate in and report on the provision of low-carbon products and services, with an increasing focus on green product due diligence and broad adoption of the Green Bond Principles (Boston Common Asset Management, ShareAction, 2018). Eighty-one percent (81%) of the Latin American banks reported having heard about green bonds, and three private banks in the region have issued a green bond.

✓ **Finally, even though less than half the surveyed Latin American banks have a clear green strategic commitment,**

97% of respondents are aware of the benefits of the four sustainable banking initiatives, which include new business opportunities, innovation, differentiation, and additional revenue. Meanwhile, according to BCAM, 90% of the global banks surveyed in 2018 currently make disclosures on climate governance and oversight, and 95% have adopted specific climate governance measures, and more than half have adopted a climate strategy.

✓ **In conclusion, these findings show that most of the surveyed banks have adopted, to certain degrees, most of the sustainability areas researched.**

Many banks consider sustainable banking a strategic issue, and in consequence, are willing to dedicate efforts and resources in the objective of adaptation, circumstances that were non-existent just a few years ago. The implementation of these sustainability practices is generating cost savings that are quantifiable in CO<sub>2</sub> emission reductions that may generate a demonstration effect for other banks, enhancing the potential activities to be performed in favor of climate change mitigation. The results of the survey, compared to the research carried out by UNEP FI in Latin America in 2012, show significant advances in terms of greater knowledge about social and environmental risk management practices and models, and greater sensitivity regarding the impact of climate risk on credit portfolios. With better information and risk management as foundations, a virtuous cycle can be built with better understanding of tomorrow's risks, better pricing for investors, better decisions by policymakers, and a smooth transition to a low-carbon economy.



## Recommendations

The following recommendations are derived from the theoretical framework, market research and the research findings analysis and conclusions.

1

Latin American banking senior leadership needs to increase the commitment level with sustainable banking. This should promote the gradual implementation of practices in the four sustainable banking dimensions studied in this report as well as in any other area relevant to their own activities and place of operations.

2

There is room for improvement regarding technical capacity and knowledge that should be addressed from the banking sector angle as well as the sectors the banks operate in to create a clear supply and demand environment. There is a great need for capacity building initiatives aimed at promoting sustainable banking knowledge throughout the banking sector. These initiatives could pioneer into the green banking knowledge space for bankers in the region and bridge the knowledge gap for the banking industry to seize climate finance opportunities. Multilateral institutions and international funders, such as IFC or the eco.business Fund can be catalysts in the dissemination of knowledge and technologies that allow banks to deepen their knowledge and information on Green Finance matters.

3

In order to scale up the adoption of sustainable banking practices in the region, the banking regulator and environmental authorities need to facilitate a green banking environment. Examples like the regulations in Brazil and Peru can be replicated in the region. Regulators and policymakers can work together with banking associations to join efforts in creating a sustainable banking market. Institutions like the Sustainable Banking Network, a global knowledge platform directed at emerging economies, could provide support by facilitating learning and accelerating the pace of sustainable banking change and commitment.





**Barcena, A. (2016, June 15). World Economic Forum.**

doi:<https://www.weforum.org/agenda/2016/06/how-latin-america-can-help-achieve-the-sustainable-development-goals/>

**Boston Common Asset Management, ShareAction. (2018).**

Banking on a Low-Carbon Future: Are the World's Largest Banks Stepping Up to the Risks & Opportunities of Climate Change? Boston, MA: Boston Common Asset Management, LLC. Retrieved June 2018, from [www.bostoncommonasset.com](http://www.bostoncommonasset.com)

**Brazilian Monetary Council. (2014, April).**

Resolution No. 4,327: Política de Responsabilidade Socioambiental - PRSA. Brazil.

**Carney, M. (2018, March).**

International Conference on Climate Risk for Regulators. Amsterdam.

**Climate Bonds Initiative, Bloomberg. (2018, June).**

Labelled green bonds data. Retrieved June 2018, from [www.climatebonds.net](http://www.climatebonds.net): <https://www.climatebonds.net/cbi/pub/data/bonds>

**Climate Policy Initiative. (2011).**

The landscape of Climate Finance.

**Corfee-Morlot, J. et al. (2012).**

Towards a Green Investment Policy Framework: The case of Low-Carbon, Climate Resilient Infrastructure. OCDE Environment Working Papers. Retrieved from <http://dx.doi.org/10.1787/5k8zth7s6s6d-en>

**Covington, H. a. (2015).**

The Case for Forceful Stewardship (Part 1): The Financial Risk from Global Warming. Retrieved from SSRN: <https://ssrn.com/abstract=2551478> or <http://dx.doi.org/10.2139/ssrn.2551478>

**De Ferranti, D. P. (2004).**

Inequality in Latin America. Washington D.C.: World Bank. Retrieved 2018 January, from [www.worldbank.org](http://www.worldbank.org)

**Denton, F., Wilbanks, T., Abeyasinghe, A., Burton, I., Gao, Q., Lemos, M., . . . O'Brien, K. a. (2014).**

Climate-Resilient Pathways: Adaptation, Mitigation, and Sustainable Development. Cambridge, UK: Cambridge University Press. doi:[www.ipcc.ch/pdf/assessment-report/ar5/wg2/WGIIAR5-Chap20\\_FINAL.pdf](http://www.ipcc.ch/pdf/assessment-report/ar5/wg2/WGIIAR5-Chap20_FINAL.pdf)

**ECLAC, N. P. (2011). Valuation and Loses from winter season 2010-2011.**

Bogota, Colombia: National Planning Department.

**Federal Office for the Environment. (2015).**

Design of a Sustainable Financial System. Swiss team for the PNUMA Inquiry. Retrieved January 2018, from [www.bafu.admin.ch/UD-1091-E](http://www.bafu.admin.ch/UD-1091-E)

**G. Ingram, C. K. (1994).**

Infrastructure for development. Washington D.C.: Finance and Development.

**G20 Green Finance Study Group. (2017).**

Green Finance Progress Report 2017. UN Environment Program. Retrieved January 2018, from [www.unepinquiry.org](http://www.unepinquiry.org)

**Hallegate, S. (2016).**

Shock Waves: Managing the Impacts of Climate Change on Poverty. World Bank Group.

**Harris, S. H. (2018).**

Capital, Power and Inequality in Latin America. (S. H. Harris, Ed.) New York: Routledge.

**Howard-Grenville, B. H. (2014).**

Climate Change and Management. Academy of Management Journal, 57(3), 615-623. doi:<http://dx.doi.org/10.5465/amj.2014.4003>

**Intergovernmental Panel on Climate Change. (2007).**

Climate Change 2007: Synthesis Report Fourth Assessment Report. Contribution of Working Groups I, II and III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change. Geneva, Switzerland: IPCC. doi:[https://ipcc.ch/pdf/assessment-report/ar4/syr/ar4\\_syr\\_full\\_report.pdf](https://ipcc.ch/pdf/assessment-report/ar4/syr/ar4_syr_full_report.pdf)

**Intergovernmental Panel on Climate Change. (2014).**

Climate Change 2014: Synthesis Report. Contributions of Working Groups I, II and III to the 5th Assessment Report of the Intergovernmental Panel on Climate Change. Geneva, Switzerland: Intergovernmental Panel on Climate Change. doi:<http://10013/epic.45156>

**Intergovernmental Panel on Climate Change.**

doi:<http://10013/epic.45156>

**International Capital Market Association. (2018)**

Green Bond Principles.

**International Energy Agency. (2014).**

Capturing the Multiple Benefits of Energy Efficiency. Paris: OECD/IEA. Retrieved January 2018, from [www.iea.org](http://www.iea.org)  
G. Ingram, C. K. (1994).

**International Finance Corporation. (2016).**

Climate Investment Opportunities in Emerging Markets. Washington D.C., USA: IFC. doi:[www.ifc.org/wps/wcm/connect/51183b2d-c82e-443e-bb9b-68d9572dd48d](http://www.ifc.org/wps/wcm/connect/51183b2d-c82e-443e-bb9b-68d9572dd48d)

**Italian Ministry of Environment and UN Environment. (2016).**

Report of the Italian National Dialogue on Sustainable Finance. UN Environment Inquiry.

**Kaygusuz, K. (2012, February).**

Energy for Sustainable Development: A case of developing countries. Renewable and Sustainable Energy Reviews, 16(2), 16 (2012) 1116-1126. doi:<https://doi.org/10.1016/j.rser.2011.11.013>

**Kern, A. (2016). Greening Banking Policy.**

In support of the G20 Green Finance Study Group. Geneva, Switzerland: G20 Green Finance Study Group/United Nations Environment Program. doi:[http://unepinquiry.org/wp-content/uploads/2016/09/10\\_Greening\\_Banking\\_Policy.pdf](http://unepinquiry.org/wp-content/uploads/2016/09/10_Greening_Banking_Policy.pdf)

**Lawrence A. Palinkas, S. M. (2015).**

Purposeful sampling for qualitative data collection and analysis in mixed method implementation research. Administration and Policy in Mental Health Services Research, 42(5), 533-544. doi:10.1007/s10488-013-0528-y

**M.Forstater, N. Z. (2016).**

Definitions and Concepts: Background Note. G20 Green Finance Study Group. PNUMA Inquiry. Retrieved January 2018, from [www.unep.org/inquiry](http://www.unep.org/inquiry)

**Ma Jun, C. K. (2016).**

Green Bonds: Country Experiences, Barriers and Options. Geneva, Switzerland: G20 Green Finance Study Group. doi:[http://unepinquiry.org/wp-content/uploads/2016/09/6\\_Green\\_Bonds\\_Country\\_Experiences\\_Barriers\\_and\\_Options.pdf](http://unepinquiry.org/wp-content/uploads/2016/09/6_Green_Bonds_Country_Experiences_Barriers_and_Options.pdf)

**Mian, A. (2003).**

Foreign, Private Domestic, And Government Banks: New Evidence from Emerging Markets. Chicago: Graduate School of Business, University of Chicago. doi:[http://siteresources.worldbank.org/INTMACRO/Resources/Mian\\_DFGMacro.pdf](http://siteresources.worldbank.org/INTMACRO/Resources/Mian_DFGMacro.pdf)

**Moody's. (2018, January 31).**

Moody's: Following a record year, green bond issuance is set to eclipse \$250 billion in 2018. doi:[https://www.moody's.com/research/Moodys-Following-a-record-year-green-bond-issuance-is-set--PR\\_378972](https://www.moody's.com/research/Moodys-Following-a-record-year-green-bond-issuance-is-set--PR_378972)

**Morgan, D. L. (1998).**

Practical Strategies for Combining Qualitative and Quantitative Methods: Applications to Health Research. SAGE Journals, 8(3), 362-376. doi:<https://doi.org/10.1177/104973239800800307>

**Patton, M. Q. (1990).**

Qualitative Evaluation and Research Methods, 2nd Edition. California: Sage Publications Inc.

**Patton, M. Q. (2002, September).**

Two Decades of Developments in Qualitative Inquiry. Qualitative Social Work, 1(3), 261-283. doi:<https://doi.org/10.1177/1473325002001003636>

**Periodico La Nacion. (2018, March 24).**

Primera emisión privada de un bono verde. La Nacion.

**R. S. Marshall, M. C. (2005).**

Exploring Individual and Institutional drivers of proactive environmentalism in the US wine industry. Business Strategy and the Environment, Vol. 14 No. 2, 92-109.

**Richard York, E. A. (2003).**

STIRPAT, IPAT and ImPACT: analytic tools for unpacking the driving forces of environmental impacts. Ecological Economics(46), 351-365. Retrieved from [www.sciencedirect.com](http://www.sciencedirect.com)

**Robins, N., & Sweatman, P. (2017).**

Green Tagging: Mobilising Bank Finance for Energy Efficiency and Real Estate. Geneva, Switzerland: UN Environment Inquiry. doi:[http://unepinquiry.org/wp-content/uploads/2017/12/Green\\_Tagging\\_Mobilising\\_Bank\\_Finance\\_for\\_Energy\\_Efficiency\\_in\\_Real\\_Estate.pdf](http://unepinquiry.org/wp-content/uploads/2017/12/Green_Tagging_Mobilising_Bank_Finance_for_Energy_Efficiency_in_Real_Estate.pdf)

**Rossetto, D. (2017). Practitioner Insights:**

Defining Green Finance for Climate Change. Daily Environment Report.

**Serebrisky, T., Suarez-Aleman, A., Margot, D., & M., R. (2015).**

Financing Infrastructure in Latin America and the Caribbean: How Much and By Whom? Washington D.C., USA: Inter-American Development Bank. doi:<http://dx.doi.org/10.18235/0000212>

**Superintendencia de Banca y Seguros y AFP de Peru. (2018, June).**

Superintendencia de Banca y Seguros y AFP de Peru. Retrieved from [http://www.sbs.gob.pe/Portals/0/jer/pub\\_otros/20150521\\_DocumentoRSA.pdf](http://www.sbs.gob.pe/Portals/0/jer/pub_otros/20150521_DocumentoRSA.pdf)

**Sustainable Banking Network. (2018).**

Global Progress Report. Washington D.C., USA: International Finance Corporation. Retrieved March 2018, from [www.ifc.org/sbn](http://www.ifc.org/sbn)

**The Organization for Economic Co-Operation and Development.****(2018, June 4).**

Green Finance and Investment. doi:[http://www.oecd-ilibrary.org/environment/green-finance-and-investment\\_24090344](http://www.oecd-ilibrary.org/environment/green-finance-and-investment_24090344)

**PNUMA. (2018).**

Retrieved June 3, 2018, from United Nations Environment Program - Green Economy: <https://www.unenvironment.org/explore-topics/green-economy/about-green-economy>

**United Nations. (2010).**

Report of the Secretary General's High-level Advisory Group on Climate Change Financing. N.Y.

**United Nations Environmental Program Finance Initiative. (2012).**

Integración de la Sostenibilidad en las Instituciones Financieras Latinoamericanas. United Nations Environmental Program.

**United Nations Framework Convention on Climate Change. (1992).**

United Nations Framework Convention on Climate Change. New York.

**United Nations Framework Convention on Climate Change. (2016).**

Report of the Conference of the Parties on its twenty-first session, held in Paris from 30 November to 13 December 2015.

**World Bank. (2017, April 4).**

Strengthening Environmental Management and Reducing Degradation in Peru. Retrieved from <http://www.worldbank.org/en/results/2017/04/04/strengthening-environmental-management-reducing-degradation-peru>

**World Bank Group, International Monetary Fund, OECD, Regional Development Banks. (2011).**

Mobilizing Climate Finance. Washington D.C., USA: World Bank Group. doi:<http://www.worldbank.org/content/dam/Worldbank/document/SDN/G20-Mobilizing-Climate-Finance-report.pdf>

**World Resources Institute. (2017, April 11).**

World Resources Institute. Retrieved July 2018, from [www.wri.org](http://www.wri.org)



# Appendix 1:

## Latin American Countries

1. Argentina
2. Bolivia
3. Brazil
4. Chile
5. Colombia
6. Costa Rica
7. Dominican Republic
8. Ecuador
9. El Salvador
10. Guatemala
11. Honduras
12. Mexico
13. Nicaragua
14. Panamá
15. Paraguay
16. Peru
17. Uruguay
18. Venezuela

The Banking Associations of all these Latin American countries are active members of FELABAN.

## Appendix 2: Sample Representativeness

In order to delve into the detail of how the sample was selected, the procedure performed during the survey and processing of the information collected in the surveys is explained below.

Based on the terms of reference in which it is specified that a response of at least 85 banks was needed, the first thing that was done was to characterize the population of all the banks in order to define the way in which the sample would be classified. As a result, the criteria defined were: by country and bank size by total assets.

Once the criteria were defined, a classification was made by country, where the banks were ordered from the smallest to the largest by asset size and were classified by the percentiles within each country defined previously: from the 0 to 50 percentile it is classified as a "Small" bank ; from 51 to 90, as a "Medium" bank; and from 91 to 100 as a "Large" bank. The following table shows the total population of banks by country distributed by size:

Country/Size	Size			
	Small	Medium	Large	No Assets
Argentina	29	16	5	5
Bolivia	8	3	2	2
Brazil	15	15	6	6
Chile	7	4	2	2
Colombia	10	10	4	4
Costa Rica	7	2	3	3
Ecuador	10	3	3	3
El Salvador	7	4	2	2
Guatemala	8	3	3	3
Honduras	0	3	3	3
Mexico	16	13	5	5
Nicaragua	1	3	3	3
Panama	30	16	5	5
Paraguay	1	9	6	6
Peru	5	7	3	3
Dominican Republic	10	3	2	2
Uruguay	1	5	3	3
Venezuela	15	10	6	6

With the size of the banks defined, the selection of the sample was distributed proportionally, according to the number of banks within each country and each size, in order to have sufficient representation by size and country.

In this way, a calculation was made by country and by size of how many minimum responses were necessary in order for the country's conclusion to represent the majority of the banks surveyed.

The formula applied is as follows:

$$\frac{\text{Number of banks by assets class}}{\text{Total Numbers of Banks}} \times 85 = \text{Minimum required number of banks}$$

As a result of the application of the formula, the following table was obtained, which represents the minimum responses required by country in order to obtain total representativeness:

Country/Size	Size			
	Small	Medium	Large	No Assets
Argentina	6	3	1	-
Bolivia	2	1	0	-
Brazil	3	3	1	3
Chile	1	1	0	0
Colombia	2	2	1	-
Costa Rica	1	0	1	-
Ecuador	2	1	1	-
El Salvador	1	1	0	-
Guatemala	2	1	1	0
Honduras	-	1	1	2
Mexico	3	3	1	1
Nicaragua	0	1	1	-
Panama	6	3	1	-
Paraguay	0	2	1	-
Peru	1	1	1	-
Dominican Republic	2	1	0	-
Uruguay	0	1	1	-
Venezuela	3	2	1	1



Then, the answers obtained are observed against the minimum required by country. The three colors show if the answer is representative (green), it is not representative (red) and the representativeness is not total (yellow):

Country	Bank Asset Classification				TOTAL
	Small	Medium	Large	No Class.	
Argentina	1/6	4/3	3/1	0/0	8/10
Bolivia	2/2	1/1	1/0	0/0	4/3
Brazil	1/1	1/1	0/1	0/0	2/3
Chile	2/3	1/3	1/1	9/4	13/11
Colombia	3/2	4/3	3/1	3/0	13/6
Costa Rica	1/1	2/1	2/1	0/0	5/3
Ecuador	4/3	0/1	3/1	0/0	7/5
El Salvador	3/2	2/1	0/0	1/0	6/3
Guatemala	1/2	0/1	2/1	1/0	4/4
Honduras	1/0	3/1	1/1	0/2	5/4
Mexico	2/3	2/3	1/1	2/1	7/8
Nicaragua	0/1	0/1	2/1	0/0	2/3
Panama	1/1	1/1	0/1	1/0	3/3
Paraguay	1/1	4/2	6/1	0/0	11/4
Peru	1/6	4/3	2/1	0/0	7/10
Dominican Republic	0/2	2/1	0/0	0/0	2/3
Uruguay	0/0	0/1	1/1	0/0	1/2
Venezuela	0/3	0/2	1/1	0/0	1/6
					<b>101/92</b>

Given the above explanation, it is important to mention that we cannot conclude on the application of Green Finance in the following countries, given that the number of responses received does not allow representativeness on all banks:

Country	#Banks per Country	#Survey Bank Respondants
Chile	14	14
Nicaragua	7	7
Dominican Republic	15	15
Uruguay	9	9
Venezuela	37	37



**Green Finance**  
Latin America 2017  
Report

**What is the Latin American banking sector doing to mitigate climate change?**



With the support of:



Government of Canada

Gouvernement du Canada

