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SUSTAINABLE FINANCE AND THE CONTRIBUTION OF DEVELOPMENT BANKS TO MAJOR GLOBAL AND NATIONAL CHALLENGES

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INTRODUCTION

At the halfway point of the 2030 Agenda, significant progress has been made in some of the goals set, but major challenges remain in several areas. One of the biggest obstacles today is the financing gap in developing countries, which after multiple global crises increased from US$2,5 trillion in 2015 to US$4,2 trillion today. The threat of a lack of financing could even continue to grow, due to the increase in financing costs in the international market, high indebtedness and the probable reduction in public revenues in some countries as a result of lower economic growth.

In this context, the resources needed to achieve the Sustainable Development Goals (SDGs) will not come from a single source of financing, but will require public, private and social actors to redefine their roles and learn to operate in a coordinated manner. The achievement of these goals and the Paris Agreement —including the more committed participation of the private sector— requires today a paradigm shift in the way companies, financial institutions and investment funds act, as they have a decisive influence in guiding growth towards sustainable development. However, to achieve this transition, it is necessary to transcend conventional limits and adopt sustainability as an essential value and a common and widespread practice. In the face of these challenges, development banks[1] must lead initiatives to drive the transition to a low-carbon economy, the achievement of the SDGs and the Paris Agreement, providing strategic guidance and resources to assist economic agents.

The road to sustainable transformation is complex. Many companies today face operational constraints and limited access to sustainable financing, as well as resistance to change from some stakeholders who are accustomed to traditional practices. On the other hand, financial institutions struggle to balance profitability with sustainable lending, while investment funds have difficulty identifying viable SDG-aligned projects, especially in unfavorable regulatory environments. In addition, orienting business strategies towards the SDGs implies moving towards the achievement of a large number of goals and indicators, which represents another considerable challenge.

Development banks also face obstacles in mobilizing resources for the SDGs and climate change mitigation. In principle, they must balance the urgent need for transformation with financial sustainability concerns and operational constraints that hinder innovation and risk-taking. Several of the banks have taken notable steps to support sustainability, offering lines of credit, concessional financing, blending; trust and venture capital funds; guarantees, technical assistance and business services to encourage sustainable practices. In addition, they invest in impact funds, channeling resources to projects and companies that work for the SDGs. Finally, the capacity-building programs promoted by these entities and the knowledge-sharing platforms encourage and raise awareness of the adoption of sustainable practices. While many development banks have initiated extensive efforts in this regard, a more coordinated and innovative approach is needed to address the systemic barriers that are currently limiting change.

[1] For the purpose of this document, we define development banks as financial institutions with public policy mandates and owned by national and subnational governments.

The overall objective of this document is to analyze and share knowledge on the roads to move towards a higher state of sustainable finance in the region. As part of this, the needs for financing the SDGs; the financing of productive transformation focused on sustainable production and consumption; and the strategic actions to bolster impact investment to accelerate the path to sustainability are analyzed. In addition to describing the main current and future trends, the complex combination of resources and sustainable financing modalities existing in the region is analyzed, as well as the challenges and opportunities faced by development banks.

This document has been prepared as reference information for the ALIDE General Assembly to be held in Fortaleza, Brazil, from May 13 to 17, 2024, whose central theme is “Development Finance in the Face of Current Global Challenges”, and its purpose is to contribute to the promotion and expansion of the use of innovative financing mechanisms to achieve sustainable development in Latin America and the Caribbean. The document is aimed at development policy makers, regional and national development banks, public sector entities, investors and development organizations. It is divided into three sections that analyze how development banks can expand sustainable financing; the actions, credit lines and programs already implemented to guide sustainable production and consumption; and the great potential that social impact investment represents in this context. Each of these sections presents an analysis on the situation, figures, experiences and cases. The document ends with some brief conclusions and recommendations.

CHAPTER I
DEVELOPMENT BANKING BOOSTS SUSTAINABLE FINANCING IN LATIN AMERICA AND THE CARIBBEAN

Today, sustainable finance has established itself as a pillar in the global financial ecosystem, reflecting a profound transformation in the investment strategies of institutions, intermediaries, investors and companies. In 2022, the sustainable finance market —which includes funds, bonds and voluntary carbon markets— grew to US$5,8 trillion, 12% more than in 2021 (UNCTAD, 2023), which is increasingly representing an important part of the total assets managed worldwide. This increase was mainly due to the growing issuance of sustainable bonds, which increased fivefold between 2017 and 2022.

The trend reveals not only a growing demand for sustainable financial products, but also a maturation of the market that integrates Environmental, Social and Governance (ESG) criteria as fundamental components of the long-term value and performance of investments. While Europe is leading this trend, thanks to a combination of advanced regulations, market initiatives and strong investor demand[2], in Latin America and the Caribbean (LAC) interest in sustainable finance is also strengthening, especially in markets such as Chile, Mexico and Brazil, where several corporate and state-owned issuers have been the main promoters of green, social and ESG-linked debt. This also occurs in countries that recognize the importance of sustainable finance for their heavy[3] and extractive industries, such as Colombia, which in 2022 became the first country in the region to introduce a specific green taxonomy. While other countries are evaluating the introduction of frameworks to help them direct sustainable financing towards green energy transition projects. Added to this is the wave of sovereign bonds that is increasingly gaining ground in the debt markets[4].

These transformations in the markets were accompanied by major changes in global agendas such as the Paris Agreement and the United Nations Sustainable Development Goals (SDGs). These global consensuses guide organizations to evaluate their performance not only in terms of economic performance, but also under sustainability criteria. Sustainable finance builds on this principle by prioritizing investments that generate economic, social and environmental benefits, which directly contributes to the achievement of the SDGs.

In this context, in order for development finance institutions to guide economies towards the SDGs, they will have to incorporate sustainable finance into their purpose, organizational structure and risk appetite. The motivation for these changes will come from understanding the long-term value creation offered by the SDGs and their relationship to short-term results.

1.1. Path towards sustainable development in Latin America and the Caribbean

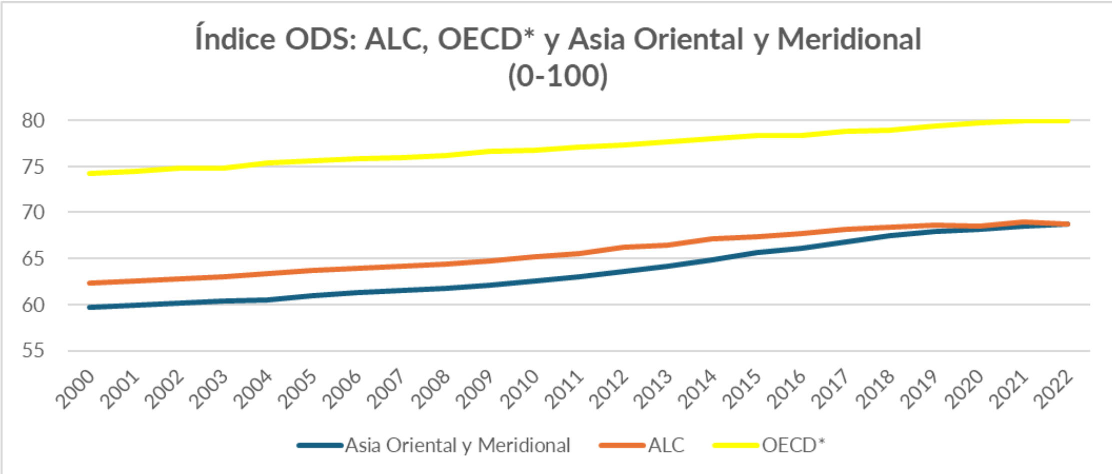
The latest UN update on compliance with the SDGs in LAC shows slow and inconsistent progress (UN, 2023). When considering the 169 targets that make up the 17 SDGs, it can

[2] Based on regulations that are directing capital towards more sustainable and transparent investments, such as the European Union Action Plan for Sustainable Finance and the European Green Deal.
[3] It includes mining, steel, chemical industries, among others.
[4] In January 2022, Chile issued sustainable bonds for US$4 billion, further adding to the country's strong ESG profile, as 29% of total debt is green, sustainable and social.

be observed that 31 (18%) are advancing at a good pace, 61 (37%) are advancing at a pace that is not adequate to achieve the goals within the respective period; 34 (20%) are going backwards; and 43 (25%) have no identified progress (ECLAC, 2023).

In general, the countries in the region are advancing, but not at the appropriate pace. At this rate, the SDGs will not be met even in fifty years (Unesco, 2020: p3). Even before the crisis generated by the COVID-19 pandemic, the region had not shown significant results, according to the latest SDG[5] Index 2022. The average score of this measurement for the member countries of the Organization for Economic Cooperation and Development (OECD) in 2022 was 80 points, while in LAC it was around 69, similar to East and South Asia.

Figure No. 1



Source: Sustainable Development Report.
Prepared by ALIDE.
(*) Excluding Brazil, Chile, Colombia and Mexico.

This aggregate average may be sensitive to outliers[6] and may not reflect trends over time. Therefore, it is illuminating to analyze the results in terms of the goals. In the time elapsed so far, it is estimated that LAC has achieved or is on track to achieve around two-thirds of the SDG targets. However, the LAC average hides disparities between subregions and countries. The average SDG Index score ranges from 80% in some high-income countries, between 65% and 70% in most of the countries in the region, and around 60% in some Central American and Caribbean countries.

Progress on the SDGs in LAC has been slow since 2018. Even before the pandemic, progress in the region was too slow to achieve all the SDGs by 2030. However, progress on the SDG Index was three times faster in the 2015-2019 period (0.30 points per year) than in the 2019-2022 period (0.09 points per year). Progress on the SDGs has also stalled since 2020 due to multiple crises.

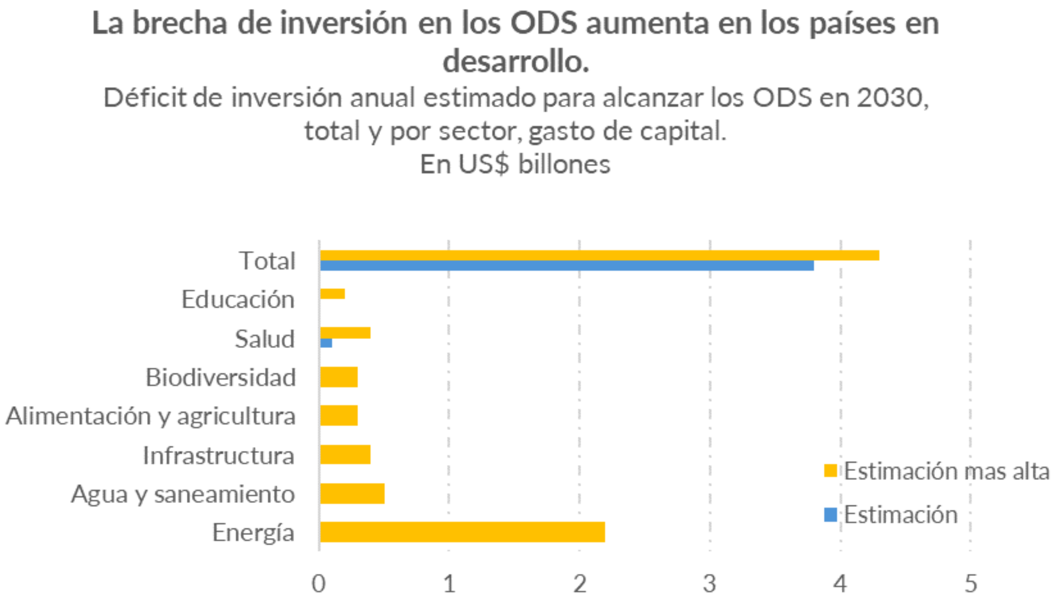
[5] The overall score measures the total progress towards achieving the 17 SDGs. In this index, scores are presented on a scale from 0 to 100 and can be interpreted as a percentage towards optimal performance on the SDGs. Therefore, the difference between 100 and a country's SDG Index score is the distance, in percentage points, that must be overcome to achieve optimal performance on the SDGs.
[6] Abnormal data within a data set, an extremely high or low value compared to the nearest data point and to all other values that exist within the graph.

Table No. 1 Main challenges on the road to the 2030 Agenda	
SDG 1	According to current statistics, 575 million people will still be living in extreme poverty in 2030, and only one third of countries will meet the goal of halving poverty levels.
SDG 2	The world has returned to hunger levels not seen since 2005. Food prices remain higher than they were in the 2015-2019 period.
SDG 4	It is estimated that by 2030, 84 million children will be out of school, and 300 million children and young people will drop out of school without knowing how to read and write.
SDG 5	It is estimated that, at the current rate, it will take 300 years to end child marriage, 140 years for women to be equally represented in positions of power and leadership at work, and 47 years to achieve this representation in national parliaments.
SDG 13	Global temperature is already 1,1 °C above pre-industrial levels and is likely to reach the critical tipping point of 1,5 °C by 2035.
SDG 14	In the oceans, there were more than 17 million metric tons of plastic pollution in 2021, and projections indicate that this measurement will double or triple by 2040.
SDG 16	War, conflict and human rights violations have already displaced 110 million people. Of them, 35 million were refugees, the highest number ever recorded.

Source: Report on the 2030 Sustainable Development Goals.
United Nations Global Compact (2023).

The annual SDG investment gap in developing countries has widened from US$2,5 trillion in 2015 to an alarming US$4 trillion. Since the SDGs were adopted in 2015, investment was relatively modest due to weak growth in the early years, and contracted during the COVID-19 pandemic. The growing SDG investment gap in developing countries contrasts with the positive trends observed in sustainability investment in global capital markets (UNCTAD, 2023). It should be noted that the energy investment needs of developing countries are estimated at US$2,2 trillion per year, representing more than half of the gap of around US$4 trillion.

Figure No. 2



Source: UNCTAD.

As a result, it is important to innovate in terms of financing and increase the use of commercial finance[7] (OECD, 2020). For example, it is essential to have mixed public-private financing mechanisms, as well as the use of sustainability bonds to expand development financing. In addition, a paradigm shift is needed in the formulation of public policies. Specifically, there is a need to improve governance, strengthen institutions and partnerships, and provide for longer time horizons in public policies.

1.2. Innovation and response of Development Banks in the region

Development Banking has taken notable steps to stimulate sustainable practices and the green bond market among economic agents, through a wide and diversified offer of financial products, incentives, concessional financing, technical assistance and business services. With record issuances, green bonds have become an important vehicle for financing projects related to clean energy, energy efficiency, sustainable management of natural resources and climate change mitigation. In addition, many development banks invest in impact funds, channeling resources to projects and companies working on the SDGs. The banks also promote awareness and understanding of sustainable practices through capacity building programs and knowledge sharing platforms (KSPs, 2022).

Debt instruments offer investors the opportunity to contribute to ecological and social transition, while development banks expand their portfolio into innovative and growth sectors. In parallel to the expansion of green bonds, there has been a notable increase in investments in ESG funds[8], which consider environmental, social and governance criteria in the selection of assets. This trend is supported by growing evidence that the integration of ESG criteria can lead to improved long-term performance and reduced risk.

Recognizing this dynamic, development banks are incorporating ESG criteria into their risk assessments and offering expert advice to help clients and investors navigate the growing universe of sustainable investments. The process is not without challenges, as it requires constant updating of skills and a commitment to transparency, accountability and therefore represents a clear opportunity for development banks to position themselves as leaders in the rapidly evolving sustainable finance sector, responding not only to regulatory and market demands, but also to the expectation of playing a more active and responsible role in promoting sustainable economic growth. While some development banks have initiated efforts to support sustainability, a more coordinated and innovative approach to addressing systemic barriers is essential. For this reason, Development Banking must be a driving force in building alliances with United Nations agencies and programs, the private sector, civil society and other multilateral organizations (Scaff, 2023).

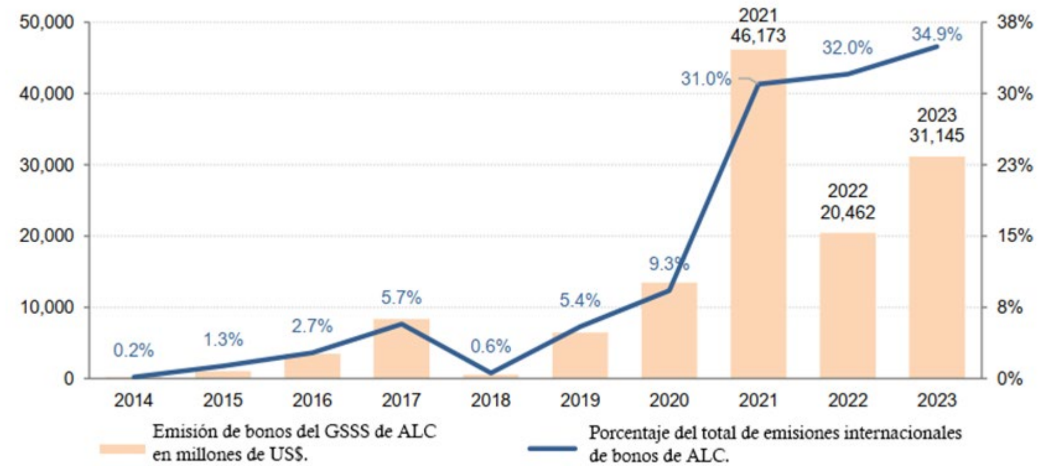
[7] This is crucial to facilitate international trade and the functioning of global supply chains, through instruments such as factoring, confirming, loans, letters of credit, among others.

[8] Banco de Desarrollo Espíritu Santo (Bandes) of Brazil will coordinate a new ESG Development Fund for US$50 million. The BNDES Criatec 4 fund manages resources for approximately US$60 million for Brazilian technology-based companies with accelerated growth that demonstrate the development of ESG practices.

Table No. 2
Overview of the bond market in the region

According to S&P Global Ratings, by 2024, green bonds will retain their dominant position in the global sustainable finance market. It also projects an increase in the variety of bond types and the participation of different regions. Their estimates point to 4,3% growth in global bond issuance. In addition, issuance of green, social, sustainable and sustainability-linked (GSSS) bonds will increase in 2024 at the rate of conventional bonds, and will represent 14% of total bond issuance.
According to Climate Bonds Initiative estimates, the cumulative total value of labeled issuances, including green, social, sustainable, and sustainability-linked bond issuance, reached US$3,3 trillion globally in the first half of 2022. Still with enormous potential, the LAC region represents less than 2% of the total global value. By the end of 2023, the green, social and sustainable debt accumulated in LAC had reached nearly US$90 billion, 40% higher than in 2022, but 35% lower than the average issuance in the 2019-2021 period. The issuance in the region of GSSS bonds reached a little more than US$31 billion in 2023, 52% more than in 2022. This total represented a proportion greater than 35% of the region's total annual issuance in international markets, which highlights the resistance of these new instruments in the current international scenario (ECLAC, 2023b).

Figure No. 3: International issuance of GSSS bonds in LAC, 2014-2023
(Left axis, US$ million; right axis, %)



Source: ECLAC.

1.3. Contribution of development banks to the SDGs

Development banks play a key role in supporting countries' efforts to advance the SDGs, by financing and assisting projects and programs in the public and private sectors, and helping to mobilize and catalyze resources from different sources for SDG-aligned investments. Development banks try to respond to the national priorities of the countries in which they operate and seek to complement their interventions with other financial institutions, through intermediation. Although each bank has its own reporting criteria, many of them refer to how they are contributing to their countries' progress on the SDGs. At this point it is important to note that this heterogeneity in reporting can be summarized as follows: some banks specify which SDGs they are addressing, linking a number of goals to a target. Other institutions detail and have specific sections of their report dedicated to their activities around a particular SDG. And a third group only states its support for specific SDGs without giving further details.

This section highlights the contributions of some development banks to SDG financing. Most of these banks act on all 17 SDGs, and most projects and programs support multiple goals. In this regard, the degree of commitment of banks varies considerably among the SDGs. Some SDGs, such as SDG 5 (gender equality), SDG 8 (decent work and economic growth) and SDG 13 (climate action) show high participation, reflecting that these are priorities (Figure No. 4). The little support for SDGs 15 and 14 is striking, as development banks could incorporate the promotion of specific issuances of thematic bonds, such as blue bonds for ocean conservation; and the development of bio-economies in the Amazon to combat deforestation.

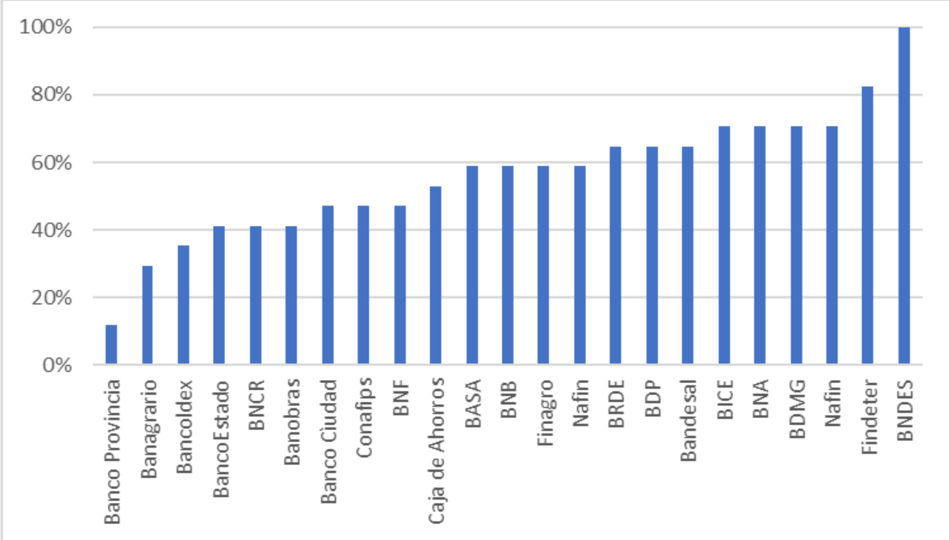
Figure No. 4: SDGs supported by LAC development banks

Source: ALIDE.
On a sample of 23 development banks in 12 LAC countries.

Regarding the participation of each development bank in the 17 SDGs (Figure No. 5), we observe that Brazil shows a significant transversal activation through Banco Nacional de Desenvolvimento Econômico e Social (BNDES), which participates in all the SDGs, making it a leader in the promotion of the SDGs in the region. Financiera del Desarrollo (Findeter) of Colombia contributes in some way to 80% of the 17 SDGs. That is to say, there are institutions that show a transversal approach, participating in a very diverse range of SDGs, which indicates a comprehensive strategy towards sustainable development, while other financial institutions seem to have a more segmented approach.

Table No. 4: National Development System (SNF) of Brazil and the SDGs
To assess its contribution to the advancement of the SDGs, the SNF adopted the ABDE-UNDP Methodology, focused on the following aspects: 1) Increasing the allocation of financial resources to the SDGs globally and in Brazil; 2) Enhancing the capacity of the SNF to contribute to the achievement of the SDGs; 3) Improving the orientation of capital flows towards activities with a greater socio-environmental contribution; 4) Identifying vocations, potentials and gaps in SDG financing; and 5) Providing support to the development of financing taxonomies suitable for the work of development finance institutions. As a result of the application of the methodology in 10 of the 32 SNF institutions, it was estimated that between 2020 and 2022, the SNF classified R$652 billion (US$131 billion) in financing. 58% of resources were focused on SDG 2 (Zero Hunger and Sustainable Agriculture), 8 (Economic Growth) and 9 (Industry, Innovation and Infrastructure). Moreover, areas where the SNF can improve its contribution were identified: SDGs 5 (Gender equality), 4 (Quality education) and 16 (Peace and institutions).

Figure No. 5: Contribution to the 17 SDGs by development bank as % of total



Source: ALIDE
Based on a sample of 23 development banks in 12 LAC countries

However, the fact that banks do not mention an SDG in their report does not necessarily mean that they are not working on these fronts. Banco de Comercio Exterior de Colombia (Bancoldex), for example, makes no reference to SDG 5 in the reports it issues, but according to the Ministry of Commerce, Industry and Tourism of Colombia (2022) it launched a line of credit for women entrepreneurs from Mujer Emprende Fund.

Given the breadth of the SDGs and the diversity of instruments used by development banks, some examples are given below to describe how these banks are contributing to the achievement of the SDGs.

Table No. 5: **Banco de Inversión y Comercio Exterior (BICE), Argentina – Main Results**

SDGs involved	Actions
1, 5, 7, 8, 9, 10, 11, 13 and 17	**Financing for investment**
	- It increased by 40% in disbursements for the promotion of productive investments to Argentine companies for productive modernization projects, plant construction and the purchase of capital goods. - **Mujeres que Lideran (Women Who Lead) Program.** Benefited 316 companies with disbursements of more than US$90 million as of August 2023. - It allocated US$9 million to more than 175 energy efficiency projects for SMEs with broad federal scope. - It facilitated the Ministry of Economy's Crédito Argentino (CreAr) loans. Approximately US$90 million for financing productive projects. - In 2022, it granted loans that reached 70% to regional economies located outside the metropolitan area.
	Foreign trade financing
	It achieved an increase by 28% in dollar loans compared to the previous year, through pre- and post-financing lines for exporters and long-term export financing or forfaiting.
	Leasing
	It assisted more than US$3 million to more than 80 municipalities in the country through the leasing program focused on local economic and productive development and improvement of public services.

Source: BICE.
Prepared by ALIDE.

Table No. 6: **Banco do Nordeste de Brasil – Main results**

Instruments	SDGs involved	Description - Results
Positive impact credit	2, 7 and 8	It consists of providing support to sectors of the economy that contribute positively to the social, environmental and climate aspects of the Northeast Region of Brazil. At the end of 2022, financing to positive-impact economic sectors was US$4.5 billion.
	2, 7 and 13	Green credit includes the following credit lines: FNE Green, FNE Rural Innovation, FNE Irrigation Innovation, Pronaf Agroecology, Pronaf Forestry, Pronaf Bioeconomy, Pronaf Semi-arid and, exceptionally, FNE PROINFRA. It closed in 2022 with financing of US$1.4 billion.
	8	FNE Health financing program. It promotes the development of the health industry economic complex, fostering modernization, increased competitiveness, expansion of productive and service capacity of the sector's productive chain. At the end of 2022, it granted close to US$100 million.
Microfinance for social inclusion and productive insertion.	1 and 10	Crediamigo is the largest urban microfinance program in South America. It contracted some US$2.08 billion by the end of 2022 (almost US$9 billion since its creation), registering growth by 10,1% compared to 2021. In total, the program added 3,4 million operations, benefiting informal entrepreneurs and individual microentrepreneurs.
	1, 2 and 10	Agroamigo. The rural microfinance program invested about US$750 million for a total of 594,000 operations by the end of 2022. Since its creation, it has financed more than US$4.03 billion.
Investment Credit	7 and 13	Financing of Renewable Energy Generation Projects to promote the development of clean and sustainable energy sources in the northeast region, ranging from solar and wind power plants, to mini and micro energy generation projects for private industrial, agro-industrial, commercial and service companies, as well as for rural and private producers. At the end of 2022, the financing granted was US$1.19 billion.
Lines of Credit for territorial and spatially distributed development	10	It incorporates a set of strategies aimed at improving the competitiveness of regional productive activities, such as the construction and implementation of an action plan and budget allocation for financing and strengthening governance through local and territorial committees, as well as the integration of public policies necessary for local and territorial development. The economic activities prioritized by Prodeter received approximately US$360 million in financing in 2022. Considering the entire operational period of the program since 2016, the accumulated amount financed has been US$930 million.

Source: BNB.
Prepared by ALIDE.

In Chile, Corporación de Fomento de la Producción (Corfo) stands out for promoting SDG 5 and SDG 9. Thanks to its support programs for entrepreneurs and its recently updated Institutional Gender Strategy, it has been encouraging female participation in the fields of entrepreneurship, R&D and innovation in Chile. Its strategy has established a number of affirmative action initiatives and various national and regional calls with a gender focus, such as the exclusive calls for women in 2023 in the following programs: Semilla Inicia, Semilla Expande, Capital Humano, Consolida y Expande, Innova Región, Retos de Innovación, Start-Up Chile, FOGAIN Mujer[9], among others. In addition, the corporation

[9] It is a Corfo guarantee program aimed at promoting access to financing for companies with needs for working capital, investment and/or refinancing of financial liabilities, which provides special coverage of up to 90% of financing to companies led by women.

provides additional co-financing for those companies that are selected in non-gender-focused programs but demonstrate female leadership (the increase is at least 10%).

The results are positive. For example, ventures led by women supported by Corfo in 2023 represented 52% of the total (in 2013 it did not exceed 20%). R&D&I initiatives with female participation increased from 28% to 31% in the last two years. In addition, Corfo will allocate US$1 770 million to promote 27 innovative women's projects in 15 regions of Chile, thanks to the Innova Region program.

Start-Up Chile, Corfo's public accelerator, also shows significant results. In the last two generations of its Build program (focused on startups ranging from a validated business idea to an early-stage prototype), despite not having an explicit gender focus, parity was achieved.

Table No. 7: Financiera del Desarrollo (Findeter), of Colombia

Instrument	SDGs involved	Description - Results
Territorial planning	8 and 10	It offers territorial planning tools to help the administrations of territorial entities and the different public and private actors to build sustainable, competitive, orderly and inclusive territories. All through short, medium and long-term plans. The regional and local planning instruments are: 1) Sustainable and Competitive Cities (CSC) Programs, aimed at the country's intermediate cities, with 18 action plans for 25 cities by 2023; and, 2) Emblematic Cities (CE) Program aimed at cities with less than 200,000 inhabitants, with 17 action plans for 27 municipalities by 2023.
Lines of Credit	3, 7, 8 and 10	Energy efficiency and virtual connectivity: It finances investment projects to promote energy efficiency, generation, commercialization, distribution, transmission and storage. As of February 2023, Findeter was able to identify a demand for resources for investments in energy projects for more than US$1.25 billion. Mitigation of El Niño phenomenon managed a line of credit of more than US$250 million. Reactiva Verde y Sostenible. Aimed at financing investments related to infrastructure for the sustainable development of regions in terms of energy and mobility, which manages resources of more than US$16 million.
Strategic alliances	17	It joined the Cooperation Agreement of the Association of Development Finance Institutions China Latin America. With this connection, it seeks to access credit under competitive conditions, as well as non-reimbursable cooperation resources and technical assistance from the China Development Bank. In August 2023, it signed the Green Coalition agreement. In addition to strengthening relations with international organizations.

Source: Findeter.
Prepared by ALIDE

1.4. Best practices in sustainable finance

The commitment of development banks is manifested in a series of initiatives, products and strategies that have the common objective of directing capital towards responsible and sustainable investments. The wide range of environmental financial products is focused on key areas such as renewable energy, biodiversity, climate change, sustainable agriculture or water management. The products include lines of credit for distributed renewable energy generation projects, trust funds for the environmental protection of native forests, energy efficiency programs, lines of financing for climate change adaptation in agriculture and livestock, and financing for efficient water resource management projects, among others.

These financial products not only provide resources for environmental projects, but can also offer additional incentives, such as preferential interest rates or flexible payment terms, to promote the adoption of sustainable practices by companies and communities. In addition, these products can contribute to strengthening the resilience of local economies to the impacts of climate change, while generating long-term economic and social benefits, such as job creation, the development of clean technologies and the conservation of natural resources.

Based on the analysis on development banks in the region, a series of environmental financial products were identified that cover the following key areas:

- Renewable energy. It represents approximately 40% of the financial products designed. It includes a wide range of instruments aimed at financing distributed generation projects of renewable energy, energy efficiency, as well as solar and wind technologies.
- Biodiversity. It constitutes about 25% of financial products and includes trust funds for the environmental protection of native forests, financing for the conservation of flora and fauna, and programs for the sustainable development of protected areas.
- Climate change. It represents 20% of the financial products identified and includes lines of credit for adaptation in agriculture and livestock, climate funds for carbon emissions mitigation, and energy efficiency programs.
- Sustainable agriculture. It constitutes approximately 10% of financial products, aimed at financing projects such as environmentally friendly agricultural practices and programs to improve the resilience of food systems to climate change.
- Water management. It represents about 5% of financial products and includes lines of credit for the efficient management of water resources, financing for sanitation and wastewater treatment projects, and programs for the conservation and restoration of aquatic ecosystems. These financial products reflect a comprehensive approach to environmental sustainability, seeking to address the most pressing challenges related to climate change and natural resource conservation in the region.

Table No. 8. Environmental financial products of LAC development banks

Institution	Country[10]	Product	Sector
Banco de Inversión y Comercio Exterior S.A. (BICE)	ARG	Credits for distributed renewable energy generation projects	Renewable energy
		Trust Fund for the Environmental Protection of Native Forests (FOBOSQUE)	Biodiversity
Banco de la Nación Argentina (BNA)	ARG	Agricultural Emergency	Climate change
Banco de la Provincia de Buenos Aires (Banco Provincia)	ARG	Loans for people affected by natural phenomena	Climate change
Banco de Desarrollo Productivo (BDP)	BOL	Ecoefficiency BDP	Renewable energy
Banco de Desenvolvimento de Minas Gerais (BDMG)	BRA	BDMG Energy Efficiency	Renewable energy
		BDMG Photovoltaic	Renewable energy
		BDMG Sustainability Self-consumption	Renewable energy
		BDMG Sustainability	Biodiversity
Banco do Nordeste do Brasil (BNB)	BRA	FNE Sun	Renewable energy
		FNE Green	Biodiversity
Banco Nacional de Desenvolvimento Econômico e Social (BNDES)	BRA	Climate Fund	Climate change
		BNDES Parks and Forests	Biodiversity
		BNDES Finame - Low carbon emission	Renewable energy
		BNDES Finem - Direct Credit for the Environment	Renewable energy
		ABC Program - Climate Change Adaptation and Low Carbon Emissions in Agriculture and Livestock Program	Climate change
Banco Regional de Desenvolvimento do Extremo Sul (BRDE)	BRA	The most sustainable energy is BRDE	Renewable energy
		BRDE is more innovation	Innovation
Desenvolve SP	BRA	Green Economy Line	Climate change
		Green Economy Line - Machines	Climate change
		Green Economy Line - Sanitation and Waste	Sanitation and waste
Corporación de Fomento de la Producción (Corfo)	CHL	Green Credit	Climate change
		For efficient management of water resources - O'higgins Region 2022	Water
		Creates and validates focus on sustainability	Sustainability
Banco de Comercio Exterior de Colombia (Bancoldex)	COL	Sustainable line of credit forward 2022	Climate change
Banco Nacional de Costa Rica (BNCR)	CRI	GREEN SMEs	Renewable energy
Caja de Ande	CRI	Ecological Credit	Biodiversity
Corporación Nacional de Finanzas Populares y Solidarias (CONAFIPS)	ECU	Green credits	Renewable energy
Banco de Desarrollo de El Salvador (Bandesal)	SLV	Agro line of credit	Agriculture
		Energy efficiency in SMEs	Renewable energy

[10] Country code, ISO 3 (for its acronym in English).

Banque Nationale de Crédit (BNC)	HTI	Kredi Energy	Renewable energy
Corporación Financiera de Desarrollo (Cofide)	PER	Renewable energy projects	Renewable energy
Caja de Ahorros (CA)	PRY	Ecological Car Loan	Electromobility
Agencia Financiera de Desarrollo (AFD)	PRY	Energy efficiency	Renewable energy
		Proforestry	Biodiversity
Banco Nacional de Fomento (BNF)	PRY	100% Electric Vehicle 0Km.	Electromobility

Prepared by ALIDE. It includes information from a sample of 40 development banks in the region.

The social financial products offered by development banks are designed to address specific social challenges and promote sustainable development in various areas. These products may include a wide range of financial instruments, such as lines of credit, financing programs, trust funds and guarantees, among others. In general, they are aimed at promoting gender equality, empowering marginalized or vulnerable groups; improving access to education and health; strengthening social cohesion and inclusion; fostering the development of social and community infrastructures; promoting culture and the arts; and supporting initiatives that promote environmental sustainability and climate change mitigation.

These products are tailored to the specific needs and priorities of each country or region, and may be supported by government policies, international agreements or public-private partnerships (PPP). Ultimately, they seek to generate a positive impact on people's quality of life and contribute to the integral and equitable development of societies. The analysis reveals that approximately 32,5% of these products are designed to promote gender equality and empower women, thus addressing challenges related to equity and inclusion. In addition, about 22,5% of the products focus on tourism development, a vital industry for employment generation and economic growth in the region. While the promotion of orange economy, which encompasses sectors such as art, culture and creativity, is also notable, it represents 12,5% of financial products. This demonstrates the commitment of development banks to the advancement of innovative and culturally rich sectors.

The rest of the institutions are oriented to projects that promote social inclusion, through programs that seek to integrate marginalized sectors and promote social cohesion; educational projects that seek to improve access to education and increase the quality of education in the region; infrastructure projects, such as social housing and urban development projects; support for SMEs, thus strengthening the region's business network; and agricultural initiatives to boost sustainable production and improve food security in the region.

Table No. 9. Social financial products of LAC Development Banks

BDP	Country	Product	Sector
Banco de Inversión y Comercio Exterior (BICE)	ARG	Mujeres que lideran	Gender
Banco de Desarrollo Productivo (BDP)	BOL	BDP Turismo	Tourism
		BDP Mujer: jefa de Hogar	Gender
		Soy Joven BDP	Social inclusion
Banco do Nordeste do Brasil (BNB)	BRA	FNE P-fies	Education
		FNE Proatur	Tourism
		Crediamigo	Social inclusion
		Agroamigo	Social inclusion
Banco Regional de Desenvolvimento do Extremo Sul (BRDE)	BRA	Economía creativa	Orange Economy
		BRDE es más Turismo	Tourism
		Crédito y apoyo a mujeres emprendedoras	Gender
Instituto de Desarrollo Agropecuario (INDAP)	CHL	Programa Mujeres Rurales (Convenio INDAP – Prodemu)	Gender
Banco de Comercio Exterior de Colombia (Bancóldex)	COL	Línea de crédito mujeres empresarias – Fondo Mujer Emprende 2.0	Gender
		Línea de apoyo al crecimiento de la economía Naranja	Orange Economy
Banco Nacional de Costa Rica (BNCR)	CRI	BN Mujer	Gender
Banco de Desarrollo del Ecuador, B. P. (BDE)	ECU	Vivienda de interés social y público	Infrastructure
Banco de Desarrollo de El Salvador (Bandesal)	SVL	Crece cada vez más	Orange Economy
		Programa fondo mujer	Gender
Banco de Desarrollo Rural (Banrural)	GTM	Crédito Amigo por Siempre	Social inclusión
Banco Hondureño para la Producción y la Vivienda (Banhprovi)	HND	Reactivate	Tourism
Banco Nacional de Comercio Exterior (Bancomext)	MEX	Financiamiento a las industrias creativas: caso cine	Orange Economy
Fideicomisos Instituidos en Relación con la Agricultura (FIRA)	MEX	Crédito Orgullo Rural	Tourism
		Del Campo al Plato	Tourism
Nacional Financiera (Nafin)	MEX	Impulso NAFIN + Estados	SME
		Crezcamos Juntas	Gender
Banco Nacional de Fomento (BNF)	PRY	Sector Agropecuario Afectado por Fenómenos Climáticos Adversos	Agriculture
Crédito Agrícola de Habilitación (CAH)	PRY	Mujer emprendedora	Gender
Banco Agropecuario (Agrobanco)	PER	Crédito AgroMujer	Gender
Corporación Financiera de Desarrollo (Cofide)	PER	Reactiva Perú	Working capital
		FAE-MYPE	SME
Fondo Mivivienda	PER	Bono Mivivienda Sostenible	Infrastructure
Banco Agrícola de la República Dominicana (Bagrícola)	DOM	Préstamos Bagrícola	Agriculture
Banco de Reservas de la República Dominicana (BR)	DOM	Educación y Cultura	Education
Banco Nacional de las Exportaciones (Bandex)	DOM	Créditos al desarrollo	Infrastructure
		Crédito Bandex Innova	Renewable energy
		Crédito Mujer Exportadora	Gender

Prepared by ALIDE. It includes information from a sample of 40 development banks in the region.

Similarly, there are also mixed financial products that combine financial, social or environmental aspects, thus addressing multiple dimensions of sustainable development. They include initiatives such as loans for sustainable agriculture, financing for education with a social and environmental focus, lines of credit for sustainable infrastructure, and loans for rural development with an emphasis on renewable energies.

Table No. 10. Mixed Financial Products of the LAC Development Banks

BDP	Country	Product	Sector
Banco de la Provincia de Buenos Aires (Bapro)	ARG	Agro Sustentable	Agriculture
Banco Nacional de Desenvolvimento Econômico e Social (BNDES)	BRA	Crédito BNDES ASG	Education
Fondo para el Financiamiento del Sector Agropecuario (Finagro)	COL	Línea de crédito a toda máquina e infraestructura sostenible	Infrastructure
Banco de Fomento Agropecuario (BFA)	SVL	Créditos Sostenibles para el Desarrollo Rural	Renewable energy

Prepared by ALIDE. Information extracted from a sample of 40 development banks in the region.

1.5. Alliances for regional cooperation

Cooperation among development banks has increased in recent years, particularly in efforts to develop shared tools and services and create joint platforms and initiatives to foster collaboration and increase different sources of capital and expertise to achieve common development objectives, as well as to co-finance individual operations. These projects contribute to the experience of different institutions to solve complex development challenges. This collaborative approach not only maximizes the reach and effectiveness of interventions, but also contributes to building a more cohesive and resilient regional community in the face of emerging challenges. Below are some examples of initiatives and collaborative spaces among development banks:

- **Green Coalition:** an alliance formed by 20 Amazonian development banks, with the main purpose of promoting the sustainable, resilient and inclusive development of one of the most vital biomes on the planet. The coalition's contribution focuses on fostering sustainable growth in the Amazon region, through close collaboration: They design financial solutions and provide technical support to both public and private development projects, adapted to the unique characteristics of the Amazon.

  Its work is oriented towards the expansion of businesses and initiatives that can demonstrate their social, environmental and economic sustainability. To achieve its objectives, the coalition aims to mobilize between US$10 billion and US$20 billion. Resources will be directed to the 2024-2030 Amazon development agenda, with the collaboration of international coalition partners, to support the financing of sustainable investments in the Amazon region.

  In addition to resource mobilization and technical assistance, the coalition will seek to reduce financing barriers through loans and financing instruments for the Amazon, leveraging initiatives led by its members, the development banks of the Amazonian countries in Latin America, including CAF -development bank of Latin America and the Caribbean-, the Inter-American Development Bank (IDB) and the Brazilian Development Bank (BNDES) and international partners such as the World Bank (CAF, 2023).

- **Latin American and Caribbean Carbon Market Initiative (ILACC):** is a regional effort led by CAF, in collaboration with twelve development banks, which aims to boost the competitiveness of the supply of carbon credits generated in the region. This initiative, launched during the 52nd Regular Meeting of ALIDE General Assembly in May 2020, aims to strengthen the conditions for both voluntary and regulated markets and broaden their impact in key areas such as employment generation, income, new technologies, green business and the fight against poverty.

  ILACC's immediate actions include conducting a regional diagnosis on the carbon market, establishing the ILACC Observatory, forming a Technical Committee and an Advisory Board, and creating the ILACC Regional Forum to foster multisectoral collaboration in the value chain related to carbon markets.

  In addition, ILACC will work to strengthen the institutional capacities of participants, generate knowledge on relevant regional issues and facilitate multisectoral dialogue to accelerate learning processes and the exchange of experiences. This initiative is aligned with CAF's strategy to become the green bank of Latin America and the Caribbean, with the purpose of financing green projects for US$25 billion over the next five years, and that 40% of CAF's approvals will be related to green objectives by 2026.

- **Development Banking Community of Practice:** is a joint initiative of ALIDE, IDB and ECLAC. Established as a web platform in December 2022. This virtual space focuses on key topics for development financing, such as digitization, gender, SDGs, agriculture, infrastructure and impact investments. It serves as a forum for the exchange of knowledge and experiences on sustainable finance, specifically aimed at LAC Development Banks. The community has 61 focal points from 38 institutions in the region. Its main objectives are to serve as a knowledge center, encourage participation and interaction, offer webinars on topics of interest, and act as a platform for events relevant to public banking.

- **Working Group on Alignment to the Paris Agreement (GTAAP):** is a joint initiative of the IDB and ALIDE, aims to boost the action of development banks towards environmental sustainability and alignment with the commitments of the Paris Agreement. This initiative was announced within the framework of COP27 and seeks to strengthen participants' capacity to understand and adopt the principles of the Paris Agreement in their strategies and operations.

  The GTAAP provides a collaborative and interactive space where focal points from 9 public development banks, from 6 Latin American and Caribbean countries, can share knowledge, experiences and tools related to the integration of the Paris Agreement commitments. Through training, events, exchange of experiences and access to mentoring programs offered by the IDB, participants have the opportunity to design a roadmap adapted to the realities and contexts of each country and bank.

- **Regional Public-Private Partnership Development Group (APP):** It is an ALIDE-IDB regional working group that represents a crucial initiative to boost PPP development in the region. This group focuses on three key areas: the structuring of PPPs, capacity building for their effective implementation, and associated financial instruments.

  Participation in this initiative offers development banks a unique opportunity to strengthen their capacity for action in fundamental areas of sustainable development. By collaborating in the structuring of PPP projects, improving their skills and knowledge, and exploring innovative financial instruments, banks can play a more active role in promoting projects that drive economic and social growth in the region.

By sharing best practices and lessons learned, participants can learn from each other and adapt successful strategies to their own national contexts. This regional collaboration is essential to address common challenges and maximize the impact of development initiatives across the region.

Table No. 11. Cooperation Alliances and their Alignment with the SDGs

Alliance	SDGs
Green Coalition	• SDG 8: Decent Work and Economic Growth • SDG 10: Reduced Inequalities • SDG 11: Sustainable Cities and Communities • SDG 13: Climate Action • SDG 15: Life on Land • SDG 17: Partnerships for the Goals
Latin American and Caribbean Carbon Market Initiative (ILACC)	• SDG 11: Sustainable Cities and Communities • SDG 13: Climate Action • SDG 17: Partnerships for the Goals
Development Banking Community of Practice	• SDG 5: Gender Equality • SDG 8: Decent Work and Economic Growth • SDG 9: Industry, Innovation and Infrastructure • SDG 10: Reduced Inequalities • SDG 17: Partnerships for the Goals
Working Group on Alignment to the Paris Agreement (GTAAP)	• SDG 11: Sustainable Cities and Communities • SDG 12: Responsible Consumption and Production • SDG 13: Climate Action • SDG 14: Life Below Water • SDG 15: Life on Land • SDG 17: Partnerships for the Goals
Regional Public-Private Partnership Development Group (APP)	• SDG 7: Affordable and Clean Energy • SDG 8: Decent Work and Economic Growth • SDG 9: Industry, Innovation and Infrastructure • SDG 10: Reduced Inequalities • SDG 11: Sustainable Cities and Communities • SDG 13: Climate Action • SDG 17: Partnerships for the Goals

Prepared by ALIDE.

CHAPTER II
SUSTAINABLE PRODUCTION AND CONSUMPTION: HOW DO THE ACTIONS, CREDIT LINES AND PROGRAMS OF DEVELOPMENT BANKS INFLUENCE?

The growing consumption and increased production of resources is, in addition to the greatest source of economic growth, one of the greatest challenges that the planet faces to remain sustainable. According to the United Nations, between 2000 and 2019 worldwide resource consumption increased by more than 66%, exceeding 95 billion metric tons. This relationship between production and consumption diverges at the regional and national levels. Currently, the material footprint[11] per capita in high-income countries is ten times higher than in low-income countries. At the same time, the accumulation of waste in the world could grow by two-thirds by 2050, and its cost to health, economies and the environment could double (UNEP, 2024).

Approximately 14% of food is lost in the manufacturing industry, while 17% is lost in retail trade and households. Continued fossil fuel subsidies have also contributed to the unsustainable use of resources[12]. At this rate, it is easy to imagine how large the footprint will be in just a few years, unless the current growth pattern is radically changed.

Production and consumption patterns are not sustainable, especially when the world population is expected to increase to nine or ten billion people. The Club of Rome reached this conclusion, expressed in its renowned contribution “The Limits to Growth”, where it warned about the risks associated with uncontrolled economic growth, and therefore advocated for a more equitable and sustainable approach. In the same vein, the 1992 Rio Summit marked a milestone in establishing a crucial connection between development and the environment, while the United Nations SDGs have provided a global roadmap to address critical issues, including responsible consumption and production.

However, it is also clear that developing countries have a lot of work to do in terms of sustainable production and consumption of goods. The number of people suffering from poverty, hunger and lack of access to energy remains unjustifiably high. Consequently, the solution cannot simply be to curb consumption. Instead, we need to find ways to align the entire economic system with sustainable principles to create sustainable economies. These solutions can provide people with access to the resources they need to lead safe and autonomous lives without burdening the planet in the process.

2.1. The reality of consumption and its impact on production

About 50% of the world’s current greenhouse gas (GHG) emissions come from the extraction and processing of natural resources. In a business-as-usual scenario, the demand for raw materials is expected to double by 2050 (UNEP, 2017). In this context, Latin America and the Caribbean are suffering from the strong environmental and social consequences. The vast natural wealth available and the strong extractive industries make LAC a region with a critical context for the extraction of materials, as well as a key supplier to the global economy, particularly of biomass and metallic minerals. According to Circle

[11] Refers to the total amount of raw materials extracted globally along the entire supply chain to meet the final consumption demand of that economy. In Europe and North America, the material footprint was 14% higher than domestic material consumption, while in LAC and Sub-Saharan Africa the material footprint was lower than domestic material consumption by 17% and 32%, respectively.

[12] In 2021, worldwide data showed a resurgence of such subsidies, and governments show they have spent an estimated US$732 billion on subsidies for coal, oil and gas, almost doubling the US$375 billion spent in 2020 (UN, 2023).

Economy's "LAC Circularity Gap Report" (2018), of the almost 11 billion tons of materials extracted in the region, about 40% were exported to meet global demand.

The fact that LAC's material export footprint is more than double that of its material import footprint, as well as the great difference between the percentage of global material extraction with respect to LAC (1,2%) and the world population (8,3%), indicate that global demand for raw materials from the region's resources is putting excessive pressure on its natural resource base (ECLAC, 2022). Domestic extraction of materials is a strong indicator for measuring environmental impact at the domestic level (Steinmann et al., 2017). The increase in the volume of extractions to supply world markets with greater quantities of raw materials (Infante-Amate et al, 2022), together with the fact that extractive activities usually generate a high impact and lack remediation and mitigation measures, make LAC a transcendental point of global environmental impacts (Dorninger et al., 2021).

In terms of fossil fuel production, the scenario is not very different, as many countries in the region depend on the demand for fossil fuels to obtain tax revenues (Vogt-Schilb et al., 2021). Between 2013 and 2018 about 8% of public revenues in Ecuador, more than 6% in Trinidad and Tobago, and almost 6% in Mexico, depended on oil and natural gas development. With the recent rise in oil prices and the urgent need for economic recovery, many countries in the region are looking to exploit their fossil fuels even further. Thus, until the end of 2021, significantly more financing had been allocated to this industry than to renewable energies as part of the recovery packages. Although some national oil companies are improving their energy efficiency and reducing gas flaring, the region's energy sector is not aligned with the Paris Agreement goals of achieving net zero emissions by 2050.

Globally, the current model of extraction, production, consumption and waste consumes 100 million tons of resources per year, of which more than 90% is wasted, as the recycling rate is 8,6%. In LAC, 541 000 tons of municipal waste are generated per day, with a recycling rate of only 4,5%. Also, 220 million tons of food are lost, which is approximately 12% of total production (Espínola, 2022). These figures will tend to increase: by the year 2050, the amount of municipal waste produced per day is expected to increase by 25% (Fundación Economía Circular, 2022).

2.2. Development Banking and SDG-12

Although sustainability can be an all-encompassing concept, its most common manifestation is environmental. While financial institutions are not major polluters of the environment in terms of their own operations, they can be a driving force in helping the planet achieve the SDGs by influencing investors, business groups and borrowers. At the same time, financial institutions must also embrace Green Banking: the process of transforming its internal operations to reduce or eliminate their environmental impact through initiatives such as information technology innovations that reduce the use of resources such as paper, conserving water and using renewable energy, as well as the provision of sustainable finance, that is, the development of financial products that encourage environmentally friendly operations.

In this regard, the SDGs provide a framework around which investors and the business community at large can come together to achieve the collective goal of cleaner, better-practice businesses. One goal that many investors and companies are emphasizing is SDG 12: responsible consumption and production. This goal requires, among other things, energy and resource efficiency, minimization of waste generation, environmentally friendly infrastructure and sustainable and fair jobs. In that sense, a concept that is often synonymous with SDG 12 is the circular economy, which is the process that deviates from our traditional model of doing business —which involves leaving waste— to a regenerative one, which considers waste and pollution as a fundamental design flaw.

A circular economy scenario is relevant for the region, given the economic weight of the extractive sectors and the low levels of recycling. In addition, job creation in metal and wood reprocessing sectors would more than offset potential losses in the extraction of minerals and other raw materials. This is because reprocessing has a longer and more employment-intensive value chain than mining extraction, and because increasing recycling rates would increase the demand for services associated with waste management for reuse (ECLAC, 2019).

Financial institutions can contribute to this SDG by financing the development of energy efficiency and waste management solutions throughout the business cycle, the construction of sustainable infrastructure, the development of technological solutions that enable product traceability and the reduction of waste generation[13], as well as eco-innovation for the development of more sustainable practices and technologies. In addition, they can hire suppliers under sustainability criteria, reducing the impact of transporting products and services and promoting a sustainable local economy, and train employees in sustainable production and consumption practices and guidelines.

In this context, development banks can provide public financing and leverage private resources for investment in these key sectors, as well as act as change agents in the transition process, ensuring that consumption and production modes are compatible with sustainable growth (Marodon, 2020). In line with this, most banks raise green bonds and sustainability-focused funds for green infrastructure. In addition, some banks have designed innovative products such as sustainable credit lines and have established an internal sustainability assessment framework for project financing.

[13] Technology and electronic transactions help banks achieve internal sustainability goals (in some cases, savings of several million sheets of paper)

Table No. 12
Energy savings insurance (ESI) model to boost energy efficiency in SMEs

Identified as an innovative initiative in the promotion of energy efficiency (EE), the ESI program helps overcome barriers to investment and develop the sector's market, coordinating bankable projects, while supporting public goals such as contributing to clean air and reducing fossil fuel imports (ALIDE, 2017). Investment in EE projects is also low because financial institutions are risk averse. Credits for these projects are repaid using expected energy savings, which creates a higher perception of risk for investments. In addition, certain projects such as energy-efficient cooling projects tend to require longer-term loans than lighting efficiency projects, for example, which is also perceived as a greater risk for banks. This risk aversion on the part of banks has a domino effect, as the lack of investment from other companies makes EE projects look riskier.

The model operates through the implementation of risk mitigation instruments, providing insurance to cover projected and verifiable energy savings, as agreed in a standard contract between SMEs and technology service providers. Its mechanisms compensate companies in the event that promised financial flows associated with energy savings are not realized. Through its mechanisms, ESI enhances and assists potential private sector investors by providing support so that they are confident that their EE projects will generate sufficient energy savings to repay the loans taken out and earn a profit. In addition, it helps make financial institutions more aware of the risks and benefits associated with these projects and, therefore, increase their willingness to finance them; and it enables the reduction of greenhouse gas (GHG) emissions.

The ESI model has been adopted by several LAC development banks. In Colombia, Bancóldex initiated the program in 2016 by combining resources from the Clean Technology Fund (CTF) and the IDB, granting benefits to companies that requested financing through any line of credit offered by the bank to implement investment projects in equipment and/or projects that promote EE in energy consumption and/or in photovoltaic energy generation systems. In Mexico, FIRA promotes and expands investments in selected EE technologies by agribusiness companies through the EE Guarantee Fund, which guarantees energy savings of eligible projects, thus promoting the best use of energy in the sectors of its attention (FIRA, 2020).

In addition, the Green Climate Fund (GCF) granted US$16,2 million for ESI in El Salvador out of a US$40 million fund, resources that were allocated through the traditional model and the ESI model. The contribution was directed to private investments in EE, through Bandesal and the IDB, offering support to more than 500 SMEs through a line of credit for the purchase of fixed assets, accompanied by simple mechanisms that guarantee the energy savings promised by the supplier to the company. In Chile, the model is led by BancoEstado, with the objective of democratizing access to EE and non-conventional renewable energy (NCRE) projects, promoting investment in clean energy and providing support to SMEs. The program's priority segments are buildings, SMEs and large industry.

2.3. Review of good practices to promote responsible consumption and production

Development banks play a leading role in promoting sustainability and their impact goes beyond the simple implementation of internal practices. Banks contribute to sustainability in two main ways:

- Internally: incorporating sustainable practices in their operations, human resources and asset management, with the objective of reducing the direct impact of their operations on the environment. This includes both responsible consumption and the reasonable and efficient use of resources, as well as the implementation of and compliance with environmental and social standards.
- Externally: offering various financing options, loans and investment schemes for sustainable projects, supporting individuals and companies on the road to sustainable development.

- **Internal practices**

Based on a review of secondary sources, the analysis focuses on how development banks integrate the perspective of responsible consumption and production within their own organization. As is well known, financial institutions are large consumers of energy through their headquarters, regional offices and extensive branch networks. Computer systems, ATMs, security systems, air conditioning and other technological installations constitute a large part of resource use, including electricity consumption.

Therefore, financial institutions and development banks can mitigate their impact on the environment by consciously managing their consumption of energy and other resources. In addition, improvements in EE and resource efficiency technologies make it possible for banks to also reduce their operating costs through resource efficiency measures. The conscious effort for environmental conservation can also provide ideas for banks to adapt their products and services to such measures in customers' businesses and homes. But this culture of responsibility must be supported by a sustainability strategy and the application of ESG criteria in their activities (Table No. 5).

Table No. 13. Internal measures implemented by LAC development banks

Institution	Country	Initiatives implemented
Banco de Inversión y Comercio Exterior (BICE)	ARG	Development of an energy management system with EE policies. Establishment of corporate GHG emissions inventory. Temperature control: ensuring 24°C and setting on/off schedules. Sustainable purchasing management: refillable toner cartridges, ecological cleaning supplies, and sustainable furniture. Investment in technology: installation of photovoltaic panels, presence sensors for lighting, and flush controllers in toilets to reduce water consumption. Donation of materials for recycling and/or reuse. Training on EE.
Banco Nacional de Desenvolvimento Econômico e Social (BNDES)	BRA	Modernization of infrastructure and use of solar, wind, biomass, and small hydroelectric power sources. Implementation of electronic faucets, automatic irrigation system, and replacement of lamps with LEDs. Gold Level LEED EB O+M Certification for BNDES Services Building in Rio de Janeiro.
Banco del Estado de Chile (BancoEstado)	CHL	Mitigation and residual compensation plan for carbon neutrality by 2030. Contracts for the supply of renewable energy and use of LED lighting. New air conditioning plant, eco-efficient renovation of air conditioning systems, and offices with self-generation of solar energy. EE certification given by the Ministry of Energy.
Banco de Comercio Exterior de Colombia (Bancóldex)	COL	Reducing emissions through EE, circular economy, sustainable purchasing and cultural change. 100% renewable energy consumption, and water and paper saving measures. Acquisition of reams of paper made from sugarcane bagasse and water-saving mechanisms. Internal environmental education campaigns.
Banco Nacional de Fomento de Paraguay (BNF)	PRY	Initiatives to reduce the consumption of water, energy and paper. Wastewater treatment plant and acquisition of eco-efficient air conditioners. Compliance with the Law on Paper Reduction in Public Management. Technical assistance for EE and internal environmental education.

Source: Annual Reports and Sustainability Reports of Development Banks.
Prepared by: ALIDE.
EE: energy efficiency. GHG: greenhouse gases.

- **External practices**

As the global economy continues to grow, one of the challenges that institutions and individuals in general face is sustainability, which brings risks and opportunities. It is a challenge that covers many issues, from climate change and pollution to labor practices, consumer privacy and competitive behavior of companies (Papageorgiou et al., 2019). In this scenario, financial institutions are key actors that can help steer the productive sectors and consumption of countries towards more sustainable growth, through various external practices.

Firstly, development banks can have an impact on the different productive sectors, promoting environmental, social and governance aspects, through loans and investments that consider these parameters. Through these financial products, development banks finance or co-finance, for example, projects of sustainable infrastructure, circular economy, women's entrepreneurship, cleaner production, sustainable agriculture, aquaculture and manufacturing, the purchase of high energy efficiency and renewable energy equipment, among others.

In general, development banks play a key role in the achievement of the SDGs. However, measuring their degree of progress is complex, due to the varied and non-standardized ways of calibrating and presenting sustainability reports. The cases referenced in this point come from a mapping of the various annual sustainability reports, press releases, websites and others, where banks report on their activities on the matter. Thus, from a sample of 80 LAC development banks, 18 banks developed some external measure[14] in SDG 12.

Some actions led by development finance institutions in favor of sustainable consumption and production are summarized below. In terms of resource mobilization, LAC development banks —with assets of more than US$1,2 trillion— are able to provide financing of about US$800 billion on average per year through loans, cofinancing and technical assistance. Of the total amount, the SDGs that received the greatest resources were those linked to SDG 7, on renewable energy projects; SDG 10, on reduced inequalities; SDG 5, on supporting women; SDG 13, on economic growth; and SDG 2, on food security.

Table No. 14. LAC Development Banks: Actions in favor of Responsible Consumption and Production

Institution	Country	SDG 12	SDGs Linked	Actions / lines /products
Banco Ciudad de Buenos Aires	ARG	Yes	2, 5 7, 9	Adhered to the Circular Economy Network of the Government of the City of Buenos Aires. Lines of loans to entrepreneurs for those who participate in the Circular Economy Network. It offers products from these entrepreneurs through its online shopping platform. Green Loan Financing (financed 14 projects that cover energy generation through biomass, photovoltaic technology, solar fields and biogas, for US$53 million). Issuance of sustainable bonds and social bonds.

[14] Understood to mean various actions that transcend the operation of the organization as such.

Banco de Inversión y Comercio Exterior (BICE)	ARG	Yes	2,5,7 and 8	Line of credit for EE. Green Development Fund (financed 41 EE projects through solar panels; 5 biogas and biomass generation projects for US$30,5 million; and 145 EE projects for US$43 million). Issuance of sustainable bonds.
Banco Provincia de Buenos Aires	ARG	Yes	2, 6, 7, 8, 9 and 11	Microcredits to agricultural and agroecological producers. Productive credits for MSMEs with a positive environmental impact. Loans for investments in sustainable projects or environmental improvement and/or adaptation projects, including the reduction of pollutants, waste and greenhouse gas emissions, as well as the adoption of RE technologies. Agro-sustainable line for the implementation of biodigesters.
Banco de la Provincia Córdoba	ARG	Yes	7, 13	Reduction of direct environmental impact through the responsible use of natural resources. In 2022, 7,2% of the bank's actions were oriented towards SDG 12. It provides financing of eco-sustainable products and alternative energy systems. Credit line for the incorporation of alternative energy systems through the Dale Eco program.
Banco da Amazonia (BASA)	BRA	X	2, 7, 9, 11, and 13	Financing of sustainable products and technologies. Promotion of ecological and sustainable infrastructures: water and sewage works, EE generation, composting, and energy storage. Support for sustainable agricultural and livestock activities. Strengthening the processing of sustainable forest products and the recovery of deforested areas. Promotion of projects for the reduction, reuse and recycling of materials and solid waste to minimize negative environmental impacts.
Banco de Desenvolvimento de Minas Gerais (BDMG)	BRA	X	7 and 13	BDMG Photovoltaic: Credit for photovoltaic projects, focused on self-consumption. BDMG Sustainability: Credit for photovoltaic or hydroelectric power generation projects, as well as EE and public lighting projects. In 2022, 41% of total disbursements were allocated to initiatives related to at least one of the SDGs.
Banco Nacional de Desenvolvimento Económico e Social (BNDES)	BRA	Yes	All	Disbursement of more than US$470 million in 2022 for SDG 12. ESG credit with funds of up to US$400 million. Financing of biofuels through Renovabio, with a line of more than US$400 million. Creation of the Amazon Bioeconomy Credit Guarantee Program in 2022 to expand access to credit for sustainable forestry activities. Launch of the first call for projects on municipal solid waste (MSW) management in 2022, in partnership with Caixa Económica Federal and SPPI/ME, in order to improve MSW services in Brazil and expand the number of concession projects.
Caixa Económica Federal (CEF)	BRA	Yes	6, 7, 8, 9 and 11	The Casa Azul + CAIXA Seal qualifies sustainability in housing developments, promoting efficient and sustainable solutions in design, construction, use and maintenance, with environmental, social and economic benefits. Renewable energy credit that finances the purchase and installation of solar energy equipment in homes. In December 2022, this credit operation benefited 3,000 customers, generating contracts for a total of US$33 million, promoting the use of renewable energy and avoiding the emission of 815 tons of CO2.
Banco do Brasil	BRA	Yes	2, 7 and 13	BB Crédito ER financed solar energy systems in homes for US$87 million in 2022, benefiting nearly 13,000 residential projects.

				It financed 13 EE projects, including wind and solar complexes, as well as small hydroelectric plants, for a total of US$740 million. The Agro Energy Program invested US$290 million in alternative energy mini-plants in rural areas, 71% more than in 2021. The Low Carbon Agriculture Program had a total value of US$73 million in 2022, with an estimated mitigation of emissions of 1.66 million tons of CO_2, equivalent to agricultural production on 575,287 hectares financed.
Banco do Nordeste (BNB)	BRA	X	1, 2, 3, 7 and 13	Green credit lines, such as: FNE Green, Rural Innovation, Irrigation Innovation, Pronaf Agroecology, Pronaf Forestry, Pronaf Bioeconomy, and Pronaf Semi-Arid. Financing of EE and sustainable agribusiness projects.
Banco Regional de Desenvolvimento do Extremo Sul (BRDE)	BRA	Yes	9, 13	Financing for projects that contribute to SDG 12, including EE generation, sanitation, commercial forestry, solid waste management and disposal, and waste use/recycling for US$245 million. Financing for US$225 million for projects related to climate action, such as irrigation, EE generation, electric public transportation, etc.
Corporación de Fomento a la Producción (Corfo)	CHI	X	7, 9 and 13	Fondo Súmate a Innovar, an instrument focused on the circular economy that aims to promote the development of innovative solutions under the framework of the circular economy, which allow solving productivity and/or competitiveness challenges of companies, through its linkage with collaborating entities.
Instituto de Desarrollo Agropecuario (Indap)	CHI	Yes	2	Transition to Sustainable Agriculture (TAS) Program to advise and grant economic incentives to Indap users, promoting agroecological and sustainable practices.
Banco de Comercio Exterior de Colombia (Bancóldex)	COL	Yes	2, 7, 9, 13 and 15	Green credit lines: Available to companies that wish to improve their environmental profile and reduce their impacts. Green bond issuance: US$150 million has been disbursed in 482 projects related to EE, pollution control, sustainable construction, RE, among others. Adelante Sustainable Line: For climate change mitigation and adaptation, circular economy and bioeconomy projects for MSMEs and large companies, with a disbursement of US$16 million in 2022. Climate Change Adaptation Line / Microfinance for ecosystem-based adaptation measures: Finances investments in climate change adaptation measures, such as silvopastoral systems, organic fertilizers, fish farming, greenhouses, crop diversification and family gardens. Bioeconomy Line: Financing of projects that develop goods and services with economic impact with a sustainability approach, using knowledge of resources, biological processes and ecosystems.
Financiera de Desarrollo Territorial (Findeter)	COL	Yes	7, 11, 13, 14 and 15	It offers Territorial Planning instruments to help municipalities develop sustainable and competitive territories, promoting the efficient use of resources and a balanced growth in urban, environmental, social and economic aspects. Implementation of the Sustainable and Competitive Cities and Emblematic Cities programs to identify strategic investments and establish roadmaps for sustainable development. Development of projects for vulnerable communities, promoting social inclusion, encouraging environmentally responsible practices in financed projects. Housing and Urban Development business line allows collaborating with the government and local administrations to generate decent housing and open new opportunities for access to complementary services. Issuance of Sustainable Bonds.

Banco Nacional de Costa Rica (BNCR)	CR	Yes	8 and 9	Sustainable finance program. Green SMEs Program: Offers environmental investment plans with interest rate benefits to acquire efficient equipment, EE projects and adopt technologies to reduce environmental impact, including RE. Sustainable purchasing program.
Banco de Desarrollo de El Salvador (Bandesal)	SLV	Yes	7, 13	Energy efficiency line for SMEs: Finances EE technology projects in SMEs in all sectors of the economy, supporting their competitiveness and at the same time reducing GHG emissions. In 2022, it granted US$11,3 million in loans through financial intermediaries. Green credit: Finances investments in RE and/or EE projects and small hydroelectric plants.
Nacional Financiera (Nafin)/ Banco Nacional de Comercio Exterior (Bancomext)	MEX	Yes	7, 9, 11 and 13	It promotes the adoption of good practices in the construction and industrial infrastructure sectors with the development of sustainable financial products for the financing of “sustainable offices”. It finances RE/EE projects, optimizing consumption and reducing energy losses.
Banco Nacional de Fomento (BNF)	PRY	Yes	13, 15	“Pro Forestal” Credit Line: promotes the production of wood and biomass, with a maximum financing term of 12 years, and aims to contribute to the reduction of the felling of native forests within the framework of territorial planning.
Agencia Financiera de Desarrollo (AFD)	PRY	Yes	2, 7, 13	Procampo: finances livestock investment projects with a loan portfolio of US$53 million in 2022. “Energy Efficiency” product: finances investment projects for SMEs, aimed at increasing EE while reducing GHG emissions. Proforestal: finances reforestation projects for commercial purposes.
Corporación Financiera de Desarrollo (Cofide)	PER	Yes	7	Cofide’s environmental management includes lines of financing with environmental criteria and the management of the environmental impact of its operational activity, considering the social and environmental contribution of the financed projects, as well as emissions, among others. Issuance of green bonds and sustainable bonds.

Source: Annual reports and sustainability reports of development banks.
Prepared by: ALIDE.
EE: Energy efficiency. ER: renewable energy.

Thus, development banks are working in a variety of ways to promote sustainable production and consumption, waste management and ecosystem protection. One of these ways is by improving energy efficiency and promoting the use of renewable energy (see table No. 6). With financing and technical support for projects that contribute to environmental sustainability and economic development, they are promoting more sustainable business practices, i.e., a change in behavior.

Development banks also work directly with other financial institutions, providing loans or investing in equity, which increases the liquidity of the financial system and allows for greater capillarity of investments. An example of these actions is Corfo’s “Súmate a Innovar foco Economía Circular” program, aimed at developing innovative solutions to increase the productivity and competitiveness of Chilean companies, using circular economy principles.

Also in Chile, Indap recently launched its program for the “Transition to Sustainable Agriculture (TAS)”, which will allow users of this agricultural service to implement sustainable management and production practices in their agricultural systems, promoting the conservation of resources, resilience to climate change and the availability and access to healthy food.

In Colombia, Bancóldex finances the acquisition of machinery or equipment to reduce the generation of special waste or extend the useful life of its products, in addition to financing projects where the entrepreneur wishes to invest resources for the reuse of treated wastewater for the same or a different initial use, among others.

Finally, BNDES has been building a portfolio of projects with potential for private participation, with the objective of promoting the integrated management of municipal solid waste in Brazil. The objective of this partnership is to map investment opportunities in the solid waste sector, with a view to developing projects with private sector participation through concessions or PPPs. In 2022, it launched the first call for projects on municipal solid waste (MSW) management, in association with Caixa Económica Federal.

CHAPTER III
IMPACT INVESTMENT FOR SOCIAL INCLUSION: A KEY PIECE FOR DEVELOPMENT

3.1. Impact investments as a source of regional growth and innovation

Projections indicate that only one third of the SDGs in LAC will be achieved in the next seven years (ECLAC, 2023), making it one of the regions in the world with the greatest challenges in terms of economic development. Although the region has managed to stabilize after the pandemic, socioeconomic indicators reveal that it is impossible to finance the achievement of the SDGs with public resources alone. Therefore, the private sector and financial markets will be of essential importance (WEF, 2017)[15].

Despite facing numerous challenges, LAC is also a region full of opportunities. According to the United Nations, the region contributes one-sixth of the world's food production and will play an important role in the global energy transition. LAC has a vast energy wealth ranging from hydroelectric power to unconventional gas, spanning a wide variety of critical minerals. For example, up to 60% of LAC's electricity is generated from renewable energy, double the world average, thanks to wind and solar energy, whose costs continue to decrease (IEA, 2022). In addition, LAC contains about 40% of the world's biodiversity and is home to 46,5% of the world's forests, being responsible for only 8,1% of global GHG emissions. These resources position the region as a strategic player for the global transition to renewable generation sources (Osorio, 2023).

These factors make LAC an interesting region for attracting local and international investors seeking to generate social and environmental impact, although the trend is still in an initial phase. In 2020, interest in impact investing grew to US$2,3 trillion, representing only 2% of global assets under management (IFC, 2020). Although this market is relatively small, it is attracting considerable interest and has the potential to scale up and thus contribute to the achievement of the SDGs and the goals of the Paris Agreement. In this sense, impact investing is making headway worldwide, and LAC is following this trend.

With respect to the sizing of the impact investment market for LAC, it is important to point out that attempting an estimate requires recognizing several associated challenges[16]. That said, impact investment in the region has experienced significant growth in recent years. In 2020, more than 500 impact investment transactions were recorded in the region, with more than US$2,5 billion invested (Del Cerro, 2024). The majority of the region's impact investment funds focus on multiple areas. Agriculture, education, financial inclusion and health are cited as attracting the largest amount of impact investments. Impact investment funds founded and headquartered in the region tend to have a narrower geographic and sectoral focus. This approach aims to develop deep local expertise and proximity to add value to the investments made. Thus, 80% of the participants based in the region reported having raised funds within the region.

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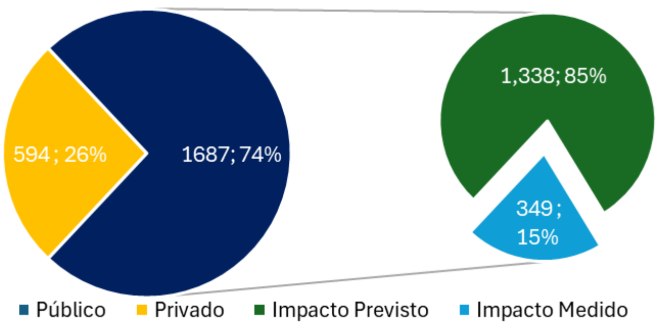
[15] The principles underlying these measures are anchored in SDG 12, which encourages enterprises, especially large and transnational, to adopt sustainable practices.

[16] Due to a number of factors, including the inherent complexity of the impact investing landscape, the need for standardized metrics, and the wide range of sectors impacted, it is challenging to accurately assess its scope. Interaction with other investments and their inclusion in conventional financial products make it difficult to distinguish between impact investments and conventional investments, which complicates the estimation of their true magnitude. The available studies are based on surveys of investors who meet the criteria established in each organization's definitions, which limits the ability to estimate the shares of those who do not participate in the surveys.

However, this percentage is slightly lower compared to 2020, indicating that Latin American impact investors are also raising capital outside the region at an increasing rate (Ande, 2023).

Graph No. 4
Global Impact Investment
(In US$ billions and % of total)



Source: IFC.

Despite growth, this market still faces numerous challenges, including issues related to regulation, standardization[17], lack of awareness and familiarity with impact investment, as well as measurement[18] and management. In addition, the absence of an efficient market and an incipient support ecosystem are observed. It is also necessary to balance the demands of investors and impact organizations to ensure a mutually beneficial outcome for both parties, that is, a return on investors' capital, both financial and impact, and sufficient autonomy for organizations to focus on their mandate. As a measure to stimulate the development of impact investments, a specific regulatory and tax framework is required, with laws that encourage their use. All this is accompanied by the development of the financial market.

Impact investment opportunities are mainly found in private markets and are characterized by investment in the MSME segment, which is the backbone of any economy in the region, with the capacity to create positive social and environmental, as well as economic, results. Latin American countries have a strong entrepreneurial spirit, and the venture capital and private equity industries have identified and embraced the opportunity and scale that are feasible.

[17] The lack of standardized impact measurement and reporting frameworks across the sector can make it difficult to compare and benchmark impact results.
[18] Defining and quantifying impact metrics can be complex, as impact can be multidimensional and long-term.

3.2. Impact investment in Latin America and the role of government

The participation of impact investment funds in Latin America is growing rapidly and is becoming an important source of capital for companies and organizations seeking to make a difference. Investment volume and number of deals have experienced significant growth since 2016, highlighting the interest and confidence in the potential of the region's entrepreneurial ecosystem (LAVCA, 2024).

Measuring the size of the impact investment funds market is difficult because there is still no consensus on what should be included in this market.[19] Approximations of its size at the global level consider that 2% of global assets under management are impact investments (IFC, 2020). At the regional level, during 2020, more than 500 impact investment transactions were recorded, for an amount of more than US$2,5 billion (Del Cerro, 2024).

Table No. 15. Latin America: Responses from Impact Investors Surveyed by Prioritized Sector (Comparison of 2020 and 2022 survey)

Sector	2020	2022	Change
Agrifood	60	72	12
Biodiversity	37	51	14
Education	72	65	-7
Energy	47	49	2
Financial services	49	49	0
Health	58	56	-2
Housing	35	21	-14
CTI	21	23	2
Manufacture	26	12	-14
Microfinance	28	33	5
Water and Sanitation	30	37	7
Other	14	21	7

Source: ANDE.

For its part, ANDE (2023) collected data from a survey of investors who manage impact investment funds with representation in 18 countries in the region and accumulated assets under management of US$3,4 billion directed to the region[20], to identify certain trends in the impact investment market. As a result, 80% of respondents based in Latin America reported raising funds within the region. However, this is a slightly lower percentage compared to 2020, indicating that impact investors in the region are also raising capital outside the region at an increasing pace. The fund managers surveyed also

[19] Coupled with factors such as climate change and the increasing demand for transparent reporting standards as drivers for reconsidering the volume of investments.
[20] Based on data collected from a data survey of 84 out of 92 investors with assets under management targeting Latin America.

indicated that they prioritize sectors such as agri-food, education, health and financial services, and have a growing interest in the conservation of biodiversity and ecosystems.

Not all funds, programs and instruments present trade-offs between financial returns and environmental and/or social benefits. It is possible, but not always possible, to achieve better financial returns through greater attention to and management of the ESG dimensions of investments. While improved ESG practices can boost financial returns, most fund managers agree that, in practice, some trade-offs are necessary and that increased financial returns sometimes come at the expense of the social returns of their investments. Therefore, impact investors must sometimes decide whether to prioritize financial return or social impact return.

However, for impact investing to become a potential alternative to address global challenges —as public funds dry up— key agents of the ecosystem need to be willing to engage and test new unconventional financing models, those that can attract investors with different risk profiles and investment horizons. The government, for its part, can be one of those catalysts to attract impact investment funds. In fact, the impact of this type of investment is often linked to public policies that help direct private investments towards social purposes.

Thus, it is considered that the government can act in the development of the impact investment funds market through three roles: facilitator, participant and regulator.

- In its role as facilitator, it plays a more active role, as it is in charge of designing and promoting catalytic agents that mobilize market participants (incubators, accelerators, funds of funds, impact funds, among others), public policies and capacity building programs, as needed. In general, the government is essential to establish an attractive market infrastructure to attract private and cooperative resources to the ecosystem.
- As a participant, the government can be an offeror, intermediary, demander and market maker. It acts on access to capital such as investment funds and financial instruments, government procurement and a contracting system based on pay for performance. As a market maker or resource provider, the government can, through a public policy based on innovation, adopt blending schemes and pay for performance mechanisms that allow it to improve risk distribution through PPPs and maximize the impact of scarce public funds.
- The government can also play the role of regulator, offering fiscal and tax incentives to both investors and companies, creating corporate legal entities with a specific impact, and influencing institutional investors to consider the impact on their investment decisions.

Table No. 16
The case of Brazil

Brazil has a public policy or national strategy specifically designed to promote private impact investment, which has positioned it as a global protagonist in this area. The new Impact Economy Strategy (EnImpacto)[21], led by the Undersecretariat for Innovation of the Ministry of Economy, has been recognized as a benchmark by the OECD, the World Economic Forum and the Global Impact Investment Steering Group (GSG). Its main objective is to foster an environment conducive to the development of companies that can offer market solutions to social and environmental challenges. This initiative has brought together various public entities and private partners, including business entities, foundations, non-governmental organizations and experts.
The strategy is structured around 5 major specific objectives:

- Expanding the supply of capital by mobilizing public and private resources for investment and financing of the impact economy, and encouraging the adoption of financial instruments adapted to the specific characteristics of the impact economy.
- Increasing the number of impact enterprises by spreading the culture of socio-environmental impact assessment, generating data that gives visibility to impact investments and businesses, business development, acting as a liaison to meet the requirements of public sector contracts, and encouraging and providing technical support to businesses in the impact economy sector.
- Strengthening intermediary organizations that provide support for the development of the impact economy, acting in the training and education of entrepreneurs, generating new knowledge about the impact economy and working to disseminate it, and promoting the connection of investors and donors with entrepreneurs.
- Promoting an institutional and regulatory environment favorable to impact investments and enterprises, collaborating with governmental bodies working on impact investments, financial and economic instruments.
- Promoting interfederative coordination with states and municipalities to foster the impact economy, through incentives to federative entities to regulate their actions in the area of the impact economy, and providing support to the structuring of local impact economy committees.

In terms of governance, Decree No. 11.646 that establishes the Strategy defines its form of operation and leadership through the creation of the Impact Economy Committee, a consultative body responsible for proposing, supervising, evaluating and coordinating the implementation of the National Impact Economy Strategy. It also establishes that it will have a duration of 10 years and specifies the institutions that must be represented in it, comprising public and private institutions and key actors of civil society.

The committee's internal regulations establish its specific operating mechanisms, such as structure, competencies, composition and frequency of operation, among other key aspects. The Committee is composed of 50 members, of which 25 are representatives of government bodies identified as relevant to the matter, such as representatives of BNDES, Banco do Brasil, Caixa Económica Federal, Finep[22], Sebrae, while the remaining 25 are divided among various important stakeholders, representing civil society, the private sector and even international organizations. The committee is advised by five working groups focused on the following impact economy topics: supply of capital, business growth, intermediary organizations, institutional and regulatory environment, and promotion through coordination with states and municipalities.

Before evolving towards the new 2023 National Impact Economy Strategy, EnImpacto undertook several actions to expand the supply of capital, increase the number of impact enterprises, strengthen intermediary organizations, and promote an institutional and regulatory environment favorable to impact investments and enterprises. These actions helped increase the number of impact enterprises in Brazil from 579 in 2017 to 1,272 in 2021. In addition, EnImpacto facilitated the connection between the federal government and the Brazilian ecosystem of impact investments and businesses, bringing this topic to the public agenda. The establishment of the Impact Investment and Business Committee proved to be an effective platform for coordinating the efforts of public bodies, civil society and private sector.

[21] Created in December 2017 by presidential decree 9.244/17 the, initially, National Strategy for Impact Investments and Businesses (Enimpacto) was formally linked to the Ministry of Industry, Foreign Trade and Services, and is now led by the Ministry of Economy, in the Secretariat for the Development of Industry, Trade, Services and Innovation.
[22] Financiadora de Estudos e Projetos (Finep).

3.3. Development banks as catalysts for impact investment

Historically, development banks provide catalytic capital in markets where private sector investment is scarce, taking advantage of their extensive knowledge of the needs of the productive apparatus and their strong relationships in traditionally underserved markets, either directly or through financial intermediaries. These entities stand out not only because they adopt environmental and social standards for their investments to varying degrees, but also because they can play a crucial role in moving these considerations higher on the agenda of the various industries they support. These attributes, taken together, constitute the particular capabilities and resources that these entities can offer to the impact investment sphere.

The incorporation of environmental and social considerations into the classic analysis on financial performance in the evaluation of development bank activities can lead to confusion as to whether these activities are best understood as impact investment, traditional investment, or a mixture of both. This type of investment is often confused with terms such as sustainable investment, ESG investment and responsible investment. However, it is important to point out that the main difference of impact investment is that it arises with the intention of generating a social impact, of satisfying a need that can be measurable and where the financial return is strictly linked to the social impact, to the achievement of a social objective.

With new trends in sustainability, development banks have turned to finding innovative ways to attract private equity through market-creating innovations that attract a different kind of capital, one that takes higher risks, is concessional and flexible, and that generates impact and unlocks traditional investment in different ways. For example, helping to test new and innovative products and business models, demonstrating the financial viability of new economic sectors and localities with high needs. Capital, as a key element for impact investment to reach its full potential, can be an important source of resources to achieve the SDGs, especially in the region, thanks to its focus on generating positive social and environmental impacts.

In general, development banks play an important role in mobilizing capital, not only through their own investments, but also by leveraging venture capital to companies, which can obtain additional financing from commercial financiers. In addition, these entities mobilize private investors by identifying investment opportunities, financing and structuring projects. A development bank's investment in a private equity fund has the potential to attract additional commercial capital by providing a positive signal to the market, encouraging other investors to consider investing in such a fund. One of the reasons is that these entities play a key role in the development of ESG standards for the private sector, and because banks have the ability to make long-term investments at attractive rates in markets where the private sector considers it too risky to make commitments.

Mobilization is closely linked to blended finance, a generic description of transactions in which development banks, with a mandate to generate development impact, co-invest with financers who seek to be rewarded for taking calculated risks. The idea behind this is that by making public capital available for risk sharing with private investors, development entities can open the floodgates for investment in critical sectors such as financial services, sustainable energy and other essential infrastructure, as well as the agri-food and export industry.

In general, development banks mobilize private equity through various investment instruments. The most common are equity and quasi-equity instruments, debt instruments, guarantees, grants to support projects, pay for performance and technical assistance. Among these, the issuance of green, social or sustainability bonds and social impact bonds (SIBs) have recently been highlighted. These institutions help mobilize private equity by bridging knowledge gaps and offering combined financial opportunities that help attract private equity.

Table No. 17. LAC Development Banks: Investment Programs and Instruments to Promote Impact Investment

Institution	Country	Program / Instrument	Description
Banco Ciudad de Buenos Aires	ARG	VIS Impact Bond	First social impact bond in Argentina focused on improving the employability of young people between 17 and 24 years old in vulnerable employment situations in Buenos Aires.
Banco de Inversión y Comercio Exterior (BICE)	ARG	Sustainable Bond	Issuance of US$30 million sustainable bond, which financed 198 companies and reached 7 different SDGs.
Banco de Desarrollo Productivo (BDP)	BOL	BDP Sustainable Bond	US$15 million bond. The resources allow to promote sustainable energy, EE and clean production.
Banco Nacional de Desenvolvimento Econômico e Social (BNDES)	BRA	FIP[23] Impacto MPME	Investment fund for acquiring shares of companies or limited partnerships with annual gross revenues of up to US$18 million. The objective is to promote businesses that contribute to the transformation of society and the improvement of the quality of life in waste management, housing, digital accessibility, media environment, transportation, water resources, basic sanitation and education.
		FIP Impacto Livre	Investment fund to acquire shares in companies or limited partnerships with no maximum income limit, in order to stimulate businesses that support the transformation of society and improve the quality of life of the population, focusing on the areas of: waste management, housing, digital accessibility, media environment, transportation, water resources, basic sanitation and education.
		FIP Multiestrategia (LGEF II)	BNDES will support businesses with socio-environmental impact through the Lightrock[24] Growth Equity Fund II Brazil FIP Multiestrategia (LGEF II) investment fund, with a contribution of up to US$200 million. To obtain US$50 million from BNDES, the fund had to raise US$150 million in the market. Eligible companies can be of any size, but must have a proven business model, be in a growth phase, be scalable and require capital to sustain their expansion, generating financial returns and impact. Priority sectors include: sustainable health, education, RE, agriculture and food; efficient mobility and transportation; transformation of the financial system; and digital infrastructure.

[23] The Participation Investment Fund (FIP) is an investment in variable income, a pool of resources earmarked for investment in open, closed or limited companies in the development stage.
[24] UK-based private equity firm Lightrock, owned by LGT Group, invests in companies that offer solutions in three key areas: healthcare and education, sustainability and efficient use of natural resources, and finance and acceleration of business efficiency through technological innovation.

		BNDES Garagem	The program is focused on driving impact businesses to address social or environmental challenges, providing support to entrepreneurs in two stages: creation, for those who are just starting out and need help taking their first steps, and traction, for already established businesses that seek to grow. In addition to promoting racial, regional and gender diversity, the program seeks to support businesses in areas such as education, employability, inclusive financial solutions, environment, circular economy, sustainable cities, and health and wellness.
Banco de Desenvolvimento de Minas Gerais S.A. (BDMG)	BRA	Sustainable Bonds	BDMG issued sustainable bonds for US$50 million. The resources from the issuance are for lines of credit for projects aligned with the SDGs.
Caixa Económica Federal	BRA	Fondo Socioambiental	Fund that leveraged a new generation of solutions/business models with high social impact capable of meeting the needs of people in vulnerable conditions, through differentiated financial products and services.
Banco do Brasil	BRA	BB Impacto ASG[25]	The BB Impacto ASG fund, managed by VOX Capital[26], invests in technology startups focused on solving socio-environmental issues, focusing on fintechs, agritechs and govtechs. It mainly invests in Semilla and Serie A[27] stages.
Corporación de Fomento de la Producción (Corfo)	CHL	Start-Up Chile	It is among the top 10 accelerators globally and is a leader in LAC. Not only does it have one of the largest and most diverse startup communities, but since its inception it has contributed to changing the mindset from a focus on the social impact/return of entrepreneurs to an economic return/impact. "Green Credit" program; for the development of climate change mitigation projects and/or improvement of the environmental sustainability of companies, promoting investment in RE, EE and circular economy initiatives.
		Fondo Etapa Temprana	It provides investment funds with long-term credit line resources to invest in companies with high growth potential that require technical and operational support. Funds with a focus on "Social Innovation" must support the generation of impact at the time of application to the program and, in addition, accredit it through the GIIRS methodology before and at the time of the final settlement of the fund, requiring a minimum score of 80. In the event of complying with this requirement, the fund opts for a decrease in the BCU[28] interest rate of additional + 2% per annum over BCU 10 years[29].
Banco de Comercio Exterior de Colombia (Bancóldex)	COL	Fondos de Capital Emprendedor Liderado por Mujeres (Women-Led Entrepreneurial Capital Funds)	The fund targets investments in early-stage companies with disruptive, innovative and scalable models, where technology is an enabler to solve socio-economic problems with a gender focus. The fund has resources of US$10 million to invest in 15 startups in the region; more than 40% of the fund will be invested in companies led or co-founded by women and/or companies where women occupy leadership positions and/or where the end customer is a woman.
		Social Bonds	In 2022, Bancóldex placed its second issue of social bonds in the country's public securities market for more than US$130 million. With the resources from these securities,

[25] The bank is the sole shareholder.
[26] Chosen 8 times among the 50 best impact investment managers in the world. Its portfolio includes investments in businesses such as diversity and inclusion, development of human potential, maximization of quality of life and well-being, financial inclusion and environmental protection.
[27] It is considered the first venture capital (VC) investment round of a startup.
[28] Banco Central de Chile's bond rates in Unidades de Fomento (BCU).
[29] 10-year BCU rate was 2,44% at the end of 2023.

			it finances women-led enterprises and inclusive businesses in rural and conflict-affected areas, thus contributing to reducing the income gap and boosting MSMEs.
		Orange Bonds	Bancóldex issued in the local market the first orange bond in Latin America, for approximately US$110 million. The resources from the orange bonds are channeled through lines of credit to finance creative industry projects. Thus, it fosters economic growth and development by generating employment, local income and foreign trade, all of which promote social inclusion, cultural diversity and human development.
Financiera de Desarrollo Territorial (Findeter)	COL	Sustainable Bonds	Destined to provide support to social and environmental initiatives for approximately US$110 million. With the resources obtained, Findeter finances projects in the areas of health, drinking water, housing, transportation and RE.
Banco Nacional de Costa Rica (BNCR)	CR	Subordinated Social Bond	The bond issuance raised US$75 million. At least 40% of the funds raised are earmarked for financing MSMEs managed by women. This social bond operation contributes to five SDGs: 1, 5, 8, 9 and 10.
Nafin / Bancomext	MEX	Sustainable bonds	The Bank placed bonds for more than US$700 million, to be used in sustainable projects, focusing on those that contribute to boosting MSMEs, exports, strengthening value chains and enhancing the opportunities offered by nearshoring.
		Social Bond	The social bond placement was for an amount equivalent to US$196 million. The resources obtained are used to finance programs whose social goals are linked to the following pillars: 1) improving access to education, vocational training, financing and financial services for low-income and marginalized populations, including young entrepreneurs and students; 2) employment generation through microfinance and financing for MSMEs; 3) socioeconomic development and women's empowerment.
		Entrepreneurial Capital Ecosystem Development Program	Nafin promotes investment in projects through investment funds. One of them is the Entrepreneurial Capital Ecosystem Inadem-(Instituto Nacional del Emprendedor) - Nafin.
Banco Nacional de Obras y Servicios Públicos S.N.C. (BANOBRAS)	MEX	Sustainable Bonds with a gender perspective	Until 2023, Banobras placed 14 sustainable bonds for a total amount of nearly US$2.5 billion, four of which were bonds with a gender perspective. In the latter, the resources were for projects focused mainly on public service infrastructure such as education, health and mobility, with components that include a gender focus.
Fideicomisos Instituidos en Relación con la Agricultura (FIRA)	MEX	Green Resilience Bond	First placement in LAC of a green resilience bond in local currency equivalent to approximately US$165 million. The resources obtained are used to promote investment in productive projects that can improve the resilience of producers and value chains in the agricultural sector and the rural environment, seeking to reduce risk and vulnerability to climate change.
Fideicomisos Instituidos en Relación con la Agricultura (FIRA)	MEX	Financial Inclusion Social Bond	The bond issuance was for more than US$180 million and the resources are for the promotion of access to and use of financial products and services for producers and companies in the agricultural, forestry, fishing and rural sectors. It also issued another social bond for about US$130 million. In both bonds, FIRA highlighted the important role that women play in the growth of the national economy, where microcredit enables their empowerment, improves their opportunities for economic wellbeing, promotes their development, self-employment and financial inclusion.

Agencia Financiera de Desarrollo (AFD)	PRY	SDG bonds	The issuance was for almost US$15 million and the resources obtained are used to finance housing and education programs and the development of environmental projects.
Corporación Financiera de Desarrollo (Cofide)	PER	Sustainable Bond	The bond issued for a total equivalent of US$30 million is used to provide support to microenterprises through financial intermediaries that finance entrepreneurs, microentrepreneurs and women entrepreneurs. In addition, part of these funds is to finance the purchase of natural gas vehicles (NGV), as well as the replacement of gasoline or diesel vehicles by others that use NGV, with a special focus on cab drivers. The bond also finances sustainable wastewater treatment plants.
		Social Bond	In January 2024, it issued its fourth thematic bond, a social bond for more than US$25 million. The resources are destined to financial intermediaries that promote financing programs for MSMEs, with the objective of promoting economic recovery in an environment that is vulnerable to possible climate effects.

Source: Sustainability Reports and websites of the entities mentioned above.
Prepared by: ALIDE.

The areas or sectors in which investment mobilization by Development Banks is effective, as well as the instruments used and the results, are diverse. The truth is that these financial institutions play a fundamental role in mobilizing public and private equity towards, for example, sustainable infrastructure, urban and housing development projects of high quality and relevance, in collaboration with key partners. In addition, they are responsible for the creation and design of quality projects, as well as their execution, in order to ensure their economic viability and long-term sustainability. This involves careful consideration of environmental and social aspects to ensure a positive impact on communities and the environment. Development banks, thanks to their in-depth knowledge of local markets, play a crucial role in identifying and financing projects that benefit local communities.

Investment in sustainable infrastructure is a key driver for development and well-being, as it generates a significant impact on strategic sectors, causing a multiplier effect on the main economic variables: 1) higher growth: every dollar invested in infrastructure has a 1,5-fold multiplier effect on Gross Domestic Product (GDP) over five years[30]. In addition, an unexpected 1% increase in public investment can increase output by about 0,2% in the same year and 0,5% in the following 4 years[31]. 2) Increased productivity: a 1% reduction in transportation costs can generate an 8% increase in exports in LAC[32]. 3) Increased competitiveness: with US$23 billion per year, LAC could reduce costs by at least half, promoting efficiency, climate resilience and renewable energies (energy sector)[33]; 4) Employment generation: for every US$1 million invested[34], 36 thousand new jobs can be created; and, 5) Social Welfare: reduces people's travel time in the case of transportation, health and quality of life due to investments in water and basic sanitation, among others.

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[30] ACTIS (2022). Latin America: Boosting The Region.
[31] FMI. Growth Impact of Public Investment and the Role of Infrastructure Governance.
[32] Lanau, S. (2017). The Growth Return Infrastructure in Latin America. IMF Working Paper.
[33] World Bank (2023). Optimizing spending, rather than increasing it, is key to improving infrastructure in Latin America and the Caribbean.
[34] ACTIS (2022). Latin America: Boosting The Region.

In order to achieve the proposed objectives, it is essential that the participation of Development Banks focuses on directing private equity towards sustainable infrastructure projects. The investment required in LAC to meet the SDGs is US$2,2 trillion by 2030[35], which implies an annual investment in infrastructure of at least 3,12% of the region's GDP. In view of this situation, Development Banks must: 1) address the market failures that prevent greater investment in infrastructure; 2) ensure that investments are aligned with the SDGs; 3) offer local currency and longer-term financing to improve the financial viability of projects and attract private investment; 4) mobilize private investment by reducing some of the factors that affect the private sector's perception of high risk with respect to infrastructure projects; 5) implement standardized programs and use financial instruments aimed at reducing credit risk.

In this case, blended finance emerges as a solid alternative to face financial challenges, mitigate risks and incorporate sustainability and gender equity criteria in projects, which facilitates the development of resilient infrastructure with a wider territorial scope. These mixed investments can come from three main sources: 1) subnational governments: financing through the contribution of provincial, state, municipal or provincial governments to mixed investment projects; 2) projects: financing for sustainable and resilient infrastructure development; 3) special funds, for example, in Mexico there is the National Infrastructure Fund (Fonadin), designed to strengthen the financial structure of projects and make them more attractive to private investment.

In Peru, in housing and urban development, Fondo Mivivienda, through the programs it offers, demonstrates that support for housing with subsidy or stimulus programs is more than convenient for a country that has 1,8 million households in a housing deficit situation, of which 500 thousand correspond to the quantitative deficit and 1,3 million to the qualitative deficit[36], which increases every year by 140 thousand homes. Developing formal housing is an urgent task, therefore, close this quantitative gap in 10 years, 190,000 homes must be generated per year[37]. The Peruvian State, through Fondo Mivivienda, has contributed to improving the quality of life through access to housing for 726,487 Peruvian families. By 2023, US$5,679 million have been invested in disbursed loans, and Mivivienda has achieved a 66% share in the financial sector that same year.

Fondo Mivivienda demonstrates that housing support programs are profitable for the country as a whole, due to their multiplier effect, since the subsidized spending or investment made with public funds results in higher tax collection by the State, and boosts real estate activity: 1) with the MiVivienda program, the Public Treasury recovers 2,8 times the amount invested in the good payer bond (BBP); and the real estate activity multiplies (real estate sales) according to the subsidy provided; and 2) with the Techo Propio program, the Public Treasury recovers 100% of the amount invested in the housing finance bond (BFH); and the real estate activity is multiplied 1,5 times (real estate sales) according to the subsidy provided.

[35] BID (2023). Nuevo estudio del BID destaca rol de Banca Pública para movilizar capital privado hacia proyectos de infraestructura.

[36] INEI - National Survey of Budgetary Programs – ENAPRES. 2017 National Census and ENAHO 2021. MVCS estimate, based on ENAHO and Census. Preliminary Association of Real Estate Companies ASEI – February 2024

[37] GRADE Study (2020). Criminal economies and their impact on Peru (2021).

In Colombia, Financiera de Desarrollo Territorial (Findeter), hand in hand with the national government, helps to promote sustainable regional and urban development in order to close gaps, through: 1) financing of projects at any stage of development; and, 2) technical assistance for the planning, structuring, supervision and execution of projects, as well as resource management. Findeter focuses on generating a sustainable impact and strengthening administrative and management capacities in municipalities and districts in categories 3, 4, 5 and 6 (localities with less than 100,000 inhabitants and low income), through the financing of projects. Its objective is to provide equitable access to opportunities, goods and public services, reducing territorial and socioeconomic gaps that fragment the social fabric. In 2023, Findeter tripled the number of small and under-resourced municipalities that benefited, disbursing US$992 million for 670 projects nationwide. 44% of these financed projects benefit under-resourced municipalities.

Likewise, in the area of impact investment, gender inclusion is of great importance. Commitment to financing women-led ventures is essential to integrate gender considerations into countries' investment strategies and promote equal opportunities in access to finance and resources, as well as women's development. At a time when women are emerging as prominent actors in all spheres of social and economic life, with the capacity to face multiple challenges, play diverse roles and participate in the different economic activities of a country, it is crucial that the Development Banking promotes initiatives and support programs in this direction. The experiences observed in the region confirm the importance of these actions.

In this regard, microfinance programs have proven to be extremely positive as a way to achieve greater financial and social inclusion, especially for women in very low-income segments. In Brazil, in the historical context of 1998, it was observed that 53% of the population with incomes below the indigence line resided in the Northeast, while 45% of those with incomes below the poverty line lived in the same region. Thus, in order to face this problem and the limitations to access financing, innovative measures were implemented such as sector regulation, empowering strategic alliances, a new credit application model, banking inclusion of informal clients, guidance for productive credit, solidarity groups and the creation of the "Crediamigo Ideas" program. In addition, risk self-management was promoted and operational efficiency was ensured.

In 2023, Crediamigo celebrated its 25th anniversary, serving 7,3 million customers, impacting 29,2 million lives and disbursing a total of US$23,81 billion through 57,1 million transactions. During that year, disbursements reached US$2,15 billion, with 3,6 million transactions and a daily average of 14,3 thousand transactions. 68,6% of its customers are women and are concentrated in low-income segments.

In Ecuador, Corporación Nacional de Finanzas Populares y Solidarias (Conafips) is a wholesale financial institution that offers a variety of services, including credits, guarantees, financial services (open banking) and non-financial services (institutional strengthening), as well as administration of trusts and third-party funds. The entity of the popular and solidarity financial sector has 5 969 points of attention nationwide, 55% of which are located in areas of poverty, while 36% are located in areas of high rurality, involving 407 credit cooperatives and mutuals to channel credit resources and meet the financial needs of various sectors of the population.

In 2023, Conafips managed a total of US$1 661 million, of which US$774 million corresponded to credits in 133 710 transactions. Of this total, 49,43% went to men, while 50,57%, equivalent to US$887 million, went to women, showing gender parity in the granting of credits.

In Peru, in a context of high incidence of rural poverty, where 4 out of 10 people are in this situation, and a large part of the rural population is financially excluded, the Inclusive Rural Business Development Program (Prider), promoted by Corporación Financiera de Desarrollo (Cofide), has emerged. This initiative seeks to address the needs of rural producers who lack technical assistance and market access. Prider is based on two main pillars: 1) financial literacy: promotes the formation of Credit and Savings Unions (Unica), which generate communal funds and financing channels for rural dwellers; 2) productive development: provides permanent technical assistance, promoting associativity and market articulation. The objective is to improve producers' yields, increase their income and provide funds to finance their livelihoods.

As of December 2023, the program created a total of 1 846 Unicas and has granted loans totaling S/398 million (equivalent to US$108 million), generating total savings of S/60 million (equivalent to US$16 million). In addition, 56% of the corporation's management positions are held by women. In a Prider impact study[38], 120 treatment localities were randomly selected and compared to control localities. The main significant impacts observed were: 1) access to credit, where women and families in less developed localities who have access to Unica credit can substitute regulated sources; 2) investment in durable goods, with an increase in housing quality improvements, such as flooring and roofing; and 3) reduction of vulnerability, with a decrease in vulnerability to shocks, especially idiosyncratic[39] shocks, in areas of greater poverty. In addition, no effects on crop or livestock losses, which are usually associated with climatic shocks, were observed[40].

Continuing with the rural sector, in Bolivia, Banco de Desarrollo Productivo (BDP), according to its Strategic Plan 2024-2026, involves seven strategic objectives: 1) contributing to food security; 2) contributing to import substitution; 3) promoting sustainable finance and carbon neutrality; 4) generating wholesale impact; 5) fostering productive intelligence; 6) providing support to the performance of public entities; and, 7) promoting sustainability.

To address objective 3 of sustainable finance and carbon neutrality, BDP provides financing for green investments. This portfolio is aimed at green technologies such as irrigation systems, water treatment, anti-hail nets, solar panels, solar pumping, biodigesters, biomass and organic fertilizers. This portfolio is expected to represent 12% of the total by 2026, while in 2022 it represented 6%. With regard to objective 1 food security, BDP contributes to national production by financing its agricultural customers for crops such as cereals, stimulants, fruits, vegetables, oilseeds, tubers, roots and fodder.

[38] Results of the experimental impact evaluation study entitled "Savings groups reduce vulnerability, but have mixed effects on financial inclusion", conducted in 2020.
[39] Specific shocks directly affecting individuals or households.
[40] Results of the experimental impact evaluation study entitled "Savings groups reduce vulnerability, but have mixed effects on financial inclusion", conducted in 2020 (Martin Valdivia and Verónica Frisancho).

According to 2022 data, these customers accounted for about 1,7 million tons (8,3% of total) of domestic production. These customers are expected to account for 11,3% of domestic production by 2026.

In terms of agriculture and livestock, the importance of BDP is extremely relevant, since it is the second largest in the national system. Currently, BDP portfolio is mostly oriented towards agriculture and livestock (65,1%), followed by manufacturing (28,6%); hunting, forestry and fishing (1,5%); and others (4,8%). It is important to note that most of BDP portfolio is aimed at small producers or micro-entrepreneurs (72,8%).

In sustainable agriculture, BDP, as a Development Bank, finances and promotes processes for agriculture in transition, particularly by investing in areas such as clean energy, efficient technologies, equipment and machinery; smart agriculture; efficient water management; wellness and health; regenerative agriculture; information systems; biodiversity for production; and responsible use of inputs. In conclusion, BDP contributes to food security policies through the provision of financial and non-financial services for the agriculture and livestock sector, having served 45 864 customers in the last year.

Another case is that of Banco de la República Oriental del Uruguay (BROU), the country's main financial institution, which has more than 127 years of history. It covers all multiple, commercial and development bank operations. Its mission is to contribute to the productive, economic and social development of the country, providing financial solutions to public and private enterprises, families and individuals, reconciling the necessary profitability of its activity with the fulfillment of its social commitment.

Uruguay is a country characterized by the relevance of agro-industrial and agro-export activity, where 90% of the territory is suitable for agricultural production; its food production level is for 30 million people, almost 10 times the population of the country, that is, its contribution to world food is an exceptional case in the global scenario. Family farming plays an essential role in the rural development of Uruguay, being a key activity in the reactivation of rural economies, generating stability and social roots.

In Chile, Instituto de Desarrollo Agropecuario (Indap) is an institution whose strategic axes are to promote sustainable, inclusive and resilient peasant and indigenous family farming. It provides support to this segment through various productive development programs and financial services (loans) exclusively to accredited users. It is worth noting that: 1) it supports 63% of this agricultural segment; 2) 46,86% are women; 3) 7,2% are young people under 35 years old; 4) 40% belong to a native people; 5) the average age of customers is 57 years old; 6) 90% receives technical assistance; 7) 43% received investment subsidy; and, 8) 32% obtained credit. In the first two months of 2024 it served 175 thousand users.

In Chile, there are many small producers with little land. 73% are small producers (those with less than 20 hectares) and only 8% are large producers (those with more than 100 hectares). Large producers own 89% of the land, while small producers own only 4% of the land with forestry and agricultural potential. However, large producers are mainly dedicated to the agro-export sector —where fruits predominate—, while small producers focus on food production for local consumption. Therefore, Indap's activity in Chile is extremely important. For this reason, Indap supports small producers through its model of integrated assistance to small farmers. This model promotes 22 programs of technical consultancies and specific subsidies, which absorb 65% of the institutional budget. In terms of financial assistance, it offers programs of agricultural credit and insurance, indexed to credit, voluntary and subsidized, representing 35% of the institutional budget. 90% of credits are recovered as revenues.

The financial instruments offered by Indap are characterized as follows: 1) loans: offered for both short term (365 days) and long term (more than 1 year), with a nominal annual interest rate of 3%. These loans offer access to extensions, renegotiation and write-offs in case of catastrophes. The guarantee policy for loans is based on risk classification, and payments are made through Indap's web platform. 2) Agricultural insurance: All loans include an associated life insurance policy, and those loans with insurable items must have an insurance policy. Insurable items receive an insurance subsidy averaging 80%. These agricultural insurance policies are tendered to private bidders and have proven to be very successful instruments in years with catastrophes. In addition, price hedging instruments are offered for corn and wheat.

CHAPTER IV
ALIGNMENT OF PUBLIC DEVELOPMENT BANKING (PDB) TO THE ACHIEVEMENT OF THE SDGS: REFERENCE FRAMEWORK[41]

During the last few years we have witnessed a resurgence of Public Development Banking (PDB) worldwide. This is due to the recognition of the role it plays, not only in promoting economic development (which must now be sustainable, inclusive and resilient), but also in stabilizing economic activity in periods of crisis, such as those that have occurred, especially since the 2008-2009 crisis, including the one caused by COVID-19.

At the same time, the world has changed and in order to fulfill its mandate in these new times, the PDB must finance the structural transformation processes that will favorably position the different countries within the new economy. This requires strategic vision and long-term programs linked to the major global objectives (which reflect the current and future needs of our Society).

Based on the above and on what we have seen in the previous sections, we present in this chapter a reference framework for LAC Development Banking, with some elements to align its strategy and operation to the achievement of the SDGs that are directly or indirectly applicable to it.

Development banking can play a key role in contributing to its fulfillment, since it has a variety of tools, such as financing and technical assistance, among others, to provide support to these development initiatives.

In this regard, the following are some steps that development banks can take to align their strategies and operations with the aforementioned SDGs.

1. To know and analyze in depth each goal and its targets, as well as the public policy commitments that each government has assumed within this framework.
2. To determine the priorities of each Bank with respect to the goals corresponding to its mandate and attention market, as well as the impact expected to be achieved.
3. To conduct a gap analysis between their strategies, current products and processes, in relation to those needed to have an impact on the achievement of the SDGs.
4. To consider the SDGs in the development bank's strategic planning processes and include SDG-related concepts (where applicable) in its own mission statement and goals.
5. To design products intended to address projects and initiatives that have an impact on each selected SDG. It will be necessary to ensure that financial products have incentives to provide support to initiatives and projects with social and sustainability impacts.
6. To redesign internal processes as appropriate and establish specific policies to ensure that the necessary activities are in place to meet the SDGs that have been defined as priorities (for example: to include in credit evaluation processes activities that ensure environmental impact matrices). It is also important to align these processes with the bank’s digital operation in order to make them more efficient.

[41] This proposal is based on the results of various activities contained in the Work Plan of the ALIDE-IDB-ECLAC Development Banking Community of Practice, including a webinar held on February 16 and a forum held from April 17 to May 17, 2023, in relation to the SDGs, with the participation of various LAC development banks.

7. To consider the alignment of the organizational structure to such processes, with the purpose of guaranteeing their adequate operation and effectiveness.
8. Coordination with other entities in charge of public policy and the private sector to improve efficiency and complement efforts aimed at meeting goals.
9. To incorporate specific transparency and accountability mechanisms linked to the use of resources used in the achievement of the SDGs, including reports, monitoring schemes and impact evaluations. A good practice is to have a set of indicators and specific databases.
10. Development of key capacities and training, not only for personnel directly assigned to each development bank, but also for other stakeholders such as members of the Board of Directors, external personnel in support committees and certain types of clients, to strengthen the institutional culture and thus facilitate the alignment process.
11. To incorporate a continuous improvement plan in the planning and operational processes linked to the achievement of the SDGs, allowing for the timely inclusion of changes in global trends and best practices to ensure an always up-to-date alignment.

Ejemplo de un esquema de alineación para el ODS de Igualdad de Género				
ODS	Igualdad de Género			
Objetivos BPD	1. Lograr que un mayor número de mujeres empresarias desatendidas por el sistema financiero tengan acceso al crédito	2…		
Estrategias	1. Análisis de barreras que impiden el acceso al crédito por parte de mujeres empresarias y propuestas de solución	2…		3…
Productos	1. Crédito para inclusión financiera con perspectiva de género	2…	3…	4…
Procesos	1. Fortalecer el proceos de evaluación de riesgo asociado a créditos a mujeres	2…	3…	

Completar de acuerdo a cada BPD

Finally, it should be added that proper alignment requires the commitment of the development bank's Senior Management, a long-term vision, and mechanisms and methodologies to concretize strategic approaches to addressing the SDGs into specific and measurable actions.

It is essential to incorporate the SDGs into the strategic and/or business plans of each development bank, design appropriate financial products or instruments, as well as redesign processes, incorporate specific policies, measure results and maintain continuous improvement and accountability processes on this issue.

CHAPTER IV
CONCLUSIONS AND FINAL CONSIDERATIONS

To achieve the SDGs by 2030, LAC requires greater investment and financing. Since these targets were adopted in 2015, the increase in investment was relatively modest due to weak growth in the early years, and then there was a sharp drop in investment during the COVID-19 pandemic. Thus, the annual investment gap in the SDGs in developing countries widened from US$2,5 trillion in 2015 to an alarming US$4 trillion.

In this complex context, development banks emerge as strategic actors for the achievement of the SDGs in LAC. Innovative public-private financing strategies and increased attention to climate finance, channeled through these entities, are crucial to closing the investment gap and moving towards sustainable development.

While all of the SDGs receive attention, development banks focus their actions on the goals with the greatest potential impact. Thus, priority is given to goals related to economic growth (SDG 8), gender equality (SDG 5), climate action (SDG 13) and sustainable energy (SDG 7). This commitment is aligned with the bases that support its strategies, business models and areas of activity.

Measuring the current contribution of development banks to the SDGs is complex due to the lack of a commonly used, easy and widespread methodology. From the mapping conducted, it can be seen that development banks are aligning their operations and, in some cases, are developing sustainability strategies, but it is still difficult to determine what proportion of the portfolio is earmarked for the SDGs. This information will help identify those sectors that require more financing and those activities that can be financed to have a greater impact.

Progress in assessing development bank portfolios to measure their alignment with the SDGs has so far been mixed. Most banks have reported little progress in integrating these aspects into their operations. Products most commonly aligned with the SDGs include sustainable bonds, investment funds created according to ESG criteria, and thematic investments with an impact on the SDGs.

Development banks should work with economic agents to develop a holistic vision that aligns their entire value chain and operations with the SDGs. This approach involves conducting robust impact assessments to accurately measure and track the contributions. By establishing clear sustainability goals and outcome-based metrics, economic agents can make better-informed decisions and prioritize impactful initiatives. In the meantime, development banks can continue to explore innovative financing mechanisms to provide incentives to economic agents.

In addition, development banks can strengthen their commitment to sustainability through strategic alliances with organizations. These partnerships facilitate the creation of shared tools, joint platforms and project co-financing. Through alliances, development banks maximize their impact and contribute to building a more resilient and cohesive region. The Green Coalition and ILACC demonstrate how these agreements mobilize resources for sustainable initiatives, while working groups such as the Development Banking Community of Practice strengthen knowledge sharing.

Latin American markets where development banks operate are the most disproportionately affected by the adverse effects of climate change and material consumption. As institutions that provide financial support to the private sector, both in terms of risk and impact, development banks should aim for a complete decoupling of resources and investment pressures to avoid further jeopardizing future economic development. From a long-term perspective, sustainable economic growth can go beyond measuring, managing and reducing the use of resources, achieving an absolute or almost absolute decoupling of the pernicious relationship between higher material use and higher growth. However, the urgency of meeting crucial needs such as infrastructure in the region is likely to take precedence over material consumption concerns, and may be seen as a prerequisite for achieving absolute decoupling in other economic sectors.

In this regard, development banks are working in a variety of ways to promote sustainable production and consumption, waste management and ecosystem protection. With financing and technical support for projects that contribute to environmental sustainability and economic development, they are promoting more sustainable business practices and behavioral change. Embracing green banking and offering sustainable finance are key strategies to further boost the transition. The development of the circular economy needs long-term financing in line with a country vision so that innovative projects can continue to develop and gain scale.

Development banks also work directly with other financial institutions, providing loans or investing capital, which increases the liquidity of the financial system and allows for greater capillarity of investments.

Through their training centers and business centers, development banks can empower entrepreneurs to develop new business models, such as circular solutions, innovative ways to increase the residual value of waste, and to engage with different actors and transform products into services.

Development banks play a crucial role in promoting sustainability both internally and externally. Internally, they do so by implementing eco-efficient practices, such as the efficient use of resources and the reduction of emissions; and externally, by financing sustainable projects that address multiple SDGs. Although measuring their progress is complex, their commitment to responsible consumption and production is evident and constantly evolving.

Impact investing in LAC is booming, reflecting the growing interest of the regional entrepreneurial ecosystem. With an expanding market and an increase in transaction volume, the region shows a promising path to sustainability and development. Government initiatives, such as the National Impact Economy Strategy in Brazil, exemplify how collaboration between the public and private sectors can drive significant change towards a more sustainable future.

In this context, development banks should continue to play an active role in the development of the impact investment funds industry, given their role as market facilitators, anchor investors and promoters of regulation. Over the years, these entities have emerged as crucial catalysts in markets with a shortage of private investment, bringing their knowledge, experience and strong relationships to drive change. Through market innovations, they mobilize private equity towards social and environmental goals, playing a key role in blended finance and the development of ESG standards. Their various instruments such as green and social impact bonds, equity investments, mezzanine investments and guarantees contribute significantly to mobilizing private equity and closing financial gaps.

One factor limiting the growth of this industry is the increasing need to demonstrate results and measure impact, as the industry evolves from a less well-defined start-up phase to a more disciplined one, forcing the development of more rigorous definitions and indicators. The sector expects to see the results of impact investments, showing intended effects on a variety of dimensions that can be linked to the SDGs.

With regard to this, development banks should actively contribute to initiatives to develop impact investment through transparency and the creation of standards that can be adopted by public and private sector entities. These standards would generate better information on investments, which may help create additional interest from development-oriented investors.

In addition, the defined use of funds in investments allows development banks to quantify the risk involved in the investment. In this case, even though the resources are fungible, the fact that impact investment guarantees that certain funds are earmarked for a specific use, provides the investor with an additional tool to calculate the potential risk to be faced. A sample of these funds are the BNDES impact investment funds.

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