



**54 MEETING
OF THE GENERAL
ASSEMBLY
BRAZIL, FORTALEZA-CE**

DEVELOPMENT FINANCE IN THE FACE OF CURRENT GLOBAL CHALLENGES

Conclusions and recommendations

May 2024



“DEVELOPMENT FINANCE IN THE FACE OF CURRENT GLOBAL CHALLENGES”

SUMMARY: CONCLUSIONS AND RECOMMENDATIONS

- The collaborative efforts of all development banks are essential to transform the different projects into reality, ensuring social inclusion and environmental sustainability.
- There is a wide financing gap, but while the need is enormous, the opportunities are also significant. To meet investment needs, current climate finance as a percentage of GDP would need to increase by 7 to 10 times. The same is true in other areas, such as financing for women, where LAC has a gap of US\$91 billion.
- Global changes, whether of an economic, environmental or social nature, present multiple challenges for the LAC countries. These include climate change and biodiversity loss, economic and social inequality, geopolitical fragmentation and deglobalization, high indebtedness of States, overexploitation or scarcity of resources, technological innovation, digital transformation and associated regulation, integration of sustainable practices.
- In the area of economic protection, the situation is particularly striking. We see unprecedented industrial protection measures, especially in developed or better-positioned economies, which are increasing day by day, under the argument of national security.

SCALING UP SUSTAINABLE FINANCING IN LATIN AMERICA AND THE CARIBBEAN

- An increasing number of States, regulatory bodies, banking associations and financial institutions have promoted and/or adopted policies, regulations and practices to manage ESG principles in financial sector activities and promote sustainable finance.
- Coordination among these financial institutions demonstrates the need to work together to address the region's common challenges in terms of sustainable development and financing.
- In the climate strategy of the banks, significant progress is observed in the consideration of climate risk in the initial stages of projects. However, there is still much progress to be made, especially in the monitoring of the later phases.
- The factors hindering the release of more green financing, in most banks, are mainly related to customer concerns. Many of them still do not consider climate as a priority and lack the technical capabilities to propose sound green investments.

PRODUCTIVE TRANSFORMATION FOCUSED ON SUSTAINABLE PRODUCTION AND CONSUMPTION

- To achieve the productive transformation focused on sustainable production and consumption (SDG 12), it is crucial to promote efficiency in the use of resources, reduce waste, encourage technological innovation and change consumption patterns towards more sustainable models.
- Productive development policies must focus on sophistication, diversification and virtuous structural change to raise productivity and achieve more inclusive and sustainable development patterns. If the challenge of reversing LAC's low productivity is not addressed, it is difficult to address current challenges.
- Sustainable consumption and production can contribute substantially to poverty reduction and lead LAC towards a green, low-carbon economy. This requires cooperation among many stakeholders, as well as across sectors in all countries.
- Industrial decarbonization is vital given that industry represents one third of global emissions, although energy-saving technologies are not sufficient on their own. Financial challenges and the need for significant investments require new financing models to address it.

IMPACT INVESTMENT FOR SOCIAL INCLUSION: A KEY PIECE FOR DEVELOPMENT WITH OPPORTUNITIES FOR ALL

- Social or impact investment takes on greater relevance, is a powerful source of growth and innovation and has multiplier effects by improving people's well-being, promoting social cohesion, reducing social tensions, creating a favorable environment for business and empowering the most vulnerable sectors. They are essential as resource mobilizers to finance social SDGs.
 - Financial inclusion is a fundamental element in the socioeconomic development of countries, promoting well-being and equity, boosting business competitiveness and stimulating more equitable economic growth.
 - When addressing social and financial inclusion in Latin America and the Caribbean, it is crucial to highlight the approach centered on the people. They must be at the center of public policies in this ambit.
 - Development banks, working in priority and historically less dynamic sectors, play a leading role in coordinating and joining efforts to include local communities in the benefits that can be derived from investments related to sustainable development projects.
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PERSPECTIVES FOR INFRASTRUCTURE FINANCING

- At the regional level, the main objectives in working on long-term financing and infrastructure, development banks should promote greater impact and achievement of the SDGs, focus on the transition to a low-carbon economy, mobilize private resources, and optimize the relationship between the public and private sectors through innovative financial instruments.
- Development banking adopts a broad perspective on infrastructure financing. It focuses on providing technical assistance in order to improve the structuring of financial instruments and to take advantage of private resources, as well as offering financial assistance through lines of financing, in cooperation with different actors.
- Multilateral, regional, and bilateral financial organizations are looking for various ways to mobilize resources for investments in LAC. Not only do they act as direct loan providers, but they are also involved in the structuring of investment funds and trusts, support in the structuring and issuance of bonds, in association with donors, with the aim of reducing the cost of issuance.
- Regional banks prioritize focusing on alliances given the importance of working in coordination among all banks in a context of fiscal constraints and indebtedness of the countries. Hence, they consider it crucial to generate venues for dialogue between banks and countries in order to ensure a more efficient use of resources.
- Collaboration and joint financing of large infrastructure projects is highly relevant because it allows sharing risks, analyzing projects jointly and finding more complete financial solutions that meet the specific needs of each project.

FINANCIAL AND SOCIAL INCLUSION OF WOMEN IN LAC

- In order to take advantage of these opportunities in the financing market for women, it is fundamental to understand their financial needs and to design financial products adapted to their demands. In this area, development banks can play a crucial role in catalyzing significant changes through innovative and appropriate approaches.
- In the credit market, national development banks have the opportunity to generate positive social impacts through their operations, as well as to explore new forms of collaboration and design financial instruments that attract investors interested in social impact and in combined financing models.
- Experiences show that financing for women can be promoted in various ways and by the various actors involved. Thus, we have cases where state intervention to implement policies and strategies has been a great catalyst. Changes in the regulation on provisions have stimulated their attention, the development of financial instruments –credits and

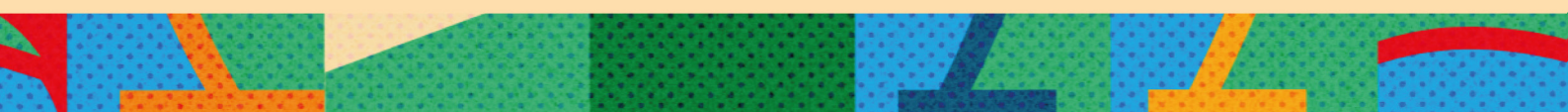
guarantees – based on a good identification of financing needs, and inclusive educational programs.

NEW ENVIRONMENTAL AND CLIMATE TRENDS AND OPPORTUNITIES FOR DEVELOPMENT BANKING

- Globally, financing for sustainable activities has increased greatly in the last decade, but only 4.7% of this is allocated to LAC. This poses the need for greater action in LAC to ensure that financial resources for sustainability be distributed more equitably and effectively.
- The commitment of the financial sector is to find solutions and strategies to mitigate the risks associated with climate change. Where there is risk, there can also be business opportunity if addressed appropriately. Therefore, it is important to understand and manage risks as a means to identify new opportunities in a changing and challenging context.
- Twelve years ago, only 25% of banks understood what a sustainability-related product or service was. Today, it is rare to find a development bank without some initiative on gender inclusion or sustainability issues. In addition, there has been significant progress in integrating climate change risks into development banks' analysis systems in recent years.
- Although it is commonly believed that climate funds come mainly from multilateral and international sources, the reality is that national development banks play a crucial role, contributing more than 25% of international mobilization in climate finance.
- A key strategy to increase the impact of development banks is the issuance of green, social and sustainable bonds. Although these issuances previously represented a smaller part of the market due to their lesser development, in the last five years there has been a significant increase in the participation of development banks in this market.
- For the purposes of identifying and managing the financial impact of climate change, development banks should consider that assets need to be analyzed to assess physical climate risks; that modeling financial impacts requires a considerable amount of data and research; that the models to be used must undergo detailed analysis of complex long-term behaviors; and, that alignment with the major climate scenarios provides flexibility for the analysis of various situations.

REGIONAL PROGRAM FOR RAPID ACTION IN THE FACE OF NATURAL DISASTERS

Within the framework of the ALIDE Assembly, the president of BNDES, Aloizio Mercadante, proposed the creation of a Regional Program for Rapid Action in the Face of Natural Disas-



ters, aimed at studying, analyzing, monitoring and providing support in situations of natural disasters. The main objective of this initiative is to rebuild, mitigate and adapt critical structures that are affected after extreme events. The aim is to act as quickly as possible to put the infrastructure into operation and thus restore productive activity and normalize people's lives.

A VIEW OF IMBALANCES IN LAC: DR. JAMES A. ROBINSON

Dr. James A. Robinson, professor at the University of Chicago, co-author of the book "Why nations fail: The origins of power, prosperity, and poverty", in his keynote lecture, concluded that LAC is characterized by its creative capacity and its tendency to combine different influences to generate something new and unique. He highlighted that LAC has a rich history of creativity and adaptability, even in the midst of challenges. This invites us to reflect on the region's capacity to overcome obstacles and create new forms of expression and problem-solving.

- Political practices and bureaucratic dysfunctionality contribute to the maintenance of economic imbalance in Latin America, challenging conventional explanations based solely on extractive institutions.
- In LAC, it is necessary to have a feedback cycle, because whenever a gap arises between the actual and the ideal plan, they set out to resolve it, often, by making constitutional amendments, creating new utopian designs, or adopting very inappropriate economic approaches without considering the long-term consequences.

“DEVELOPMENT FINANCE IN THE FACE OF CURRENT**GLOBAL CHALLENGES”**

- Development finance is deeply linked to the progress and stability of Latin America and the Caribbean (LAC). The role of development banks should not be underestimated, as they are pillars of economic stability and regional growth. These institutions are strategically important in supporting development projects in local economies, strengthening social infrastructure and ensuring sustainable development practices. The collaborative efforts of all development banks are essential to transform these projects into reality, ensuring social inclusion and environmental sustainability. In addition, all of this must be carried out within a framework of transparency of development banks before society, so that the use of public resources to promote development can be evaluated.

- **There is a wide financing gap.** While the need is enormous, the opportunities are also significant. According to estimates by the United Nations Conference on Trade and Development (UNCTAD), the costs of achieving the Sustainable Development Goals (SDGs) range from approximately US\$5.4 to US\$6.4 trillion per year between 2023 and 2030¹, and there is a spending deficit of US\$337 billion a year on indicators related only to climate change, biodiversity loss and pollution. In LAC, prior to COVID-19, it was estimated that the region had an annual SDG financing gap of approximately US\$650 billion, which means that the US\$71 billion a year that the region received in development funds was not sufficient. On the other hand, developing countries' resource needs for the implementation of the Paris Agreement commitments amount to US\$2.8 trillion, and climate finance barely reached US\$653 million on average in the 2019-2020 period. In order for LAC to meet its climate action commitments, an annual investment of between US\$215 billion and US\$284 billion is required, that is, between 3.7% and 4.9% of the regional Gross Domestic Product (GDP) until 2030. At a more detailed level, it is estimated that mitigation financing needs range between 2.3% and 3.11% of regional GDP, and adaptation needs between 1.4% and 1.83% of GDP. In 2020, financing for the fight against climate change in LAC was US\$22.9 billion, equivalent to 0.5% of GDP, far from the required levels. To meet investment needs, current financing as a percentage of GDP would have to increase by 7 to 10 times. The same is true in other areas, such as financing for women, where the region has a gap of US\$91 billion.

- Global changes, whether of an economic, environmental or social nature, present multiple challenges for the LAC countries. Among them, **climate change and biodiversity**

¹ Costing nearly 50 SDG indicators in 90 countries, including 48 developing countries, covering 3/4 of the world's population. If the calculation is extended to all developing economies, using the average per capita cost of the 48 economies studied, the total annual needs would be between US\$6.9 and US\$7.6 trillion per year. These values correspond to between US\$1,179 and US\$1,383 per person per year.

loss generate extreme weather events, threaten ecosystems and drive the need to advance in an energy transition process based on clean and renewable technologies. **Economic and social inequality** fosters discontent, instability and accentuates violence in society. **Geopolitical fragmentation and deglobalization** cause the displacement of value chains, which is associated with the disconnection of the Chinese economy from other regions of the world and the recomposition of the industrial structure in the United States (U.S.) and Europe, which hinders global problem-solving and regulation, resulting in increased costs and reduced trade, and it decreases global economic efficiency and the scope of active policies designed to protect and stimulate the development of local industries. **The high indebtedness of the states** limits their capacity to invest in economic recovery and social protection. **The overexploitation or scarcity of resources, due to the dynamics of nature**, such as the availability of vital freshwater sources for the population and food production, critical minerals and others, hinders the provision of basic services, the production processes of certain industries and the provision of food for the population, which can lead to the vulnerability of food systems. Technological innovation, digital transformation and associated regulation include concerns about privacy, data security and the labor impact of automation and artificial intelligence (AI). Finally, the integration of sustainable practices requires the creation of new financial products that meet environmental, social and governance (ESG) criteria. All these changes require states and development banks to play an active and decisive role in the capacity to, on the one hand, formulate public policies and, on the other hand, accompany these policies in order to face these major challenges.

- In the area of economic protection, the situation is particularly striking. Unprecedented industrial protection measures are being observed, especially in developed or better positioned economies, which are increasing day by day. China, the U.S. and the European Union (EU) together account for 73% of the protection measures for their industries and markets. Even now, the justification for this has in many cases escalated from economic considerations to reasons of national security. It is a competition for the dominance of value chains. With the CHIPS Act and the Inflation Reduction Act, the U.S. introduced subsidies to “relocate” semiconductor production and adopted a series of domestic content standards for electric vehicles to ensure domestic production. Subsidies to industry are estimated at more than US\$800 billion; for the green issue alone they amount to US\$369 billion. In the case of the chip industry, subsidies of some US\$52 billion are considered.

- The EU, at the beginning of 2023, announced the Green Deal Industrial Plan to counteract the impact of subsidies aimed at attracting “industrial capacities to China or other parts of the world” towards the community economy. In addition, they issued legislation for a zero-emission industrial fabric by 2030, which includes facilitating investment in crucial sectors of the supply chain to achieve the net zero emissions target. To this end, last April, the European Parliament approved the Net-Zero Industry Act. LAC does not have the same instruments as these large economies to protect the region’s industry, even though there are many opportunities. Development banks have a great responsibility in the industrialization

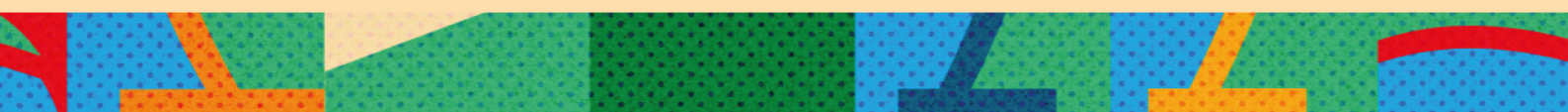
of the region; however, certain guidelines must be followed towards a decarbonized and innovative industry. In the case of Brazil's Banco Nacional de Desenvolvimento Econômico e Social (BNDES), it has invested more than R\$100 trillion (about US\$19 billion) in this effort, and credit granted to promote domestic industry grew by 76% in the last quarter.

SCALING UP SUSTAINABLE FINANCING IN LATIN AMERICA AND THE CARIBBEAN

- As a consequence of the development finance gap, there has been a growing interest in sustainable finance around the world as a way to activate the financial sector, capital markets and the various markets that contribute to finance, in favor of achieving the SDGs as well as environmental commitments. In this context, an increasing number of States, regulatory bodies, banking associations and financial institutions have promoted and/or adopted policies, regulations and practices to manage ESG principles in financial sector activities. This includes managing the risk related to climate change and stimulating the flow of capital to assets, projects, sectors and companies that generate environmental and social benefits. In this regard, it is worth highlighting the efforts that various development banks are promoting in sustainable finance to mobilize their own resources, as well as those of the private sector, and to capitalize on the opportunities that arise in this area. It is also important to highlight the complementarity of actions carried out by entities such as the French Development Agency (AFD), the European Investment Bank (EIB), the Inter-American Development Bank (IDB) and the European Development Fund, among others. Coordination among these entities demonstrates the need to work together to address the region's common challenges in terms of sustainable development and financing.

- More than 180 countries worldwide face risks in physical and transitional dimensions, and the Latin American region stands out for its high exposure to physical risks, such as droughts and floods. Compared to other areas of the world, LAC countries are particularly vulnerable to these extreme weather events. This scenario is further exacerbated in the small Caribbean islands, which face additional challenges in terms of infrastructure. To address these challenges, the development of economic actors in the region is crucial. Preliminary results of a study show that, regarding the climate strategy of banks in LAC, significant progress is observed in considering climate risk in the initial stages of projects. 54% of banks analyze climate risk compliance before starting a new project. However, only 17% monitor the project once it has started, and the same proportion claims to have the tools to measure the impact of the projects. Despite these challenges, there is motivation and ambition on the part of banks to develop tools and improve their practices.

- 79% of development banks already offer green products in their portfolio, while the remaining 17% intend to do so in the near future. This reflects a widespread commitment to sustainability, although there is still work to be done. Regarding the proportion of green loans in the total loan portfolio of banks, significant differences are observed among different types of financial institutions. While so-called "skeptical" banks do not offer any green



loans on average, “followers, promoters and leaders” have up to 20% or 22% of their portfolio in green loans. This disparity reflects the diversity of approaches to sustainability in the banking sector. With respect to climate-related banking practices, two categories were identified: established and emerging. Regarding established practices, we observe that 54% of the banks offer technical training to their clients on climate issues, although only 63% have a defined climate strategy supported by their board of directors. In addition, 52% of banks involve technicians in their projects and operations, and a similar percentage have a team to assess climate risks.

- The factors hindering the release of more green financing, in most banks, are mainly related to customer concerns. Many of them still do not consider climate as a priority and lack the technical capabilities to propose sound green investments. In addition to these factors, there are also the limitations inherent to these institutions, such as technical capacity and access to long-term capital. This suggests an opportunity to strengthen collaboration between public banks and other institutions and overcome these limitations. Such as the development of training, education and knowledge transfer programs to close existing gaps in both banks and clients in relation to sustainable finance. This collaborative approach can lead to significant progress in promoting more responsible and sustainable financial practices in LAC, especially through organizations such as ALIDE, which guides the action of public and private entities to mobilize their available funds to work together to promote sustainable development and address climate challenges in an effective and collaborative manner.

- Climate change is an undeniable reality and adaptation becomes crucial. Complete avoidance of its consequences is practically impossible at this point, so mitigation alone is no longer sufficient. It is critical for everyone to consider adaptation and how to quickly strengthen infrastructure. In this regard, the **European Investment Bank (EIB)**, whose primary focus is on climate, works in partnership with other institutions, especially development banks, to support projects, particularly those of a smaller scale. Development banks have the ability to influence public policy and help make government priorities viable, something that private banks often do not do. In this line, the EIB is advancing in the implementation of the Global Gateway², a policy vision based on five priority pillars: Climate change and energy, digital transformation, education and research, health and transportation. The EIB is advancing in the implementation of the projects prioritized by country at the EU and Community of Latin American and Caribbean States (CELAC) Summit held in July 2023, establishing links with 15 initiatives supported by 10 countries, mainly focused on climate and energy. This collaborative work with public development banks plays a crucial role in achieving real impact and ensuring sustainable development in LAC.

- **The IDB** has an institutional strategy until 2030 focused on addressing a triple challenge in the region: increasing social demands, limited fiscal resources and low regional growth. This strategy has three primary objectives: reducing poverty and inequality; promot-

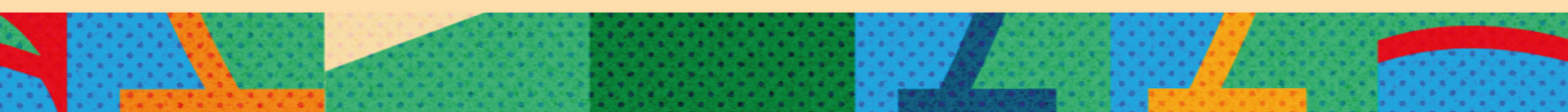
² European strategy to boost the digital, energy and transport sectors, as well as to enhance health, education and research systems worldwide.

ing sustainable regional growth; and addressing climate change. To achieve these objectives, they consider it crucial to substantially increase resource mobilization in a complementary manner with other multilateral banks and public development banks in LAC, which have a deeper knowledge of local needs as they are closer to the clients or final beneficiaries. The IDB hopes to align these initiatives to accelerate the achievement of the SDG targets. To this end, it follows a line of work that includes supporting MSMEs with financing for sustainable investments, technology and gender equity. In infrastructure, it seeks to reduce the risk of long-term projects and prioritizes financing for housing for low-income families. In the agricultural sector, it seeks to boost growth, inclusion and improve sustainable practices. Another major area of focus is the capital markets, where financing is often more costly than necessary.

- **AFD** faces the central challenge of addressing climate issues of concern to society today. To this end, it adopts a comprehensive approach, not only as a traditional public development entity, but as a conglomerate that coordinates various activities. Its strategy is based on effectively articulating these activities to offer integrated responses, both for the general public and in close collaboration with public banks that are key in the execution of development projects. AFD implemented a rigorous internal project evaluation and analysis system that considers environmental, social and climate risks at all stages of financing. The projects funded are directly related to climate change obligations. Its action goes beyond the execution of projects and includes the integration of climate risks into banking operations, as well as the stimulation of innovation in the financial sector through collaborations with the private sector and dialogue with regulators and policy makers.

- **KfW - Development Bank, Germany**, is a key actor in promoting sustainability and combating climate change worldwide. In addition to its prominent role at the international level, KfW is also recognized for its focus on the national level, where it deploys a wide range of initiatives aimed at fostering sustainable development. In 2023, it has demonstrated its commitment to sustainability by committing more than 110 billion euros to new projects. These funds are earmarked for strategic areas such as renewable energy, public infrastructure and efficient transportation in German municipalities, as well as for supporting innovative startups. This investment reflects its firm commitment to promoting sustainable solutions to environmental and social challenges. In addition, KfW works closely with development banks in other regions, facilitating the exchange of knowledge and the implementation of joint initiatives to address global challenges.

- In the context of LAC, KfW is committed to supporting the region in its fight against the effects of climate change. Although LAC emits on average the same as the global average, it faces significant challenges due to its exposure and vulnerability to climate events and impacts. In response to this situation, KfW works closely with local governments and organizations to support initiatives related to biodiversity, sustainable urban development,



water supply and the transition to a low-carbon economy. Recognizing the importance of development banks as allies in promoting sustainable finance in the region, KfW also seeks to improve the risk situation of its partners, e.g. by obtaining state guarantees. In addition, it notes how environmental and social management systems are increasingly influencing risk assessment and financing costs.

- **BNDES** demonstrates an active commitment to the fight against climate change by integrating the socio-environmental dimension in all its operations, aligning itself with the 17 Sustainable Development Goals (SDGs). In 2023, the bank made significant disbursements in various operations aimed at sustainable development and climate change mitigation. For example, actions were carried out for the recovery of native vegetation areas and the expansion of infrastructure with the objective of reducing carbon emissions. In addition, it implemented specific financial instruments, such as the Climate Fund and the Amazon Fund. It also sought to revitalize the automotive sector by providing support new investments, especially for the manufacture of hybrid or fully electric cars, with incentives for the development and use of domestic technology. In addition to serving companies of all sizes, BNDES considers it important to universalize infrastructure, such as 5G Internet access throughout the country. Beyond providing financial resources, it emphasizes the need for strong environmental commitment from both the public and private sectors, highlighting the importance of joint collaboration to effectively address the climate emergency. In addition, BNDES promotes and participates in strategic alliances at the national and international levels with organizations oriented towards these objectives. Although the importance of these efforts is recognized, there is awareness that they are insufficient in the face of the magnitude of the climate crisis.

- As for **the Caribbean region, the Caribbean Development Fund (CARICOM)** noted that States are often affected by disproportionate climate change, involving hurricanes and drastic fluctuations in high temperatures, as well as social challenges. Organizing States to work with connections and alliances can ensure common points on the same agenda, which are fundamental for development, such as technical assistance, training, production and innovation. For its part, the Saint Lucia Development Bank pointed out that access to the capital market is difficult in the region, and high interest rates make financing less accessible for companies. They also face challenges in competition among banks and the availability of corporate liquidity. Suriname, for its part, faces similar difficulties in the financial sector, as it is unable to obtain financing from commercial banks and is seeking support from multilateral banks to expand its lending activity in a healthy and less risky manner. In all cases, the importance of support from development funds is highlighted to help small Caribbean States make investments adapted to the individual needs of each country.

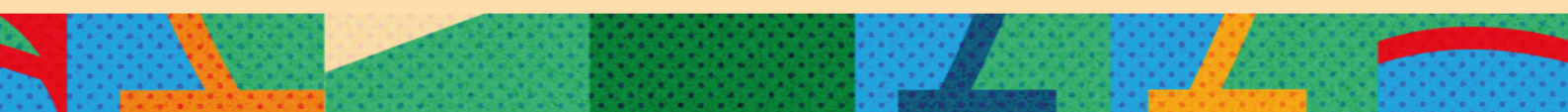
PRODUCTIVE TRANSFORMATION FOCUSED ON SUSTAINABLE PRODUCTION AND CONSUMPTION

- Productive transformation focused on sustainable production and consumption is closely related to SDG 12, which recognizes the significant impact that current consumption and production practices have on the environment, the economy and society. To achieve this goal, it is crucial to promote efficiency in the use of resources, reduce waste, encourage technological innovation and change consumption patterns towards more sustainable models. The Economic Commission for Latin America and the Caribbean (ECLAC) has pointed out the urgency for LAC countries and governments to scale up and improve their productive development policies. In the last 10 years (2014-2023), the region has barely grown 0.8%, a rate lower than the 2% recorded in the 1980s. Behind this poor growth is stagnant and declining productivity in recent decades. **If this productivity challenge is not addressed, other challenges such as the creation of decent jobs, climate challenges, among others, will not be able to be addressed.**

- Productive development policies must focus on sophistication, diversification and virtuous structural change to raise productivity and achieve more inclusive and sustainable development patterns.. This involves efforts in areas such as science, technology and innovation; technological extensionism; digital transformation; entrepreneurship; closing human capital gaps; business financing; foreign direct investment; specific infrastructure and other public goods; normative and regulatory agenda; and the internationalization of the region. In addition, it is important to establish productive development axes, focusing on sectors with growth potential such as the pharmaceutical industry and life sciences, advanced manufacturing, modern services enabled by Information and Communication Technologies, energy transition, circular economy, sustainable agriculture, sustainable water management and sustainable tourism.

- According to the Organization for Economic Cooperation and Development (OECD), today's society is consuming more resources than ever, exceeding the natural production capacity. This increase in consumption is exacerbating the gap between rich and poor countries. **However, sustainable consumption and production can contribute substantially to poverty reduction and lead LAC towards a green, low-carbon economy.** This requires cooperation among many stakeholders, as well as across sectors in all countries.

- The production industry represents around one third of greenhouse gas emissions worldwide, so it is essential to move towards decarbonization. However, this process faces significant challenges, such as the limited availability of low-carbon technologies to facilitate the transition, where traditional practices such as energy efficiency are common, but there is still untapped potential. Furthermore, the competitiveness of the industry may be affected, as technologies that reduce emissions can increase production costs by 20% to 100%, which is not always aligned with the objective of maximizing profits. Likewise, in developing coun-



tries, the abandonment of industrial assets that do not use the best available technologies poses another important challenge, hence the need for a transition of more efficient assets to achieve a more sustainable industry.


- Policies and instruments aimed at a circular economy must promote reuse, recycling and reduction of demand for resources, as well as energy efficiency and replace fossil fuels with renewable sources, including biomass and synthetic raw materials. However, the investment required for this is considerable, with one estimate suggesting an increase from US\$70 trillion in 2030 to US\$125 trillion by 2050. Approximately 40% of this investment is expected to be made in China, 30% in high-income countries and 30% in developing countries. In conclusion, industrial decarbonization is vital given that industry represents one third of global emissions, although energy-saving technologies are not sufficient on their own. Financial challenges and the need for significant investments require new financing models to address it.

- **Banco Nacional de Costa Rica (BNCR)** is committed to promoting sustainable consumption and production patterns and the efficient use of natural resources through the adoption of sustainable practices, reduced waste, implementation of sustainable purchasing, and access to information and knowledge to facilitate a transformation. Recognizing the crucial role of development banking in this process, BNCR focuses on granting financing and investments, providing support to people and companies, promoting projects with economic, social and environmental impact, promoting sustainable practices in business operations, fostering financial innovation for resource mobilization, and promoting cooperation.

- In Costa Rica, inequalities are linked to centralized development conditions, with peripheral areas, especially border and coastal areas, requiring greater public policy intervention. This is where BNCR promotes productive transformation through its institutional regulatory framework, the "Estrategia de Negocios Juntos Somos Humanos, Cercanos y Sostenibles" (Business Strategy Together We Are Human, Close and Sustainable), with the objective of generating value for the environmental, social and economic development of the country. The bank seeks to achieve this objective through good governance, social benefits and environmental harmony, which facilitate access to capital, improve returns and productivity, reduce risks, develop competitive advantages and enhance reputation. By the end of 2023, BNCR had supported the business fabric with a credit portfolio balance of more than 4.9 trillion colones (about US\$9.8 billion) and had granted sustainable financing to 4,417 companies, 53% of which were led by women, and trained 7,837 MSMEs. In addition, the bank has innovated with the creation of the world's first green card, where each use contributes to the protection of the country's fauna and forests, and recently in 2023, it launched the BN Water Card to protect water resources.

- BNDES is the main financial arm of the Brazilian State in charge of implementing the "Production Plan", which seeks to foster what has been called neo-industrialization³ and

³ A model based on a set of rules and laws that aims to revitalize the industrial competitiveness of countries in



ecological transition in the country. Until May 2024, it has invested R\$300 trillion (equivalent to US\$57 billion), allocating R\$271 trillion (about US\$51 billion) to credits, of which R\$21 trillion (about US\$3.9 billion) are non-reimbursable and R\$8 trillion (about US\$1.5 billion) to equity shares. This plan is structured in four main axes: 1) Innovation and digitization, with the aim of boosting competitiveness and developing new productive sectors; 2) Export, focused on increasing exports with higher added value and improving the international insertion of Brazilian industry; 3) Green, seeking the decarbonization of the industry to contribute to the fight against climate change and generate quality jobs; and 4) Productive, aimed at increasing production and reducing costs to improve the competitiveness of the national industry.

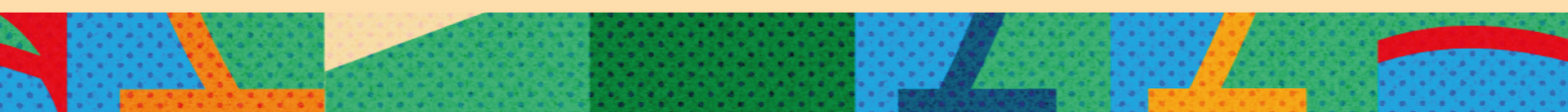
IMPACT INVESTMENT FOR SOCIAL INCLUSION: A KEY PIECE FOR DEVELOPMENT WITH OPPORTUNITIES FOR ALL

- In LAC, it is estimated that around 201 million people, representing 32.1% of the total population, live in poverty, with 82 million (13.1%) people living in extreme poverty, lacking basic services. This is compounded by a 22-year setback in unemployment, especially affecting women, whose unemployment rate increased from 9.5% in 2019 to 11.6% in 2023, exacerbated by slowing or low economic growth. In this context, social or impact investment takes on greater relevance as a powerful source of growth and innovation to address these challenges. In addition to providing significant returns, these investments have multiplier effects by improving people's well-being, promoting social cohesion, reducing social tensions, creating a favorable environment for business and empowering the most vulnerable sectors. They are essential as resource mobilizers to finance social SDGs, such as housing, health, education, water, sanitation, ending poverty, gender equality and reducing inequalities. Public policies and institutions such as development banks have a fundamental role as catalysts to strengthen an efficient market and ecosystem for social impact investment in the region, integrating it into their activities and projects.

- Fondo para el Financiamiento del Sector Agropecuario (FINAGRO) focuses on democratizing access to credit to enable more farmers to gain access to agricultural property and promote the decarbonization of agriculture. Regarding social inclusion in Colombia, a wide range of aspects are addressed, such as age, geographic location, occupation, ethnic origin, religion, socioeconomic status, disabilities and gender identity, among others, recognized as invisible barriers that hinder a more inclusive development. The mobilization of resources for social inclusion, through impact investments, represents a great opportunity for the comprehensive development of the region.

- CAF - Development Bank of Latin America and the Caribbean is implementing a strategy to become the leading bank in sustainability, inclusion and green development in the region. This initiative involves the development of components focused on biodiversity,

order to add value to products, but essentially to break or reduce dependence on critical inputs or products from abroad. As opposed to re-industrialization, which involves seeking the recovery of industries that were lost.



good corporate governance, knowledge generation, and impact and results orientation. In this regard, CAF directs its lending and investment operations towards key sectors of the economy with social impact, such as water, education, health, social protection, energy and transportation, which together account for 53.3% of its portfolio. Through financing to the private sector, the institution serves the vulnerable population in collaboration with financial allies such as development banks, which play a key role in the implementation of public policies, economic and social practices, and financial support. The approach through these institutions seeks to promote private sector participation in economic activity, provide support to micro, small and medium-sized enterprises, increase productivity and develop efficient infrastructure and public services, promote green and sustainable portfolios, strengthen the financial sector and capital markets, and promote financial and social inclusion.

- CAF's priority areas of focus, such as small and medium-sized enterprises (SMEs), infrastructure, financial inclusion, capital market, subnational projects and sustainable development, focus on evaluating their impact through specific indicators. The bank's presence covers more than 22 countries in the region, with a focus on more than 10 sectors, including agriculture, livestock, fisheries, forestry, water, sanitation, education, energy, industry, commerce, health, financial sector, information technology, communication and transportation. CAF investments contribute to the advancement of 13 of the 17 Sustainable Development Goals, addressing issues such as poverty eradication, health, gender equality, access to drinking water and sanitation, sustainable energy, decent work, infrastructure, reduction of inequalities, sustainable cities, responsible consumption, climate action and collaboration to achieve these goals. Financial inclusion stands out as a fundamental element in the socioeconomic development of countries, promoting well-being and equity, boosting business competitiveness and stimulating more equitable economic growth.

- When addressing social and financial inclusion in the region, it is crucial to emphasize the people-centered approach. **Instituto de Crédito Oficial (ICO)** of Spain, although it does not have the direct capacity to distribute financing to beneficiaries in the region, relies on development banks as a fundamental ally in 23 countries to achieve this objective. ICO's actions focus on three main areas: the transition to a sustainable energy model, the digital transformation of companies and the promotion of social inclusion in all territories. In addition to working with direct financing to companies for large infrastructure projects in the region, ICO invests in less favored territories and in infrastructure networks such as telecommunications and transportation. In Spain, it focuses on financing social and affordable housing for people with lower incomes, mainly young people, with an emphasis on renting. Over the last 10 years, ICO has established venture capital funds and impact funds dedicated to entrepreneurs and small enterprises, measuring impact through indicators such as the number of jobs created by young people and support for women and vulnerable people. In addition, ICO is a pioneer in social bond issuances in Spain, and is moving towards green and sustainable bonds, with issues exceeding 5 billion euros in 10 programs. Finally, ICO recognizes that it is not possible to promote sustainable assets or participate in sustainable

finance if there is no change in the internal governance of institutions. For this reason, it has established social responsibility and equality policies that affect contracting policies with suppliers and customers, seeking a more equitable inclusion, especially in terms of gender. In addition, metrics and operational procedures are being developed to measure all actions aimed at inclusion effectively.

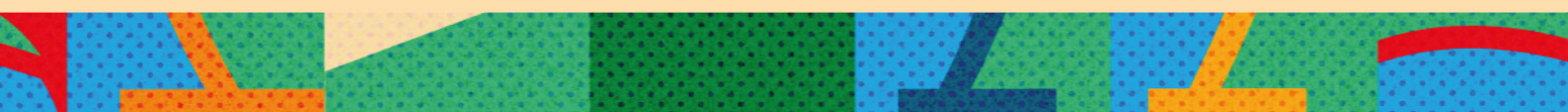
- **Corporación Financiera de Desarrollo S.A. (COFIDE)**, as Peru's development bank, is dedicated to promoting the country's sustainable development by facilitating access to resources and opportunities for people and companies. To achieve this objective, it focuses its strategies on sustainability and integrates ESG criteria in all its operations and internal management. Its main lines of action include: 1) Ecosystem and market development: through the financial system, it reaches all companies, invests in capital markets and investment funds; 2) Focus on final beneficiaries: it improves conditions for MSMEs, finances infrastructure and productive investment, participates in public-private partnership (PPP) projects and investment programs; and 3) Promoting/articulating role: it executes State programs, manages trusts, establishes relationships with various stakeholders and maintains close collaboration with the public and private sectors.

- COFIDE has been a pioneer in the issuance of thematic bonds in the country, exceeding US\$471 million since 2019. Its main projects focus on agroforestry plantations, road infrastructure, airport infrastructure and renewable energies. The impact evaluation of 15 projects co-financed in the last decade shows significant results: 1) Benefit for 1.3 million people and companies; 2) Creation of 10,000 jobs; 3) Direct improvement in the quality of life of 16,000 people through access to services of health, education and infrastructure improvements, which has increased well-being and safety on the roads, as well as time savings due to better infrastructure; and, 4) Avoidance of more than 3.2 million tons of CO₂e.

- In the area of sustainable financing programs, COFIDE has several outstanding initiatives. First, the Crecer Fund has had a significant impact, benefiting 50,054 people, 99% of which are micro, small and medium-sized enterprises (MSMEs), with a total of US\$1.49 billion in guarantees issued. In addition, 40% of the beneficiaries of the credit instrument have obtained the good payer bonus⁴. The IDB Women program offers financing to MSMEs led by women, for a total of US\$60 million, as well as productive financing for MSMEs for an amount of US\$40 million. For rural areas, COFIDE has implemented programs such as Bionegocios, aimed at promoting the financing of ventures in Amazonia with IDB resources of US\$20 million, backed by a non-reimbursable investment of US\$2 million from Capital Natural Lab⁵. In addition, the Inclusive Rural Business Development Program (PRIDER) has benefited 25,700 people with more than US\$17 million in capital stock and loans exceeding US\$111.7 million, highlighting that 60% of the members are women. Finally, the Inclusive Fund for Rural Business Development (FIDER), with resources of approximately US\$13.3 million, aims to promote PRIDER and foster greater development in rural areas.

⁴ Bonus that rewards timely payment of installments up to 15% of the loan (maximum S/15,000, about US\$4,000).

⁵ Joint venture of the IDB Climate Change and Sustainability Division with the IDB Laboratory.



- **Banco do Nordeste do Brasil (BNB)** highlighted its two most emblematic programs for financial and social inclusion: Crediamigo, aimed at the urban sector, and Agroamigo, for the rural sector. Crediamigo has 1.98 million active customers and placements in 2023 totaling US\$1.98 billion (R\$10.64 trillion), with projections for 2024 of US\$2.08 billion (R\$11.20 trillion) in placements. This program has a remarkable participation of 68.3% of women, with a significant number of single mothers, which highlights its importance in the empowerment of women. On the other hand, Agroamigo has 1.37 million active customers and placements in 2023 totaling US\$1.06 trillion (R\$5.7 trillion), with projections for 2024 of about US\$1.48 billion (R\$8 billion) in placements. A distinctive aspect of this program is that the loan officers come from the communities themselves, which helps to minimize the problems of lack of knowledge and distrust of the financial products offered by the Bank. To amplify the social impacts of these programs, specific sub-programs have been implemented: 1) Agroamigo SOL: Aimed at solar energy investments in rural areas for family farmers. In the last 5 years, US\$19.7 million (R\$106.3 million) have been disbursed and 12,600 clients have benefited. 2) Agroamigo Água: Finances projects for water security in the semi-arid region of Brazil, including the multiplication of water sources, guaranteeing their use in productive activities and infrastructure construction. In the last 4 years, US\$73.8 million (R\$396.7 million) have been disbursed, benefiting 106,000 customers. 3) Agroamigo NET: Finances the acquisition of connectivity kits to contribute to digital inclusion, distance learning, and access to new markets. In the last 3 years, US\$856,000 (R\$4.6 million) have been disbursed, benefiting 2,500 people.

- BNB also manages the Northeast Constitutional Financing Fund (FNE), the main financial instrument of the National Regional Development Policy for the Region and one of the pillars of the Northeast Regional Development Plan. This fund, which serves more than 2,000 municipalities, had a historical disbursement in 2023 of about US\$8.1 billion (R\$43.7 trillion), with more than one million operations, generating more than 1.97 million formal and informal jobs for various sectors of its portfolio, including agriculture (21.7%), agribusiness (0.7%), commerce and services (23%), industry (6%), infrastructure (27.4%), livestock (19.2%), individuals (0.4%) and tourism (1.7%). During the 2018-2023 period, the FNE made disbursements for infrastructure projects totaling US\$11,146 million (R\$59,864 million), mainly earmarked for renewable energy infrastructure, such as wind energy (59.5%) and photovoltaic energy (40.5%).

- BNB has a strategy for local and territorial development, organization, strengthening and increasing the competitiveness of economic activities through the Territorial Development Program (PRODETER⁶), which serves 127 territories, with 10,599 participants (40% women) and 2,000 partners that articulate 503 actions of technological diffusion and commercial prospecting. BNB, working in priority and historically less dynamic sectors, plays a

⁶ It incorporates a set of strategies aimed at improving the competitiveness of productive activities, such as the construction and implementation of an action plan and budget allocation for financing, the strengthening of governance through local and territorial committees, and the integration of public policies necessary for local and territorial development.

leading role in coordinating and joining efforts to include local communities in the benefits that can be derived from investments, especially related to large renewable energy generation projects, as a result of the decentralization of energy beyond compensatory policies.

PROSPECTS FOR INFRASTRUCTURE FINANCING

- Within the framework of the discussion on infrastructure financing, the importance and urgency of this issue at the national and global level, especially in developing countries, is highlighted. From a regional perspective, four main challenges or objectives are identified when working on long-term financing and infrastructure with development banks, as well as in the financial and capital market areas. The first objective is to promote greater impact and achievement of the sustainable development goals through coordinated actions. The second one focuses on the transition to a low-carbon economy, identified as a global environmental need and an opportunity for the LAC region, especially with the potential for investments related to clean energy, such as green hydrogen. The third challenge is the mobilization of private resources, since public resources are insufficient due to fiscal constraints. Many times, public budgets are barely enough to cover the depreciation of the capital required for these investments. It is therefore necessary to mobilize other private resources. Finally, and related to the previous point, there is the need for long-term financing, which requires optimizing the relationship between the public and private sectors through innovative financial instruments.

- In infrastructure financing, Banco do Nordeste (BNB) has an annual budget of approximately 11 billion reais (equivalent to US\$2.1 billion) for infrastructure. This budget is part of the Northeast Constitutional Financing Fund (FNE), which has a total of approximately 39 billion reais (equivalent to US\$7.45 billion). However, the initial demand for this year exceeds 20 billion reais (about US\$3.82 billion), which highlights the need for an annual investment of between 40 and 48 billion reais (about US\$7.64-9.17 billion) to fully meet it. Therefore, BNB has established strategic alliances with multilateral organizations such as the IDB, the New Development Bank (NDB)⁷ and the World Bank to mobilize resources and implement important projects in the northeast region of Brazil. In the last two years, these alliances have raised more than 1.3 billion reais (about US\$250 million).

- BNB takes a holistic approach to this issue, viewing it as a complete cycle. On the one hand, it focuses on providing technical assistance to improve the structuring of financial instruments and leverage private resources, in collaboration with public banks and/or the Ministry of Finance. On the other hand, it offers financial assistance through lines of financing, also in cooperation with these same actors. In terms of financial assistance, BNB focuses on providing long-term financing solutions for complex operations that support both public and private investments. To this end, four main instruments or categories are being developed: credit lines, guarantees, participation in the capital market and the implementation of

⁷ Multinational bank established by the BRICS countries (Brazil, Russia, India, China and South Africa) to finance infrastructure and sustainable development projects in member countries and emerging economies.

specific operations and tools in Brazil. In terms of credit lines, BNB offers specific options tailored to various sectors such as telecommunications, transportation, energy and sanitation, with features designed to meet the particular needs of each sector. It also prioritizes the development of financing lines focused on climate mitigation, increasingly collaborating with federal development banks to establish specific lines and other related products, such as the structuring of syndicated financing. Moreover, there is the provision of guarantees, which are used in the infrastructure field to cover three specific areas: backing public bidder risks in Public-Private Partnership (PPP) projects, providing support for the structuring of related guarantee funds, and ensuring infrastructure-related bond issuances. The latter function implies that BNB can facilitate not only the structuring, but also the issue and guarantee of such issues, in collaboration with development banks or other market actors.

- In the infrastructure sector, the IDB is implementing several financing schemes in Brazil. In collaboration with the Ministry of Telecommunications, it is working with the Fund for the Universalization of Telecommunications Services, focused on financing projects in this sector. The initiative actively promotes the direct use of these funds to support a greater number of internet providers and technologies associated with telecommunications. In addition, it is involved in structuring investment funds and trusts to increase available resources. Simultaneously, the IDB is developing proposals for thematic securities and carrying out an investment attraction strategy, which often involves the issuance of securities. This process includes support in the structuring and issuance of these securities, both in partnership with private banks and donors, with the objective of establishing mechanisms that reduce the issuance cost.

- In addition, the Eco-Invest program is in the process of structuring financing of US\$5.4 billion. This initiative comprises several components, such as Blended Finance, aimed at providing support to Brazilian investors interested in issuing abroad; the Long-Term FX Facility, which consists of a contingent credit line to mitigate financial risks of companies with foreign currency debt; and the reduction of the cost of exchange rate hedge, aimed at attracting foreign investments through options and swaps to improve the liquidity and price of these products, with the intervention of the Central Bank and Brazilian banks for this purpose. In terms of technical assistance linked to this type of financing, the IDB provides support in mapping investment, development and project portfolio priorities, as well as in improving the institutional capacity of development banks. It also provides advice on taxonomy and financial regulation issues.

- **FONPLATA - Development Bank⁸**, which manages some US\$2.4 billion, has experienced significant growth in recent years, especially in infrastructure, which represents close to 80% of its portfolio. In addition, it has promoted socio-environmental and productive sectors, integrating environmental components to ensure the social and environmental sus-


⁸ Created more than 50 years ago as the Fund for the Countries of the La Plata Basin, its member countries are Argentina, Brazil, Bolivia, Uruguay and Paraguay.

tainability of the projects. The bank finances through special lines with differentiated rates to meet its main objective of boosting infrastructure, especially in smaller countries. These lines include the green line for climate events and the post-pandemic economic recovery line. These initiatives encourage the incorporation of sustainability and gender equity aspects in infrastructure projects. In terms of funding strategy, the bank has sought additional alternatives as it has grown. In addition to contributions from member countries, it has established strategic alliances with banks such as CAF, AFD and KfW to meet the growing demand for resources; and it has ventured into the capital market -in Switzerland and Japan- and is evaluating opportunities in new markets with its medium-term note program. The challenges they face and the strategy to address the growing demand are diverse, and they have traditionally faced them with capital contributions from their partners. However, they have now modified their constituent agreement to allow the incorporation of extra-regional partners and are exploring options such as debt swaps with banks to expand their space on the balance sheet, transfer risks and participate in loans. However, they prioritize focusing on alliances given the importance of working in coordination among all the banks in a context of debt and fiscal restrictions in the countries. Therefore, they consider it crucial to generate venues for dialogue between the multilateral banks and the countries to ensure a more efficient use of resources.

- BNDES manages assets of around 700 billion reais (US\$133.71 billion) and has financed more than 200 billion reais (US\$38.2 billion) in infrastructure since 2000, covering more than 2,000 projects. In the area of urban mobility, it has allocated approximately 30 billion reais (US\$5.73 billion) in recent years, driving investments totaling 63 billion reais (US\$12.03 billion). In the sanitation sector, it has structured and financed projects totaling 120 billion reais (US\$22.92 billion), benefiting 79 million people. BNDES is increasingly involved in sharing project risks through the Project Finance and Limited Recourse⁹ modalities. These key financial approaches are used by BNDES in its infrastructure development work, allowing projects to be largely self-sustaining, thus promoting long-term financial sustainability.

- BNDES recognizes the importance of collaborating with other financial institutions and organizations to strengthen the viability of infrastructure projects. These partnerships can be with regional banks in Brazil, commercial banks. Collaboration makes it possible to share risks, analyze projects jointly and find more complete financial solutions that meet the specific needs of each project. In addition, BNDES adopts a countercyclical strategy to face market challenges. In times of market closure, BNDES increases its willingness to disburse funds, thus ensuring that projects continue even in adverse economic environments. This flexibility is crucial to maintain the momentum of ongoing infrastructure projects and mitigate the impact of market fluctuations. The bank has stood out for its innovative approach to providing financial solutions. This includes expanding its participation in the capital mar-

⁹ Limited Recourse implies that lenders have limited recourse to the project assets in the event of default, which reduces their risk.



ket, providing additional guarantees, and strengthening its socio-environmental analysis of each project, especially the larger ones. The bank works in collaboration with companies to propose solutions that mitigate or solve problems related to climate change, transportation logistics, electric mobility, among others. This approach reflects BNDES' commitment to sustainability and social responsibility in all its operations.

- **Eurasian Development Bank (EDB)**, over a five-year period, plans to invest more than US\$1 billion in infrastructure projects to support economic development in the Eurasian region, with priority given to smaller member countries. Its actions focus on strengthening alignment with ESG principles, building international relationships and representing the global community of development institutions. Recognizing the opportunities in investment and trade growth, EDB highlights support for mutual trade and export operations, as well as the promotion of green and renewable energy. EDB recognizes its crucial role in mobilizing financial resources, especially in the face of fiscal constraints. In addition to providing financial support through loans, the bank offers expertise and technical assistance, simplifying procedures through digitization. It prioritizes capital mobilization, channeling the flow of private market financing to relieve pressure on public finances. It also emphasizes commercial financing and collaboration on projects within member states and with other regions

FINANCIAL AND SOCIAL INCLUSION OF WOMEN IN LAC

- In LAC, women-owned or led businesses represent about 23% of MSMEs, but face significant financing gaps, estimated at US\$91 billion. However, these gaps also present opportunities, as women are recognized for their stronger payment history and financial institutions that offer women-specific programs can increase their portfolios without increasing their risk. To take advantage of these opportunities, it is critical to understand women's financial needs and design financial products tailored to their demands, an area in which development banks can play a crucial role in catalyzing significant change through innovative and appropriate approaches.

- Studies and foresights¹⁰ conducted to assess how development finance institutions (DFIs) are addressing the needs of women and their businesses through innovative programs, products and approaches reveal several trends. First, it is observed that DFIs are simultaneously using multiple definitions for women-led MSMEs, with 56% of DFIs adopting this practice, while 15% have not yet adopted a specific definition. Regarding the programs offered, most DFIs prioritize productive financing (68%), business development (50%), climate finance with a gender approach (43%), and financial education (43%), among others. The products most frequently offered to this type of companies include working capital (74%), investment credits (72%), guarantees (43%), and trade credits (33%), among others. In terms of product characteristics, the lowest interest rates are usually offered by public banks. For example, the lowest interest rates are offered by public banks compared to multilateral banks. In addition,

¹⁰ Global survey of 54 DFIs conducted by a joint initiative of Finance in Common, IDB and UN Women.

multilateral banks offer the largest provision of non-financial support, and unsecured loans are mostly offered by public banks. In terms of innovation approaches, multilateral banks are leading the fight against gender bias and the introduction of new financial instruments such as gender bonds. In addition, both multilateral banks and national development banks excel in designing products that consider the specific needs of women, while public development banks lead in the use of treasury loans. However, there is little adoption of alternative credit rating mechanisms.

- In the credit market, there are several opportunities for financial institutions, each with its own prospects for growth and development. For multilateral banks, a key opportunity lies in leveraging technology and digital innovations, which would allow them to expand their reach and create new financial instruments to meet emerging demand. On the other hand, national development banks have the opportunity to generate positive social impacts through their operations, as well as to explore new forms of collaboration and design financial instruments that attract investors interested in social impact and in combined financing models. Moreover, for the rest of the development banks, there is a high potential for growth in the market, together with the possibility of generating positive social impacts and establishing new collaborations and strategic partnerships that will boost their development and their capacity to respond to the financial needs of their clients.

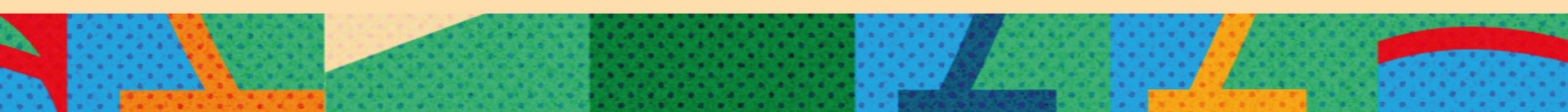
- There are several experiences in providing support to women in development banking. **Banco de Desenvolvimento de Santa Catarina (BADESC)**, Brazil, which serves all types of companies, offering specific products for MSMEs, is worth mentioning. In 2023, BADESC partnered with the IDB and Brazil's Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (Sebrae)¹¹, to determine the status of access to credit for companies led by women compared to those led by men in Santa Catarina. The results revealed that 38% of the companies in the state are led by women, but 31% of them do not obtain any type of financing. In addition, women-led companies that obtain financing pay interest rates almost double those led by men. In view of these figures, BADESC believes that government intervention is essential to implement policies and strategies that promote access to financing for women. Programs such as Pronampe¹² are seen as fundamental to provide support to women entrepreneurs

- In Ecuador, **Corporación Nacional de Finanzas Populares y Solidarias (Conafips)**, which works directly with cooperatives and mutuals, has managed to obtain data disaggregated by gender and geographic location, thanks to the collaboration of these organizations. In recent years, Conafips has implemented a strategy to reduce the gender gap, offering credit lines with lower interest rates to cooperatives that commit to allocate more than 60% of their loans to women. This has resulted in a significant increase in lending to women entrepreneurs. Conafips also provides FOGEP¹³ guarantees to women who do not have suf-

¹¹ By conducting a survey of 146 companies in the Santa Catarina territory

¹² National Program to Provide Support to Micro and Small Enterprises, aimed at providing support to this type of enterprises.

¹³ Guarantee Fund for the Popular and Solidarity Economy, aimed at facilitating financial or productive inclusion. It grants guarantees for up to 70% of the loan amount.



ficient collateral, offering reduced rates. This initiative helps women to start their own businesses. Conafips has also joined the violet economy, resulting in a significant reduction of the gender gap, with 50% of loans being granted to women.

- In Mexico, the disparity in access to financial products for women entrepreneurs in traditional banks has created a financing gap due to inadequate credit conditions and lack of collateral. To address this situation, development banks conduct detailed analyses to identify the specific needs of the sector in which women are involved, in order to create financial products adapted to these needs. Throughout its history, Nacional Financiera (Nafin) has developed programs aimed at women entrepreneurs, including the “Women in Industry” guarantee program, which uses the bank’s resources to support loans for women. In 2021, Nafin conducted a study that showed that women have a more reliable payment history, which led to the definition of a new methodology for loans for women, with lower capital reserve requirements and the provision of specific guarantees for financial products. However, this innovative effort does not fully cover the banks’ portfolio, since Nafin channels 80% of its portfolio through wholesale financial intermediaries, which poses challenges in modifying the credit infrastructure of these intermediaries. Therefore, the integration of a gender approach in all financial institutions is considered fundamental to achieve significant progress at all levels of financing and to close the gender gap in access to credit.

- **Development Finance Corporation (DFC) of Belize**, as a public entity, plays a key role in guiding public policy. In the country, an ecosystem has been established that promotes gender inclusion in all areas, from the education and health system to women’s access to entrepreneurial opportunities. One of the DFC’s key strategic objectives has been to integrate a gender policy in all its operations and functions, and to design financial products that facilitate access to financing for women and youth, offering guarantees as collateral. In this regard, it has launched a guarantee product called “Mujeres Empoderadas” (Empowered Women), which in the last three years has been remarkably successful in providing guarantees to women entrepreneurs. In addition, the institution has trained all its staff in the integration of gender policies, which has allowed the internalization of gender inclusion throughout the organization through constant training. In an effort to further promote the inclusion of women in access to financing, the DFC offers loans to women at the lowest rates in the market, which is based on the punctuality of payment and the good financial health of this type of loans.

- A detailed analysis of national development banks in LAC shows a significant focus on SME financing, which account for 42% of the financial instruments examined. This focus becomes relevant due to the fundamental role of SMEs in the regional economy, contributing not only to GDP, but also to employment, with more than 60% of the workforce employed by these companies. In addition to the focus on SMEs, there is an emphasis on capital investment and the financing of working capital-related operations, which are crucial for the short-term viability of business projects. However, untapped potential is identified in the

area of guarantees and access to capital markets, which represent only 7% of the financing mechanisms analyzed. Some national development banks offer technical assistance that can serve as a reference for other LAC countries, mobilizing private resources to provide support to SME projects, thus contributing to economic development and job creation.

- As for the sectors benefiting from the financing, there is a focus on areas with high potential for formal job creation and aligned with the transition to a greener economy. For example, there is a growing interest in activities related to sustainable agriculture, energy transition and manufacturing industry. However, there is a need for greater focus of financial instruments on specific sectors, as well as on key factors for the future, such as the green transition, digital transformation and gender equity. These aspects are crucial to ensure sustainable and equitable development in the Latin American region.

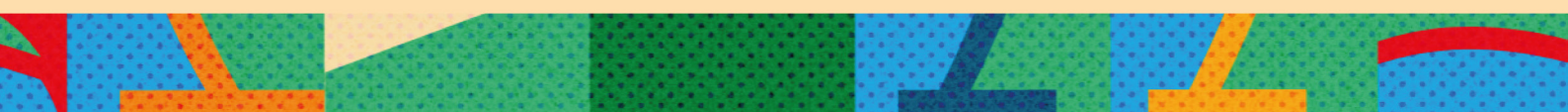
NEW ENVIRONMENTAL AND CLIMATE TRENDS AND OPPORTUNITIES

FOR DEVELOPMENT BANKING

- Globally, funding for sustainable activities has increased greatly in the last decade, but only 4.7% of this is allocated to LAC, despite the high incidence of natural disasters and climate change in the region. This disparity raises the question of why LAC receives such a small fraction of global funding for sustainable activities, despite its vulnerability. There is a clear need for greater attention and action in the region to ensure that financial resources for sustainability are more equitably and effectively distributed.

- Within the top ten global risks identified, half are directly related to environmental and climate change issues, and of these, four are considered critical. This information underscores the magnitude of the challenge and the urgency of taking action. In the financial area, the importance of addressing these risks is recognized. The commitment of the financial sector is to find solutions and strategies to mitigate the risks associated with climate change and other environmental problems. It is understood that where there is risk, there can also be business opportunity if approached appropriately. This perspective highlights the importance of understanding and managing risks as a means to identify new opportunities in a changing and challenging context.

- Twelve years ago, only 25% of banks understood what a sustainability-related product or service was. Today, it is rare to find a development bank without some initiative on gender inclusion or sustainability issues. In addition, there has been significant progress in integrating climate change risks into development banks' analysis systems in recent years. This change indicates a more positive mindset and practices in the financial sector, with greater consideration of environmental and social risks in its operations. With respect to the evolution of sustainable products and services, there has been a notable increase in awareness and implementation, reflecting a growing demand and recognition of the importance



of sustainability in the financial sector. The proliferation of green sustainability protocols in LAC, with the active participation of financial institutions and governments, signals a regional commitment to climate action and the implementation of measures to address these challenges.

- Although it is commonly believed that climate funds come mainly from multilateral and international sources, the reality is that national development banks play a crucial role, contributing more than 25% of international mobilization in climate finance and more than 50% of the resources from the public sector perspective. Access to international climate change opportunities and funds, such as the Green Climate Fund, the world's largest climate change fund, where more than 40% of the institutions in LAC that can access this fund are development banks. The LAC region recognizes the importance of this dialogue between governments and development banks to attract and mobilize international resources. It would be ideal if each country in the region had a development bank capable of directly channeling these resources, which are the most concessional worldwide.

- In terms of integration of environmental, social and corporate governance factors in banks, the creation of environmental and social policies is highlighted as a common first step. This involves establishing criteria for incorporating these factors into credit and investment decisions. Banks often adopt performance standards in their policies and develop Environmental and Social Risk Analysis Systems (SARAS) to assess and monitor their clients' environmental and social risks. In addition, they can implement restriction or exclusion policies for activities with high environmental or social impact. The crucial role of development banks in identifying opportunities and positive impacts on sustainability is recognized. These banks develop specific products to address demands, such as loans for the installation of solar panels in remote communities, often backed by insurance or guarantees that facilitate the investment. In addition, government policies, such as bus electrification, also offer opportunities for development banks, which act as financial agents of the government to implement these plans.

- A key strategy to increase the impact of development banks is the issuance of green, social and sustainable bonds. Although these issuances previously represented a smaller part of the market due to their lesser development, in the last five years there has been a significant increase in the participation of development banks in this market. However, there is a trend towards innovation in financial products in the region, although there is less interest on the part of private banks in adaptation and resilience in the face of climate change and natural disasters. Although these projects do not always generate immediate financial benefits, governments are increasingly interested in mitigating these risks and dealing with more frequent natural disasters to prevent future infrastructure damage. Thus, they can avoid a significant fiscal impact to a state or country; save lives that would otherwise be lost in a disaster; and protect entrepreneurs whose businesses could be damaged by weather events. Many governments are beginning to incorporate the concept of adaptation and resilience


into their taxonomies and medium- and long-term development programs. For development banks, structured lending helps reduce the perception of high risk, facilitates long-term financial flows and reduces the costs of loans in developing countries. However, there is a need for these financial institutions to play an agent role on behalf of the government, helping to de-risk long-term development projects, creating flexible structures and increasing the appetite of foreign investors.

- Development banks have a crucial role to play in promoting adaptation and resilience where private banking does not address the gaps. This path may face many challenges with financing from both the government and development banks. It is essential for development banking to understand the regional context, from the government to the most vulnerable communities. Indicators such as KPIs, which are being incorporated by financial institutions through environmental and social risk systems, are also important. These indicators are crucial for developing opportunities, such as thematic bonds and access to other sources of financing. In addition, the issue of adaptation and access to international funds, such as the recent fund created under the framework of the United Nations Framework Convention on Climate Change on Loss and Damage, represent another opportunity for development banks. The latter has demonstrated its ability to meet high standards and bring meaningful projects to the most affected and vulnerable communities.

- For the purposes of viewing and managing the financial impact of climate change, development banks should consider that: 1) An asset analysis is necessary to assess physical climate risks; 2) Modeling the financial implications requires a considerable amount of data and research; 3) The model assumptions to be used should be subjected to a detailed analysis of complex long-term behavior; and, 4) Alignment with major climate scenarios provides flexibility for scenario analysis.

- In Guatemala, **Banco de Desarrollo Rural (Banrural)**¹⁴, since its creation, has maintained a specific focus on rural development, with special attention to indigenous and peasant communities, despite the vulnerability of the region and the sector to climate change. To mitigate this risk, the bank has developed insurance for outstanding and parametric balances. The first offers security to farmers in case of losses due to adverse weather events, covering 100% of the value of the loan at the time of the loss. The second covers the interruption of production caused by severe weather events, such as drought, and activates up to 50% of the value of the loan. In addition, Banrural offers specific financial products for the agricultural and livestock sector, such as loans for planting, maintenance and harvesting of products, as well as for animal husbandry. These loans are adapted to production cycles and risks are managed through agricultural insurance. To facilitate access to loan, the bank has adopted a flexible approach, accepting municipal certifications in lieu of traditional documentation such as agricultural property registration in the state asset registry.

¹⁴ It is the second largest bank in Guatemala and the third largest in Central America, with a 98% share in the entire country.



- In Mexico, a sustainable financing framework has been established with a specific taxonomy, led by the Ministry of Finance and Public Credit (SHCP). **Nacional Financiera (Nafin)** and **Banco Nacional de Comercio Exterior (Bancomext)** have pioneered the issuance of green sustainable thematic bonds in the region, demonstrating an active commitment to the fight against climate change. Since 2018, environmental, social and governance policies, along with environmental and social risk management systems have been implemented in the banks. These measures reflect a strong commitment to integrating environmental and social considerations into financial operations and supporting sustainable projects in Mexico. Nafin has established a sustainable finance committee to authorize programs and projects in this area, and has created a framework for the issuance of sustainable bonds, approved by the SHCP. In addition, Nafin has implemented a social and environmental grievance mechanism for all its projects, strengthening its focus on institutional sustainability and linking closely with the taxonomy issued by the SHCP.

- Nafin has identified three main sources of resources for sustainable financing: 1) Thematic bonds, where 60% of its issuances are social or environmental bonds, attracting some US\$3 billion with lower interest rates than traditional issuances due to high investor demand; 2) International financial institutions, which provide loans or lines of credit with environmental and social safeguards, including access to the Green Climate Fund (GCF) for around US\$250 million; and 3) Nafin Sustainable Fund, a public trust that leverages non-reimbursable resources from international financial institutions. This fund has linked US\$64 million for sustainable projects, such as sustainable transportation, energy efficiency and programs for communities affected by climate change, at no direct cost to Nafin. In addition, it supports transparency in climate action and community recovery after natural disasters.

- Nafin has been actively involved in environmental and social projects, offering direct financing to companies related to foreign trade in Mexico. These projects cover areas such as clean transportation, energy efficiency, renewable energy, solid waste management and water treatment. In addition, it is committed to social initiatives, such as access to financial services for low-income populations and support for MSMEs, as well as the socioeconomic advancement of women. Nafin has also stood out for its innovation in sustainable programs, such as “Women in Industry”, which promotes female participation in the manufacturing sector, and programs such as “EcoCrédito Sostenible” (Sustainable EcoCredit) and “Sustainable Transportation”, which promote energy efficiency and the transition to hybrid and electric vehicles, respectively. These initiatives have been key to optimize the operations of MSMEs, generating positive economic, environmental and social impacts.

- **Financiera de Desarrollo Nacional (FDN) of Colombia** focuses exclusively on providing financing for infrastructure projects through the project finance modality. Each year, FDN carries out 5 to 7 operations, with amounts ranging from US\$100 million to US\$200 million, which distinguishes it from other lenders. In addition to providing financing, it plays a crucial role in structuring projects. FDN is committed to promoting a culture of greater rigor


in project structuring, recognizing the crucial importance of pre-investment quality to the long-term success of a project. In this regard, it provides support in conducting the necessary studies and obtaining resources to carry them out. FDN has also adopted a sustainability policy and is committed to following international environmental standards. In addition, it is exploring blended finance strategies to support the energy transition and sustainable transportation in the country. For example, its role as the main financier of electric buses in Colombia stands out, setting the standard with pioneering transactions in this area.

- FDN has developed a variety of specific financial products to support infrastructure projects at different stages of their life cycle. These include senior debt, which serves as the basis for any structured financing, as well as long-term subordinated debt, designed especially for wind energy projects. In addition, it offers liquidity lines for the road sector and bank guarantees to secure reserve account resources, which helps reduce the capital cost of projects. FDN also offers co-financing and an aggregation model to facilitate the financing of solar projects, which allows for the efficient approval of a project and sets conditions that other projects of the same sponsor can meet to access financing more efficiently.

GREEN COALITION OF PUBLIC DEVELOPMENT BANKS FOR AMAZONIA

- The Green Coalition of Public Development Banks for the Amazon Region, created during the Amazon Summit of Heads of State in Belém do Pará in 2023, with the presence of 17 development banks in the region, met at the ALIDE assembly, where they presented their detailed action plan, in order to map the difficulties and strengthen existing actions to share them among all institutions in the Amazon countries, expressing local needs and creating their own solutions with international support. The challenge is to mobilize between US\$10 and US\$20 billion to preserve the Amazon, focusing on providing support to sustainable projects in the region and protecting communities affected by climate urgency, beyond mere tree conservation.

- The Coalition has organized four working groups, the first group is dedicated to establishing a comprehensive action plan to promote sustainable financing in the Amazon region. Its initial work consists of mapping all activities in Amazonia, identifying strategic products and sectors in the different countries. They will then focus on identifying the demand for sustainable financing and developing a methodology to expand its outreach in the region, considering both supply and demand constraints of banks and reviewing the relevant regulatory and normative aspects in each country. Subsequently, they will address the identification of differences, complementarities and similarities among the 20 banks of the coalition, establishing collaborations and alliances among themselves and with other relevant actors in Amazonia, such as public entities, private sector stakeholders and multilateral entities. The goal is to strengthen the financial part with the participation of other actors to achieve the coalition's objectives, developing a financing framework that will be based on existing frameworks in each member entity, covering aspects such as lists of exclusions, taxonomies



and priority investment sectors, and establishing indicators to monitor the progress of the financed activities. In addition, they will focus on developing guiding principles to guide sustainable financing in the region, based on development banking principles and the individual policies of each member bank, ensuring that financial activities are aligned with the SDGs and environmental protection, adapting to the particularities of each bank.

- The second group focuses on developing specific frameworks for each member bank, considering their areas of expertise and sectors in which they operate. This will ensure that each financial institution can apply the coalition's general principles and guidelines effectively in its own operations, thus maximizing the positive impact in the region. In addition, it will assess technical assistance needs to implement the developed frameworks, ensuring effective implementation of agreed policies and facilitating smooth communication and collaboration among coalition members.

- The third group is dedicated to the creation of an innovation laboratory to develop financial products adapted to the Amazon region. This venue will make it possible to identify successful bank experiences and propose them for incubation and development through an established methodology. Governance will be established to define the methodology and select the products best suited to the needs of the region, thus ensuring a significant impact. The objective is to leverage existing knowledge, especially the developing initiatives of other coalition banks, to develop new initiatives and share solutions among the members.

- The fourth group aims to promote and facilitate the implementation of solutions throughout the Amazon region through the mobilization of financial resources. It proposes the development of a financial mechanism to attract resources in the future, divided into four main pillars: mapping of potential resources and barriers to their attraction, further work until 2030, identification of specific mechanisms in the Amazon region, and development of strategies to implement these mechanisms. The aim is to identify potential demand supported by the banks collectively and understand how these resources will reach the base of the pyramid, addressing key sectors and developing financial products to meet financing and technical training needs, thus mobilizing resources to ensure their effective arrival.

REGIONAL PROGRAM FOR RAPID ACTION IN THE FACE OF NATURAL DISASTERS

- During the ALIDE Assembly, the president of BNDES, Aloizio Mercadante, proposed the creation of a program to study, analyze, monitor and provide support in situations of natural disasters. The main objective of this initiative is to rebuild, mitigate and adapt critical structures that are affected after extreme events. The aim is to act as quickly as possible to put these infrastructures into operation and thus restore productive activity and normalize the lives of citizens. This is intended to prevent further damage to the assets of companies and the lives of people, which are already affected when large-scale disasters occur.

- The impact of the crisis caused by these events is considerable, especially exacer-

bated in small countries. Therefore, it is crucial to anticipate how to recover the local economy. The impact is not only limited to infrastructure, but also affects business owners, who lose merchandise inventories, see their machinery inoperative or even lose it completely. They face the impossibility of paying pre-disaster salaries, much less guaranteeing future payments. This, coupled with the inability to meet tax obligations, impacts public budget revenues. In addition, they are unable to meet their banking commitments, which affects the stability of the financial system. Therefore, it is suggested the creation of support schemes that function as a solidarity network, together with the implementation of a study program and advance financing.

- Therefore, LAC must address these crises in a more supportive manner. Instruments are available to seek international resources to finance the restructuring and recovery of affected countries, cities or localities. At this moment, a clear demonstration of solidarity is needed, such as the grant scheme for the intervention, recomposition and restructuring of territories affected by natural disasters in the State of Rio Grande do Sul. This is not only a problem for Rio Grande do Sul, but should be a regional objective, since extreme weather events will be more intense and frequent in any country or locality in Latin America and the Caribbean. Everyone in our region will be exposed to situations like this, so it is suggested that we should look beyond our current time to build a specific program to address this issue.

- In line with the attention to climate urgencies, the BNDES president highlighted that at the local level, the Brazilian government is promoting tools for monitoring natural disasters, such as the creation of the National Center for Monitoring Natural Disaster Alerts (Cemaden), which alerts all municipalities in Brazil when it identifies high-risk areas. In addition, BNDES has a credit portfolio of R\$23 trillion (US\$4.37 billion) intended to address climate urgencies. In this regard, LAC must pursue decarbonization projects and seek to provide resources for the recomposition and reorganization of vulnerable sectors in the face of natural disasters. New instruments for raising resources must also be explored, such as green bonds and bonds for the recomposition of the economies of LAC countries.

THE FUNDAMENTAL IMBALANCE IN LATIN AMERICA: DR. JAMES A. ROBINSON

- Dr. James A. Robinson is a British economist, lecturer and political scientist, professor at the University of Chicago. His research focuses on comparative economic and political development, with a particular interest in Latin America and Sub-Saharan Africa. He is co-author of the book "Why nations fail: The origins of power, prosperity, and poverty", co-authored with Professor Daron Acemoglu. In his keynote lecture entitled "The Fundamental Imbalance in Latin America" he said that it is argued that the exclusion of the majority of the population from economic opportunities is due to extractive institutions; although the predominant literature attributes poverty in Latin America and the Caribbean to these institutions, he questions this approach and seeks a broader understanding of the economic and



political problems in the region.

- To illustrate this, Dr. Robinson presented three cases. In the first case, he illustrated how political practices could perpetuate imbalance by excluding the majority of the population from participating in economic opportunities, even when public tenders were apparently opened. In the second case, bureaucratic dysfunctionality revealed how the State could fail to provide basic services effectively, resulting in the exclusion of those who depended on these services to access economic opportunities. Finally, in the third case he illustrated how state policies could generate conflict and perpetuate economic imbalance by granting property titles in an unequal manner, resulting in disputes between communities and perpetuating economic exclusion. Taken together, these examples showed how political practices and bureaucratic dysfunctionality contributed to the maintenance of economic imbalance in Latin America, challenging conventional explanations based solely on extractive institutions.

- Dr. Robinson highlighted that many characteristics in LAC follow a similar pattern of thinking, exemplified by expressions and practices rooted in society. The concept of “clientelism” was mentioned, where the aim is to solve problems through personalized political mediation, intervening in this gap between the real and the ideal to help frustrated people and obtain popular support. He noted that even people in the upper economic strata in LAC benefit from arbitrage in this imbalance, accumulating wealth by manipulating the system. This gap between the real and the ideal creates opportunities for arbitrage and alternative ways of solving political and social problems.

- He also emphasized the lack of a feedback loop in LAC, where every time a gap arises between the real plan and the ideal plan, it is often solved by rewriting the Constitution, making constitutional amendments and creating new utopian designs in LAC. Here he highlighted how writing a new constitution is considered a highly utopian act, as is the adoption of certain hegemonic policies, such as the Washington Consensus, which outlined what LAC would look like after certain policy reforms. He pointed out that in all cases, elements are added without considering the long-term consequences.

- In conclusion, he emphasized that LAC is characterized by its creative capacity and its tendency to combine different influences to generate something new and unique. He highlighted the idea that LAC has a rich history of creativity and adaptability, even in the midst of challenges. This invites us to reflect on the region’s capacity to overcome obstacles and create new forms of expression and problem-solving.



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