FINANCING FOR DEVELOPMENT FROM THE PERSPECTIVE OF PUBLIC FINANCIAL INSTITUTIONS

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INTRODUCTION

We are immersed in an environment of permanent change, marked by volatility and uncertainty, which conditions and forces countries, institutions, organizations and people to constantly adapt to new challenges. This reality requires us to adopt new ways and methods of working, redefine or implement more flexible strategies, and stay within a continuous process of learning and unlearning.

We must incorporate new technologies that allow us to manage large amounts of information, expand our scope and offer services more quickly and efficiently, both in terms of time and cost. In this context, it becomes essential to manage dynamic strategic plans, in constant review and adjustment.

Despite the challenges, this dynamic environment generates numerous opportunities for all economic and social actors, among which development finance institutions (DFIs) in Latin America and the Caribbean play a fundamental role. These institutions, in their various modalities, are in a privileged and strategic position to take advantage of the opportunities that arise in this new scenario.

To learn with greater precision about the challenges and opportunities from the perspective of the DFIs themselves, between May 2023 and May 2024, the Latin American Association of Development Finance Institutions (ALIDE) carried out a two-stage information collection process through surveys, the analysis of which underpins this study. The first phase culminated with the survey **"Perspectives of Development Banking in Latin America and the Caribbean"**, aimed at collecting data on the outlook and expectations of these institutions at that time. Its objective was to obtain a comprehensive vision of the challenges and opportunities that they face, identify possible areas for improvement, strengthen capacities and propose recommendations to consolidate their role in the economic and social development of the region.

In the second phase, a survey entitled **"New Priorities for Development Finance Institutions"** was carried out. It was the result of a collaboration between ALIDE, the European Investment Bank (EIB) and the Research Agenda of the *Global Research Network* of *Finance in Common (FICS)*. It also had the technical support and thematic contribution of Nacional Financiera (NAFIN), of Mexico. This phase helped to identify the positioning and priorities of the members at the institutional, national and regional levels, generating a comprehensive diagnosis that was shared with ALIDE's associates.

The objective of this initiative was to enrich the agenda of the institutions that make up ALIDE and FICS, to promote cooperation between the parties involved and offer inputs for the study **"Climate Financing in Latin America and the Caribbean: How are public development banks supporting the climate transition?"**

The results presented in this document, from the perspective of the development finance institutions themselves, allow us to have a clearer vision of the challenges that they face, the barriers and limitations that prevent progress in reaching their objectives, and the priority areas of attention and the new sectors identified. The analysis also seeks **to strengthen the role of these financial institutions in the region**, promoting measures and strategies that boost sustainable economic development, reduce inequality, and improve the quality of life of the population in Latin America and the Caribbean.

I. PROSPECTS FOR DEVELOPMENT BANKING IN LATIN AMERICA AND THE CARIBBEAN

This section presents the perception[1] of development finance institutions[2] (DFIs) in Latin America and the Caribbean (LAC) on the main challenges and opportunities in their countries. It also shows the general and specific perspectives of these institutions.

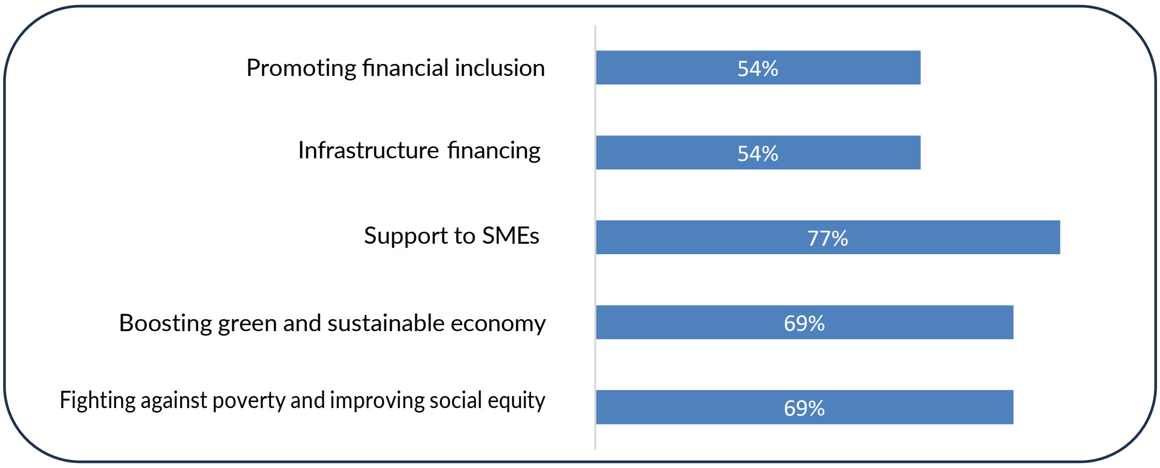
1.1. Main challenges for development in the countries

69% of DFIs highlighted the fight against poverty and the improvement of social equity as the main challenges to be addressed in their countries. For its part, infrastructure financing was indicated by 54% of the entities as a significant challenge that requires priority attention.

Similarly, 54% underlined the importance of promoting financial inclusion as a key measure to promote inclusive economic development in the region. Furthermore, 77% of DFIs identified supporting small and medium-sized enterprises (SMEs) as a fundamental challenge, recognizing the crucial role of these enterprises in job creation and economic growth.

Moreover, 69% of the institutions highlighted the need to promote a green and sustainable economy, highlighting its relevance to confronting environmental challenges and to address climate change as a global problem that demands joint solutions (Figure No. 1).

Figure No. 1: Main challenges in the country of the DFI (%)



[1] These results correspond to the first survey conducted during the 53rd Ordinary Meeting of ALIDE's Annual General Assembly, held in San Pedro Sula, Honduras, from May 30 to June 2, 2023.
[2] The term "development finance institutions" encompasses banks, corporations, funds, financing agencies and institutes, as well as any other type of institutional structure adopted in the countries of Latin America, the Caribbean or any other region of the world, for the purpose of financing development.

1.2. New sectors of attention

In addition to the previously mentioned challenges, key opportunities were identified in strategic sectors of the regional economy, such as health, education, tourism and ecotourism, as well as agribusiness, where DFIs can play a fundamental role (Figure No. 2).

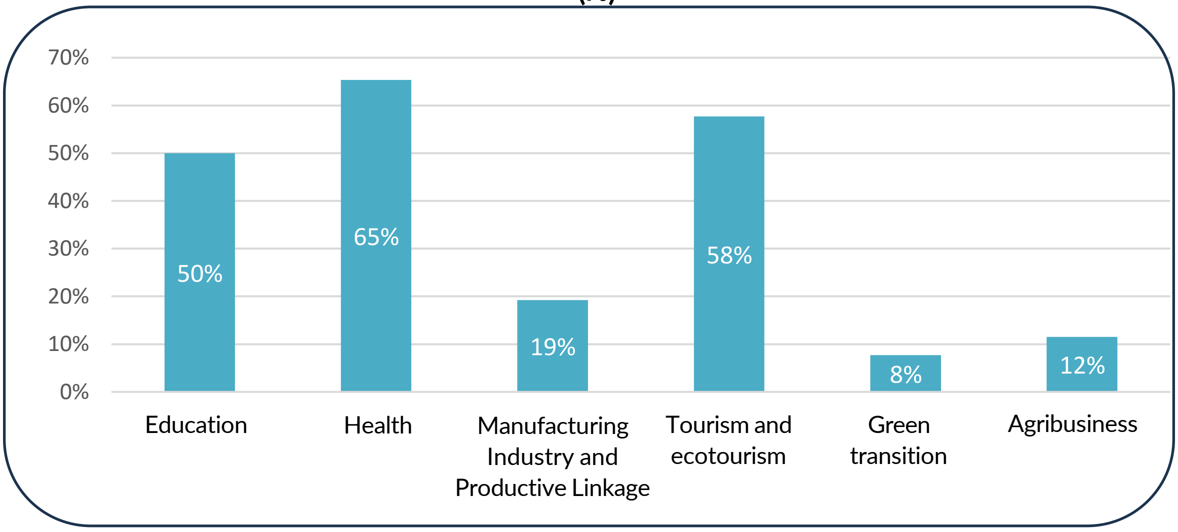
In the health sector, we underscored the need to strengthen and improve health care systems, as well as the drug and medical device industry. Access to quality health services and improved health infrastructure represent key areas that can benefit from financing and technical support from DFIs.

Education was also identified as a sector with great opportunities. Investment in this ambit and the strengthening of education systems are essential to boost human development and long-term sustainable economic growth. DFIs can finance educational projects and training programs that promote educational quality and equity, with a special focus on the financing of technical studies and higher education, such as postgraduate studies.

Tourism and ecotourism were pointed out as sectors with high potential for economic growth and job creation in the region. Investment in sustainable tourism infrastructure, the promotion of attractive destinations and the development of environmentally responsible activities can be driven by DFIs, contributing to both economic development and conservation of the environment.

Finally, the agribusiness sector was highlighted as a key opportunity to boost agricultural and agri-food production in the region. DFIs can provide financial and technical support to farmers and agribusiness enterprises, fostering innovation, productivity and competitiveness in this strategic sector.

Figure No. 2: New sectors of attention for Development Banking (%)



1.3. Perception of its importance

The perception by DFIs reflects a clear trend towards their revalorization and greater relevance in the region in recent years, especially in response to the economic and social crises that have affected the countries of Latin America and the Caribbean (LAC).

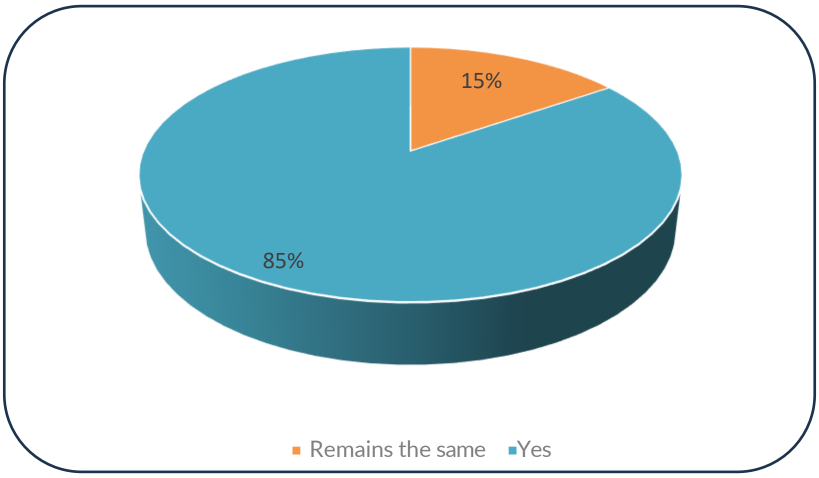
85% of the institutions highlighted the fact that DFIs have acquired a more prominent role as effective tools to confront current challenges and promote economic and social development in the region. This recognition underscores their crucial role in responding to crises, providing financial support and technical assistance, as well as facilitating access to key resources to boost economic recovery, strengthen productive capacities, and promote social inclusion.

The revalorization of DFIs is grounded on their ability to offer solutions adapted to the specific needs of the countries of the region. These institutions have demonstrated to be agile and flexible, providing financing at critical moments, fostering innovation, promoting financial inclusion, and supporting the development of strategic sectors.

Moreover, they have been key players in channeling resources toward infrastructure, health, education, tourism and other essential areas for sustainable development.

On the other hand, the remaining 15% of the entities considered that the relevance of DFIs has remained stable in recent years. Although this perspective suggests a perception of continuity, stability in itself can be interpreted positively, as it reflects a sustained confidence in the role and functions of these financial institutions in promoting regional development (Figure No. 3).

Figure No. 3: Relevance of Development Banking (%)

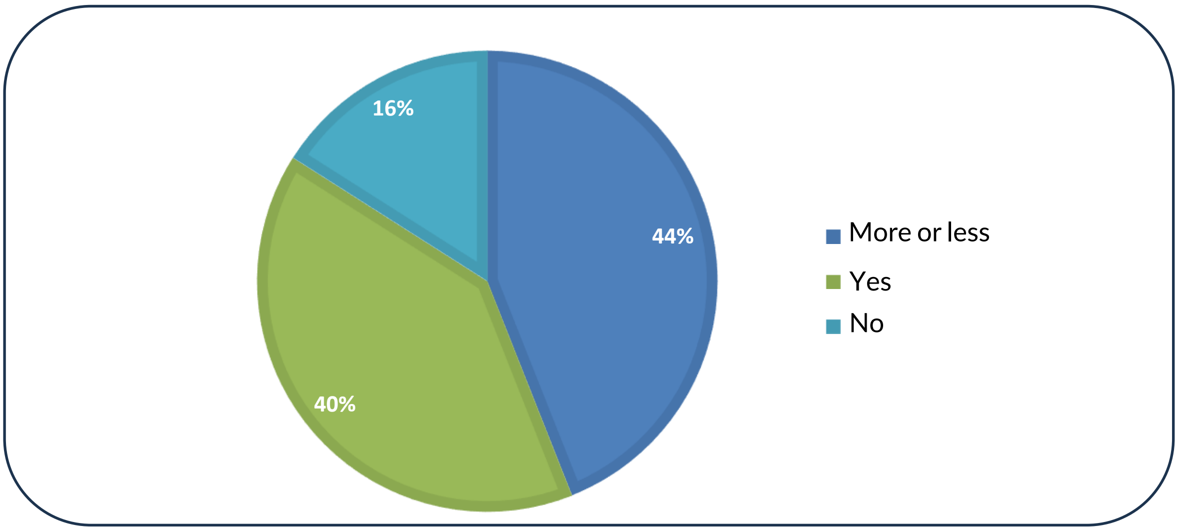


1.4. Existence of an integrated financing system

The analysis of the results shows that only 40% of DFIs pointed out the existence of an integrated national development finance system in their countries. This figure shows a significant gap in the coordination and articulation of financial institutions involved in development within the region.

The fact that 60% of institutions report a lack of coordination and isolated action among the actors of the financial sector reveals an urgent need to improve integration through public policies. This lack of articulation generates a redundancy of efforts, inefficiencies and difficulties in addressing common challenges effectively. Furthermore, it limits the impact and effectiveness of the development policies and programs implemented in the region (Figure No. 4).

Figure No. 4: Existence of an integrated national financing system (%)



It is crucial to recognize the importance of effective coordination and stronger integration among financial institutions in Latin American and Caribbean (LAC) countries. A well-articulated development financing system can generate synergies among the different entities, optimize available resources and ensure more efficient implementation of development projects and programs. Also, it allows to extend the scope toward territories and segments of the population that do not have access to the financial market.

To address this situation, it is necessary to promote collaboration and cooperation among national financial institutions, to establish clear coordination mechanisms and foster the exchange of information and best practices. The creation of platforms for dialog and venues for encounters among key actors proves to be an effective strategy to strengthen the integration and cohesion of the system of development financing.

II. CHALLENGES, OPPORTUNITIES AND AREAS OF STRATEGIC ACTION

2.1. Challenges and opportunities

In the first chapter we compiled the perception of development finance institutions (DFIs) on the current challenges of their respective countries in relation to development financing. This second chapter focuses on analyzing the specific challenges confronted by each institution at the present time, considering the scope of its competencies according to its particular mandate (Figure No. 5).

The majority of the institutions (69%) identify supporting small and medium-sized enterprises (SMEs) as their main challenge, prioritizing the provision of resources and financing for this key sector. For their part, 58% consider the promotion of the green and sustainable economy as a notable challenge, which reflects a growing interest in promoting projects and practices that favor environmental sustainability.

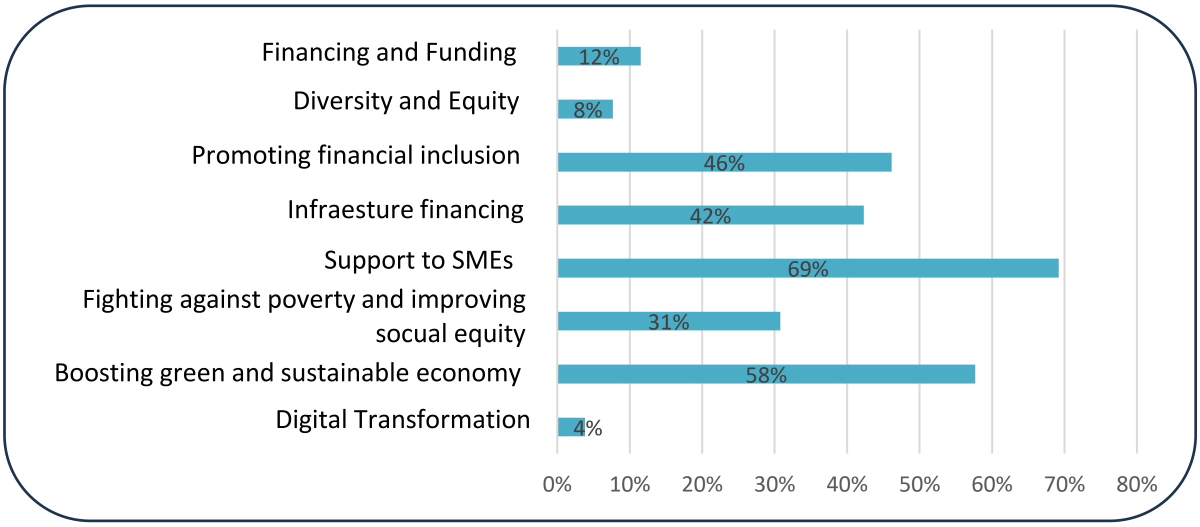
46% of institutions consider it relevant to promote financial inclusion, while 42% point out infrastructure financing as a key challenge, evidencing the need for resources to develop or improve basic infrastructure. Furthermore, 31% of DFIs prioritize the fight against poverty and the improvement of social equity, reaffirming their commitment to social justice and the well-being of vulnerable communities.

To a lesser extent, 12% mention access to financing and funding as a significant challenge, although it is not their main concern compared to other priority areas.

As for diversity and equity, these are not perceived as main challenges, which is understandable, as these are issues that transcend the scope of institutions and encompass the entire State. However, it should be noted that the actions of DFIs, directly or indirectly, seek to contribute to social inclusion, equity and well-being. This explains why only 8% highlight them as a separate priority, as these objectives are implicit in their other lines of action.

Finally, only 4% of institutions consider digital transformation to be a major challenge. This suggests that, while relevant, their focus is on addressing other, more urgent needs, considering the limitation of available resources.

Figure No. 5: Main challenges of DFIs (%)



2.2. Main lines of strategic action

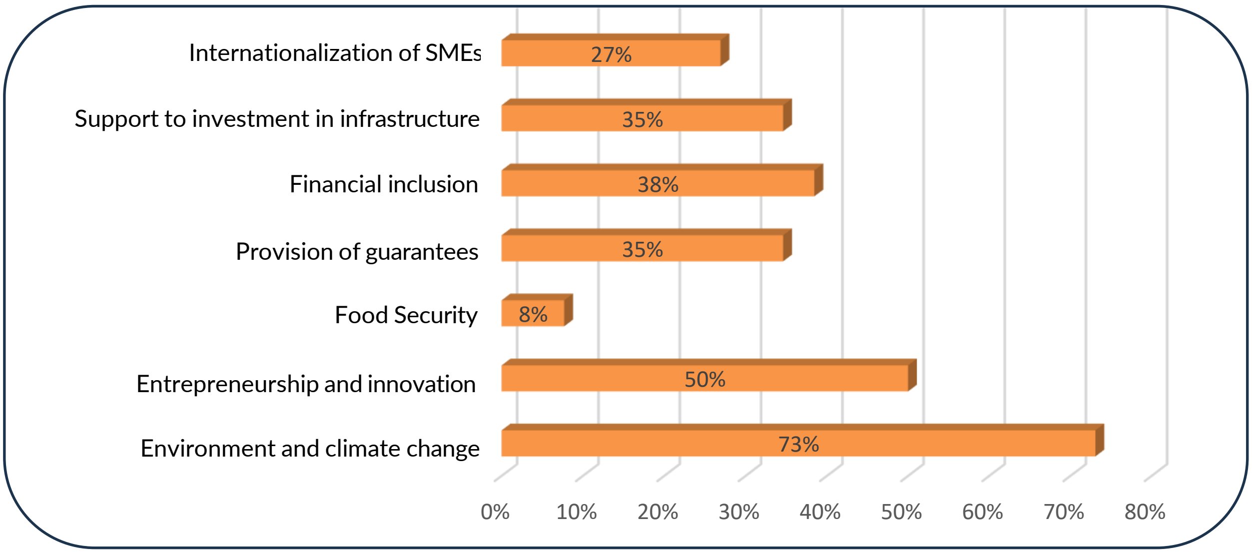
Looking to the future (Figure No. 6), development finance institutions (DFIs) have identified various strategic lines of action to strengthen their role and contribute to the development of the region. The most prominent priority is the environment and climate change, with 73% of institutions focusing their efforts in this ambit. This underscores the commitment of DFIs to sustainability and adaptation to global environmental challenges.

Entrepreneurship and innovation are in second place, with 50% of institutions interested in promoting initiatives and technologies that promote economic development and improve the competitiveness of the region. Moreover, financial inclusion and the provision of guarantees, both with 38%, and support for investment in infrastructure, with 35%, are other key areas identified. These priorities reflect the importance of improving access to financial services, reducing risks for investors, and developing the infrastructure essential for economic growth.

Aside from that, 27% of the institutions indicated the internationalization of SMEs as a strategic line, reflecting their interest in expanding the global reach of small and medium-sized enterprises. In contrast, only 8% of DFIs prioritize food security, focusing on ensuring food supply and quality.

The fact that food security is highlighted by a smaller percentage of institutions is explained by the fact that this challenge is mainly addressed by a small subset of DFIs specializing in sectors such as agriculture, which have a specific mandate in this area.

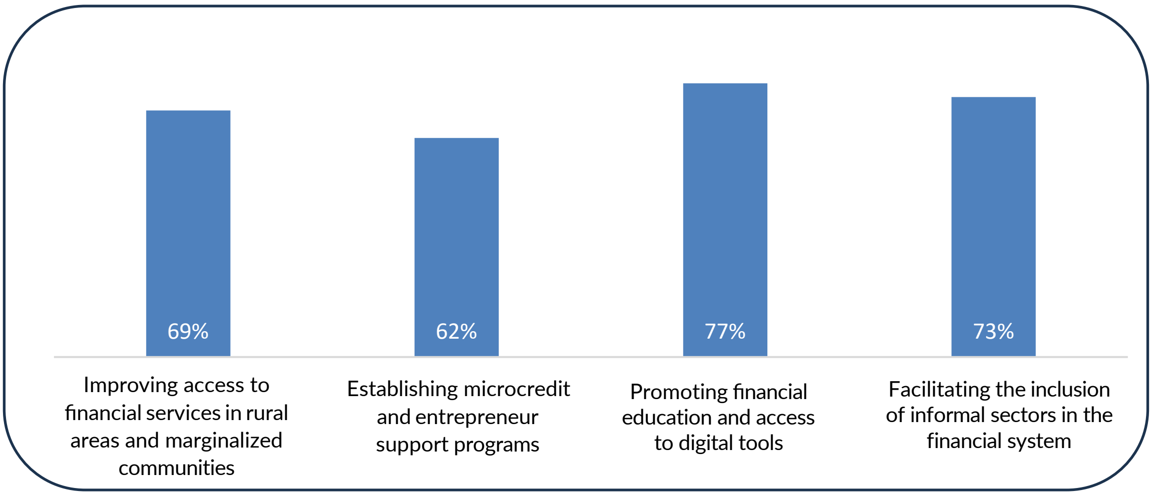
Figure No. 6: Main strategic lines of action of DFIs (%)



2.3. Necessary measures and actions in key areas

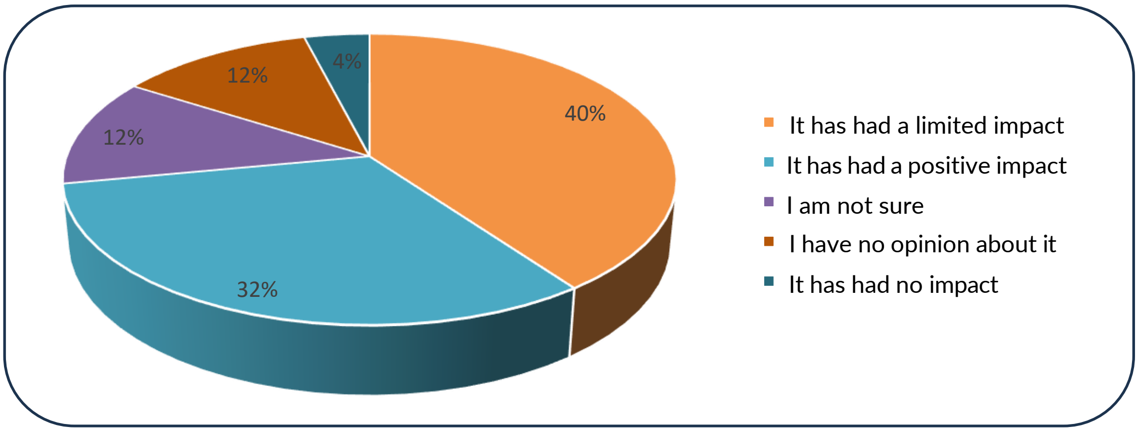
In the ambit of **financial inclusion**, it is considered essential that LAC Development Banking implement concrete measures to improve access to financial services in rural areas and marginalized communities (69%). We also highlight the importance of establishing microcredit programs and support for entrepreneurs (62%), of promoting financial education and access to digital tools (77%), and facilitating the inclusion of informal sectors in the financial system (73%). These actions are fundamental to guarantee that more people can access financial services and contribute to the economic development of the region (Figure No. 7).

Figure No. 7: Necessary measures to promote greater financial inclusion (%)



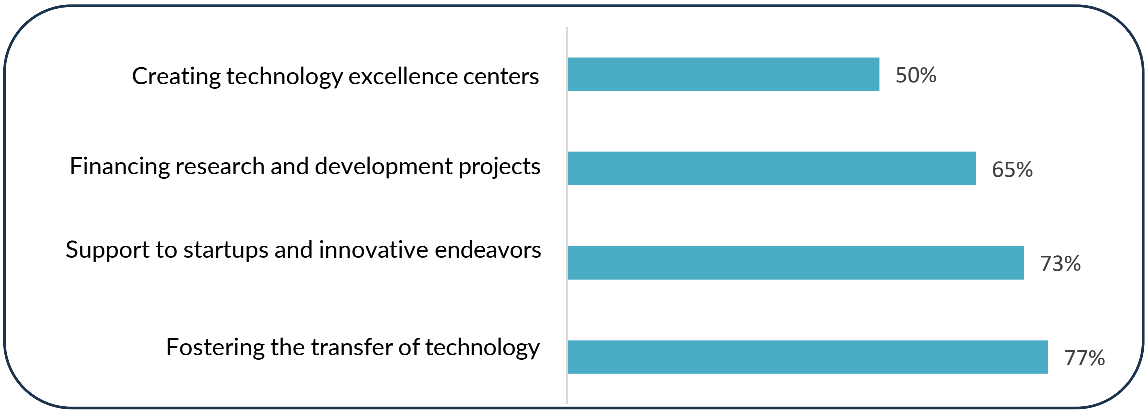
In relation to **gender equality**, 32% of the institutions surveyed consider that they have had a positive impact, while 40% believe that their impact has been limited. Also, some entities pointed out that DFIs have not generated a significant impact in this ambit, and others did not give an opinion. These results underscore the need to intensify efforts and adopt concrete measures to promote gender equality through DFIs in the region (Figure No. 8).

Figure No. 8: Role in the promotion of gender equality (%)



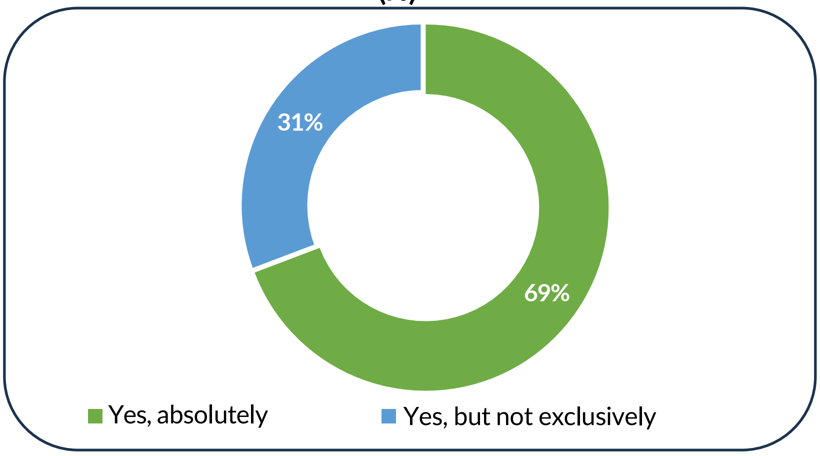
In **innovation and technology**, 77% of the institutions highlighted the importance of promoting the transfer of technology, facilitating access to, and implementation of, new solutions in various sectors. Moreover, 73% consider it a priority to support startups and innovative ventures, providing resources and assistance for their development. 65% pointed out the need to finance research and development projects that may allow progress in innovative solutions and products. Finally, 50% suggest the creation of centers of excellence in technology, conceived as hubs to promote the development and application of technological innovations in the region (Figure No. 9).

Figure No. 9: Measures to promote innovation and technological development (%)



Regarding **renewable energies (RE) and climate change**, 100% of DFIs agreed that Development Banking should prioritize the financing of projects in this ambit (Figure No. 10). This consensus reflects the importance of accelerating the transition to sustainable energy sources and addressing climate challenges through the support of LAC Development Banking.

Figure No. 10: Prioritization of financing for RE and climate change projects (%)



III. INSTITUTIONAL STRENGTHENING

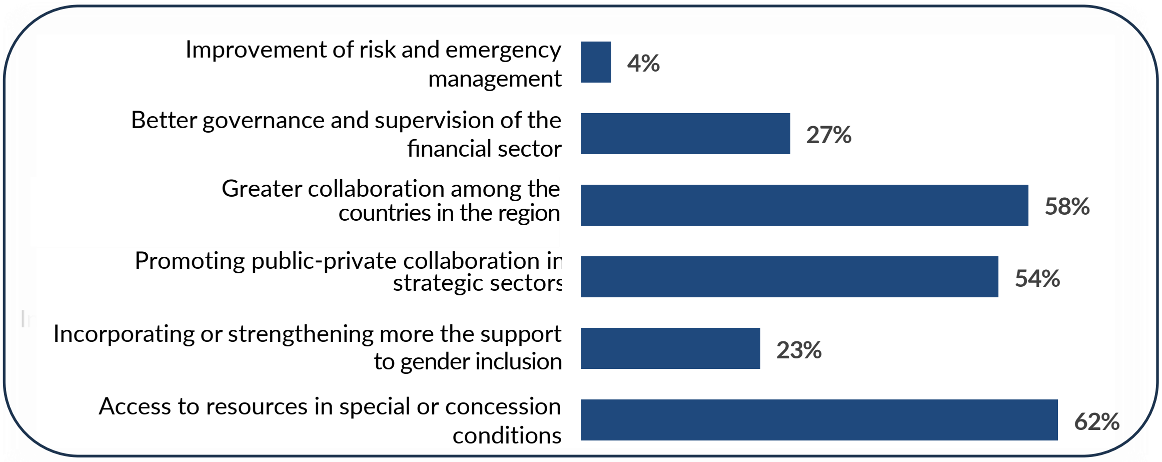
3.1. Necessary measures for its strengthening

The majority of DFIs surveyed (62%) consider it crucial to allow access to resources under special or concessional conditions to strengthen Development Banking, highlighting the need for favorable financial conditions to facilitate project financing and support economic growth in the region. Moreover, a high percentage (58%) believe that collaboration among countries is key to improving the effectiveness of Development Banking institutions and promoting better coordination in shared projects and strategies.

54% believe that fostering public-private collaboration in strategic sectors is essential to boost investment and development by bringing together resources and knowledge from both sectors.

Aside from that, 27% highlight the need to improve the governance and supervision of the financial sector, suggesting that more robust regulation could strengthen the integrity and efficiency of Development Banking. 23% consider it important to increase support for gender inclusion, although this measure is less of a priority, it is still relevant to promote equality and diversity. Finally, only 4% see improving risk management and the management of financial institutions as a crucial measure to be strengthened, indicating that, although important, it is not the main priority compared to others (Figure No. 11).

Figure No. 11: Necessary measures to strengthen LAC's DFIs (%)



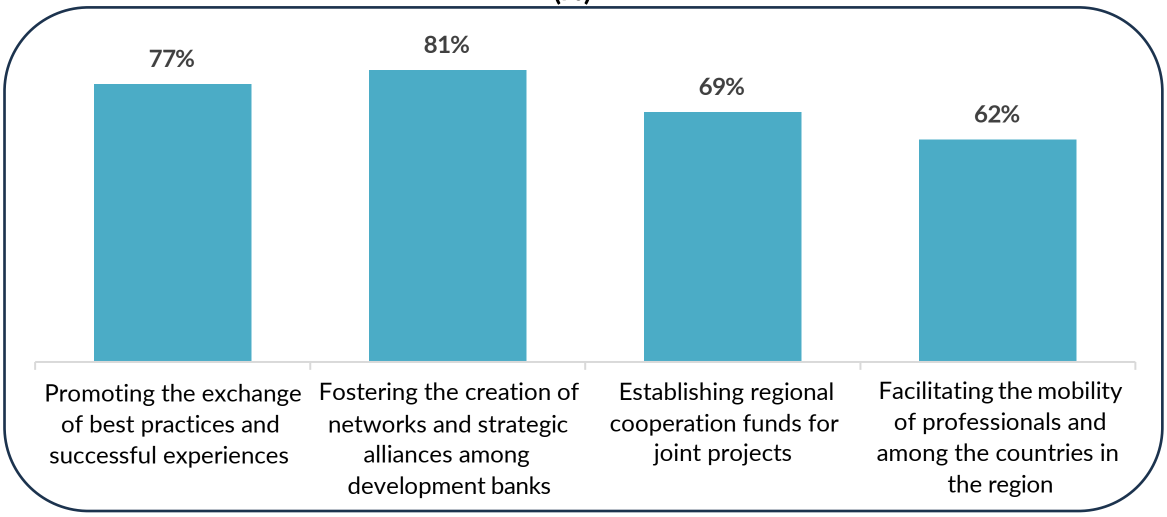
3.2. Regional and international cooperation for institutional strengthening

LAC's DFIs concur that regional cooperation plays a key role in strengthening them. Among the main actions that the institutions consider to be priorities to advance in this area, the following stand out (Figure No. 12):

- **Strengthen and/or promote the creation of strategic networks and alliances:** 81% of the institutions surveyed consider it essential to consolidate or establish networks and strategic alliances that strengthen collaboration among LAC countries in the ambit of Development Banking.
- **Promote the exchange of best practices and successful experiences:** According to 77% of institutions, encouraging the exchange of knowledge and lessons learned among DFIs is a crucial measure. Sharing best practices allows for the identification of more effective and efficient approaches to confront common challenges, contributing to a more sustainable and coordinated development in the region.
- **Establish regional cooperation funds for joint projects:** 69% of the institutions highlight the importance of creating regional cooperation funds to finance joint projects among DFIs. These funds would be key tools to address cross-border challenges, boost regional development initiatives and act as rapid response mechanisms in the face of emergency situations, benefiting multiple countries.

- **Facilitate the mobility of professionals and experts among countries in the region:** 62% of institutions identify the need to facilitate the mobility of professionals and experts within the region. This exchange would contribute to the strengthening of institutional capacities, the transfer of technical knowledge and the enrichment of the competencies of the DFI work teams.

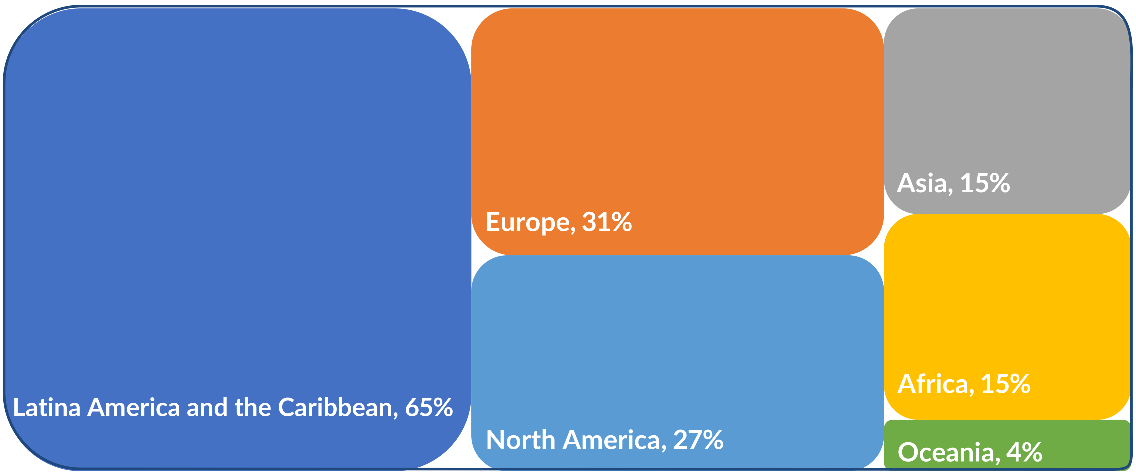
Figure No. 12: Actions to strengthen cooperation among and with LAC countries (%)



3.3. Intra- and interregional cooperation

65% of the national institutions declare that they maintain direct bilateral intraregional cooperation. Aside from that, 58% of the institutions report collaborating with institutions in Europe and North America (Figure No. 13).

Figure No. 13: Intra- and interregional cooperation (%)

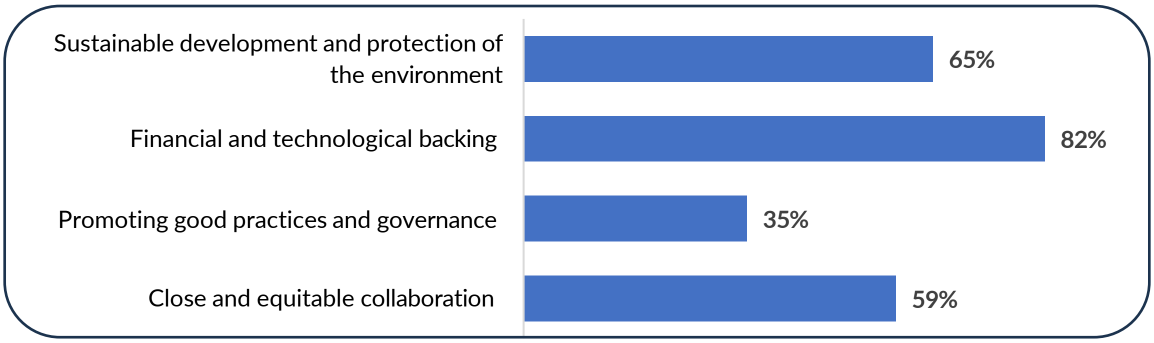


3.4. Expected results of interregional cooperation

59% of the institutions consider that interregional cooperation should be characterized by close and equitable collaboration. Within this framework, 65% highlight that this cooperation will promote sustainable development and the protection of the environment.

Moreover, 82% of the entities expect the results of this cooperation to be translated into financial and technological support, two key factors to promote strategic projects in the region. Finally, 35% of the institutions emphasize the importance of this relationship to encourage the promotion of good governance practices (Figure No. 14).

Figure No. 14: Expected results of interregional cooperation (%)



3.5. ALIDE and its support for institutions

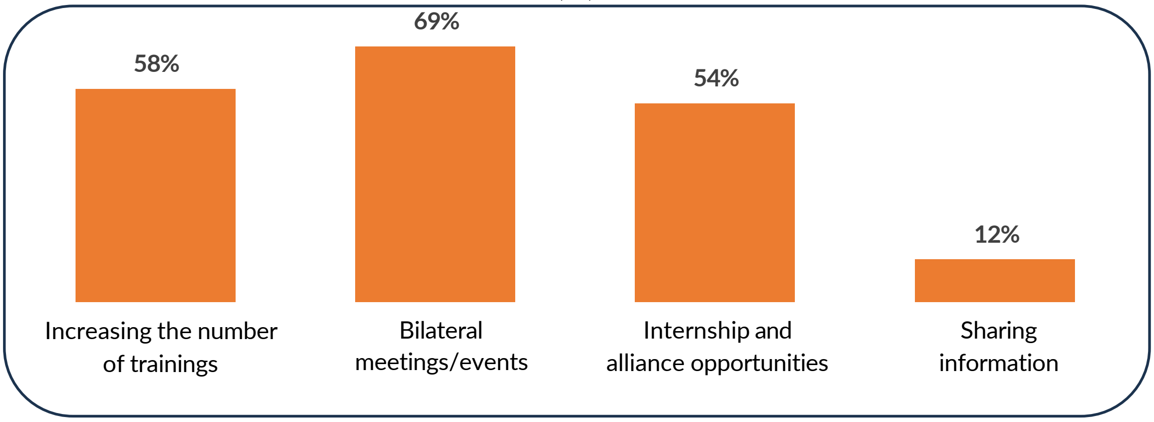
The institutions surveyed expressed their expectations about the role of ALIDE and the actions that the organization should prioritize to support its members.

Among the main measures expected are:

- Increase the number of training courses, identified as a priority by 58% of the institutions.
- Generate more opportunities for internships, highlighted by 54% of the entities.
- Facilitating bilateral meetings and events, a key aspect for 69% of institutions.
- Expand information sharing, pointed out by 12% as a relevant action.

These initiatives would strengthen collaboration, improve technical capacities and promote the exchange of experiences among Development Banking institutions in Latin America and the Caribbean (Figure No. 15).

Figure No. 15: ALIDE support activities
(%)



IV. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INITIATIVES

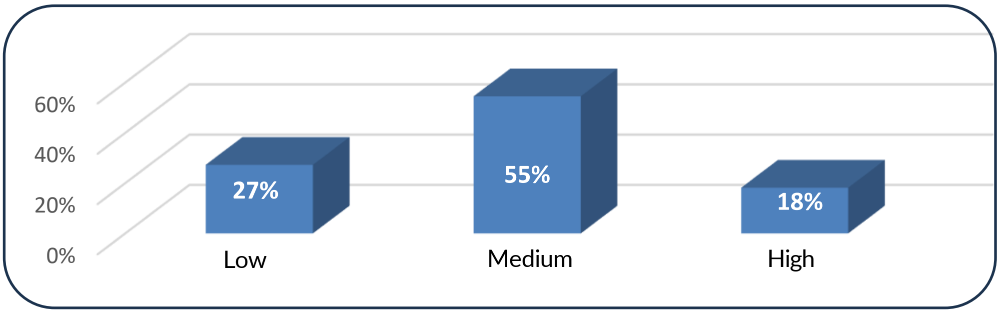
This section discusses the adoption and the degree of maturity of environmental, social, and governance (ESG) initiatives by development finance institutions (DFIs). ESG strategies are fundamental to ensure that DFIs' investments and operations not only generate financial returns, but that they also promote sustainable and responsible development.

4.1. ESG framework and relevant risk factors in operations

85% of DFIs **have an ESG strategy**. Of these, 18% have a high degree of maturity or progress, 55% a medium degree and 27% a low degree (Figure No. 16).

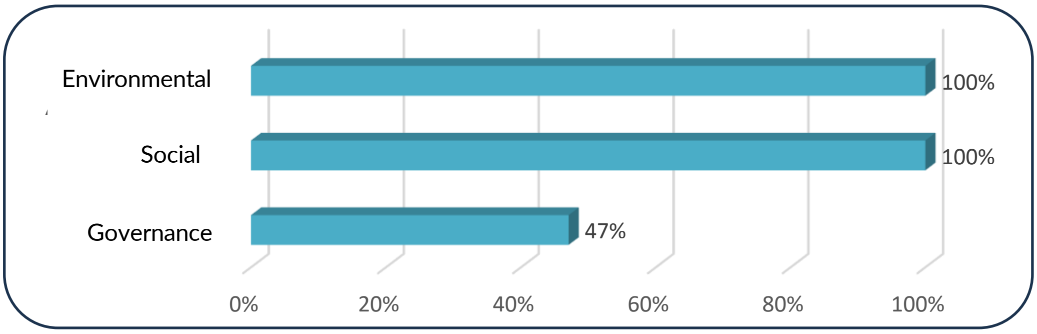
Moreover, 65% of DFIs **have a framework for ESG Criteria**, understood as a set of guidelines and standards that institutions use in order to assess and manage the environmental, social and governance impacts of their investments and operations. This framework allows ESG considerations to be integrated into strategic and operational decisions, ensuring greater sustainability and accountability in their activities.

Figure No. 16: Degree of maturity of the ESG strategy
(%)



In relation to the **most relevant risk factors within the operations of DFIs** that have an ESG framework, 100% prioritize environmental and social factors when managing operational risks. Also, almost half of the institutions (47%) also recognize the importance of governance factors, which implies considering adequate and transparent management as essential in order to mitigate operational risks (Figure No. 17). This comprehensive approach reflects the commitment to sustainability and social responsibility in the financial sector.

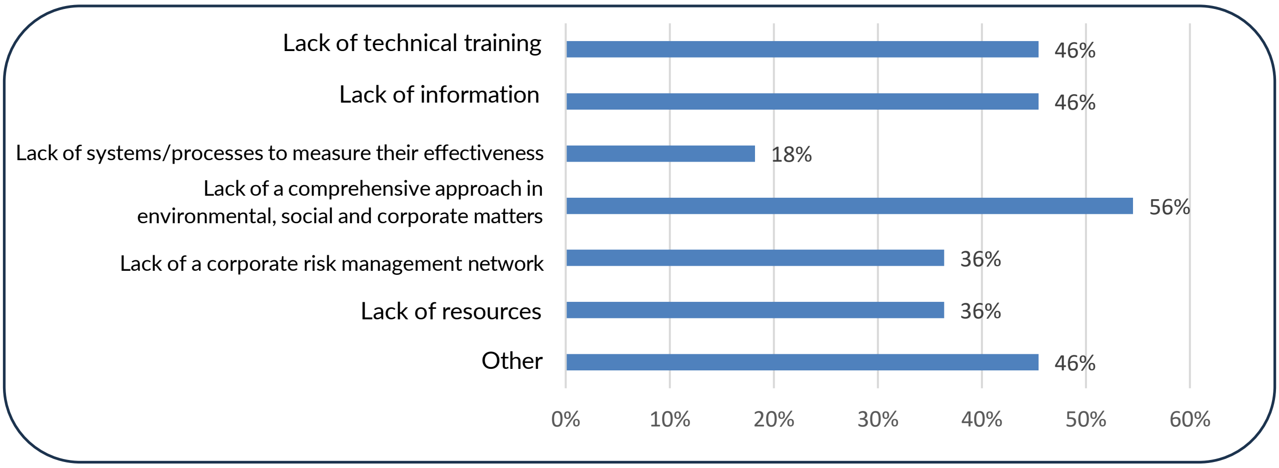
Figure No. 17: **Relevant factors in terms of risks in operations (%)**



4.2. Main barriers to implementing an ESG framework

Among DFIs that do not have an ESG framework, 56% point out that the lack of a comprehensive approach to environmental, social and corporate issues represents **the main barrier to its implementation**. Moreover, 46% mention the lack of technical training as a significant obstacle, while an equal percentage highlight the absence of necessary information as a major limitation. For their part, 36% of institutions cite the lack of a corporate risk management framework as a key barrier, and the same percentage point to the lack of resources as a relevant factor. Finally, 18% identify the absence of systems or processes to measure the effectiveness of the ESG framework as a significant challenge for its effective implementation (Figure No. 18).

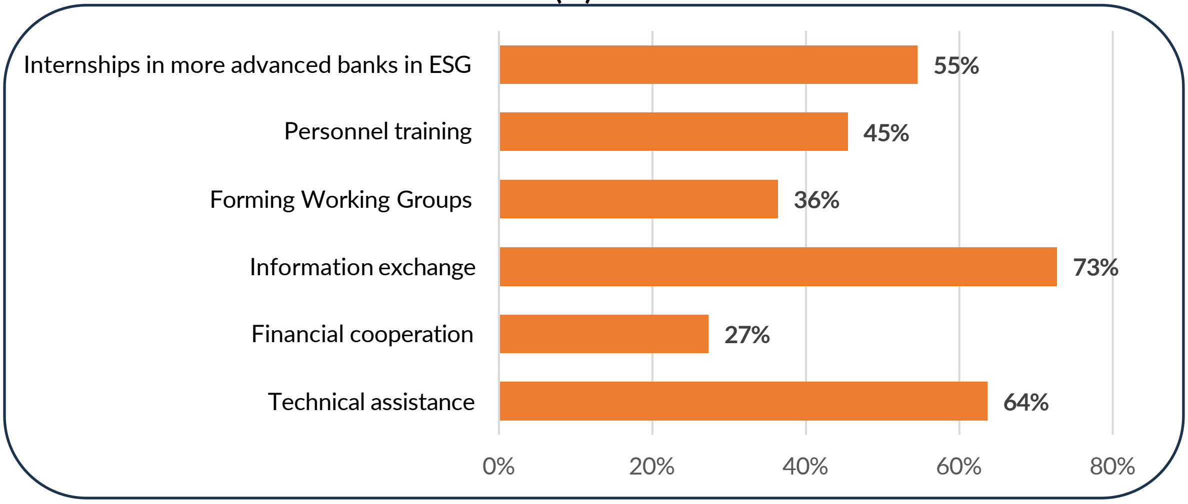
Figure No. 18: **Main barriers to implementing an ESG framework (%)**



The institutions that lack an ESG framework believe that various forms of support would be useful to implement a strategy based on these criteria. 73% highlight information-sharing as a crucial tool, while 64% highlight the importance of receiving technical assistance. Also, 55% identify significant benefits in carrying out internships in banks that already apply ESG criteria. For 36%, the formation of specialized working groups would be a valuable practice, and 45% underscore the training of personnel as essential to strengthening their capacities in this area.

Finally, 27% of DFIs consider financial cooperation to be a relevant factor in supporting the implementation of an ESG strategy (Figure No. 19).

Figure No. 19: Type of support for implementing an ESG framework (%)



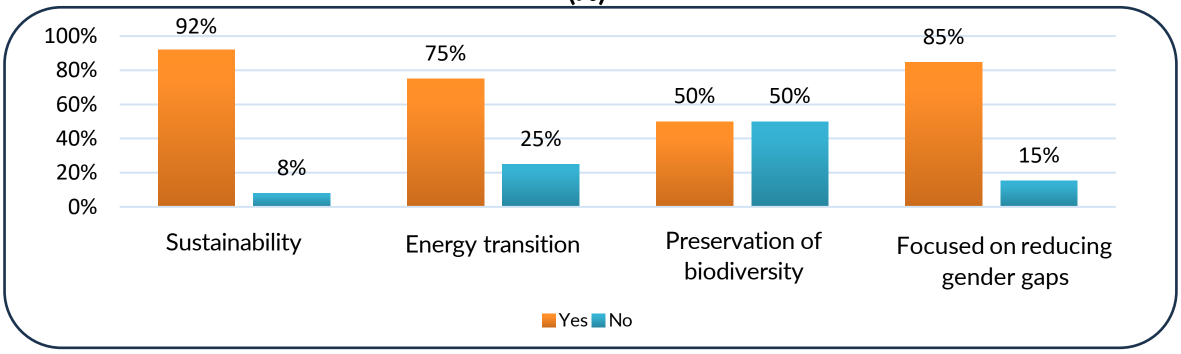
V. SUPPORT FOR IMPACT INVESTMENT PROJECTS

5.1. Sustainability, energy transition, biodiversity and gender projects

5.1.1. Project financing

As for support for impact investment projects[3], 92% of development finance institutions (DFIs) participate in the financing of sustainability initiatives, 75% are involved in the energy transition, 50% work on the preservation of biodiversity and 86% focus on reducing gender gaps (Figure No. 20).

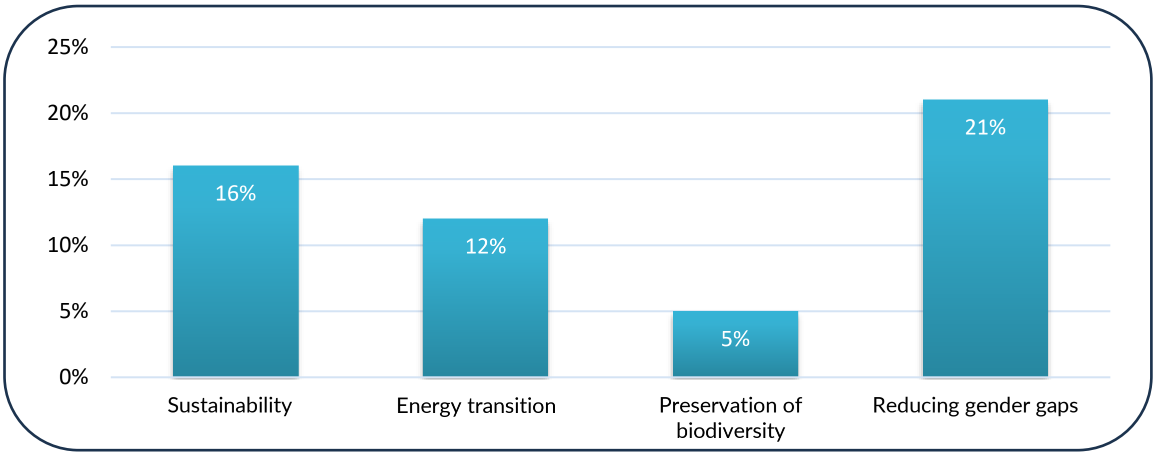
Figure No. 20: Typology of projects in which DFIs participate (%)



Most of the project portfolio is aimed at reducing gender gaps, with 21% of the total. Which shows a clear priority in this ambit. This is followed by sustainability projects, which account for 16% of the portfolio, reflecting a notable interest in maintaining the balance between the environment and the economy. Projects related to the energy transition occupy 12% of the portfolio, while those for the preservation of biodiversity reach only 5%. This is understandable, since the last two types of projects depend on the specific mandate of each financial institution (Figure No. 21).

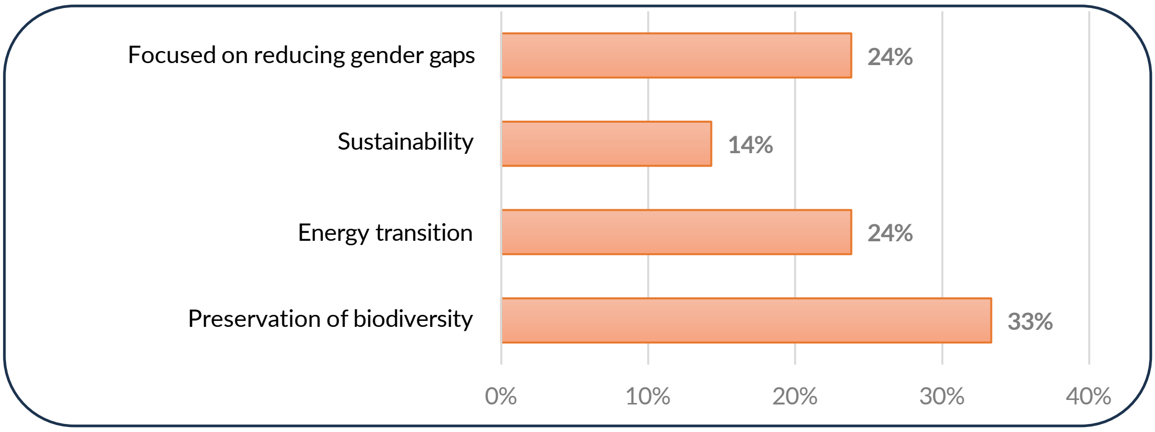
[3] It refers to investments that are made with the specific intention of providing a positive social or environmental impact that is measurable, aside from a financial return.

Figure No. 21: Percentage of the portfolio in projects in sustainability, energy transition, biodiversity, gender
(%)



Aside from that, among DFIs that do not currently support impact investment projects, 33% show interest in participating in biodiversity preservation initiatives, 24% in projects related to energy transition and the reduction of gender gaps, and 14% in sustainability projects (Figure No. 22).

Figure No. 22: Types of projects in which they would be interested in participating
(%)



5.1.2. Types of financial instruments used

Table No. 1 shows that DFIs in Latin America and the Caribbean use various financial instruments to finance projects in sustainability, energy transition, biodiversity and for reducing gender gaps, with the predominant use of debt instruments in the four areas.

In sustainability projects, 17% of DFIs use subsidies, 74% use debt instruments, 26% resort to guarantees and insurance, 17% use blended finance instruments and 22% opt for other types of financing.

For energy transition projects, 89% of DFIs use debt instruments, this being the most common. Grants, guarantees and insurance, as well as blended finance instruments, are each used by 17% of the institutions, while other types of financing are used by 11% of them.

In the case of the preservation of biodiversity, 27% of DFIs use subsidies, 73% resort to debt instruments, 27% employ guarantees and insurance, 18% apply blended finance instruments and 27% use other types of financing.

In terms of projects focused on reducing gender gaps, 29% use subsidies, 67% employ debt instruments, 19% use guarantees and insurance, 10% apply blended finance instruments and 33% use other types of financing.

These data show that debt instruments are the most widely used by DFIs, with a prevalence of close to 90% in all areas.

Table No. 1: Main types of financing used for sustainability, energy transition, biodiversity, gender projects
(%)

Type of financing	For projects of: Sustainability	Energy transition	Preservation of biodiversity	Reducing gender gaps
Subsidies	17	17	27	29
Debt instruments	74	89	73	67
Guarantees and insurance	26	17	27	19
Combined instruments	17	17	18	10
Other	22	11	27	33

5.1.3. Barriers to supporting this type of project

Table No. 2 summarizes the main barriers confronted by DFIs to implement projects in sustainability, energy transition, biodiversity preservation and the reduction of gender gaps.

In **sustainability projects**, 30% of DFIs point out the lack of adequate legislation as a significant obstacle, 65% identify the lack of economic incentives, 35% mention the lack of qualified personnel, 50% highlight the lack of financing and 10% identify other barriers.

In **energy transition**, 48% mention the lack of adequate legislation, 71% point out the absence of economic incentives, 33% identify the lack of qualified personnel, 43% indicate the lack of financing and 5% mention other challenges.

In **preservation of biodiversity**, 41% of DFIs cite a lack of adequate legislation, 71% mention the lack of economic incentives, 41% point out the lack of qualified personnel, 53% point out the lack of funding, and 12% mention other barriers.

Finally, in **projects to reduce gender gaps**, 29% mention the lack of adequate legislation, 71% indicate the absence of economic incentives, 24% point out the lack of qualified personnel, 47% mention the lack of financing and 29% identify other barriers.

Table No. 2: Percentage frequency of the main barriers to supporting and implementing impact investment projects
(%)

Main barriers and challenges	For projects of: Sustainability	Energy transition	Preservation of biodiversity	Reducing gender gaps
Lack of adequate legislation	30	48	41	29
Financial incentives	65	71	71	71
Lack of qualified personnel	35	33	41	24
Lack of adequate funding	50	43	53	47
Other	10	5	12	29

Overall, the lack of economic incentives is the most recurrent challenge, affecting 71% of institutions. Moreover, 76% of DFIs have a gender policy or plan, with a female representation of 48% on their payrolls.

Table No. 3: Alignment with policies on gender perspective by type of DFI
(%)

% of DFIs that have a gender policy/plan	Average within total employees	Average of women (%)
76	1,699	48

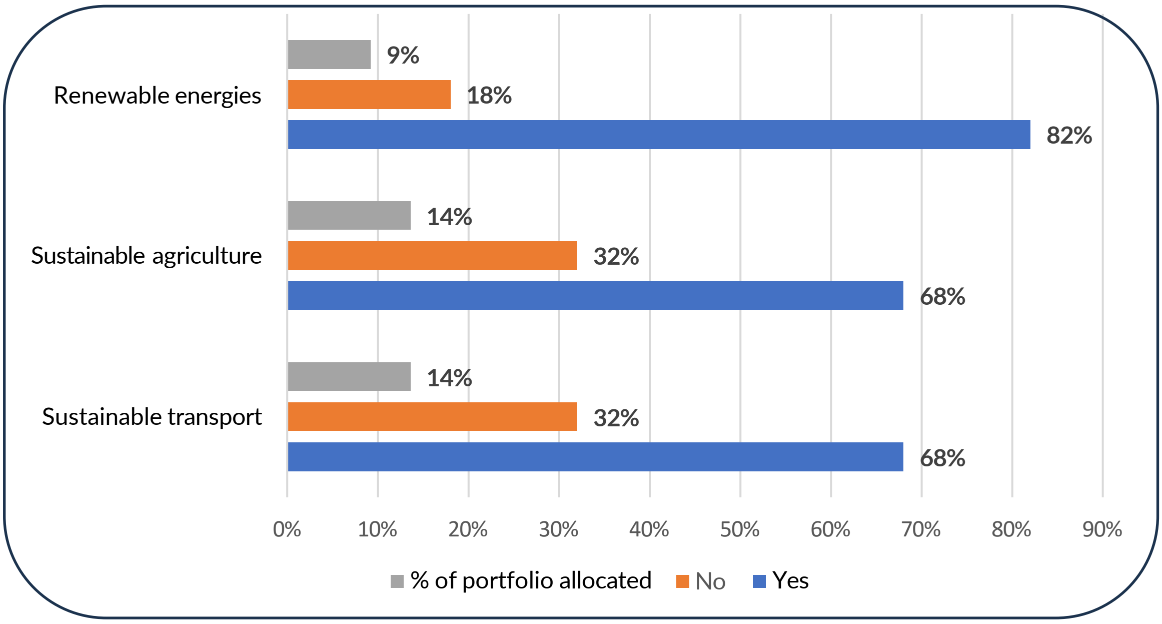
5.2. Projects in sustainable public transit and transport, agriculture and renewable energies

5.2.1. Project Financing

82% of DFIs have financing programs for renewable energy projects, allocating 9% of their portfolio to this sector under sustainability criteria.

Moreover, 68% have financing programs for sustainable agriculture, with an average of 14% of their portfolio, the same percentage that they allocate to financing the sustainable transport sector (Figure No. 23).

Figure No. 23: Financing of renewable energy, agriculture and sustainable transport projects in which DFIs participate
(%)



81% of DFIs express interest in expanding projects focused on sustainable transport and public transit. Moreover, 39% have a specific mandate to finance projects related to food security. In the agriculture and livestock sector, 57% of DFIs are already involved in sustainable projects and 83% express interest in increasing their participation.

5.2.2. Types of financial instruments used

In renewable energy projects, debt instruments are employed by 89% of DFIs, while in sustainable public transit, this percentage reaches 83%. In sustainable agriculture, subsidies and guarantees and insurance play a prominent role (31%), complemented by blended finance instruments and other types of financing (19%) (Table No. 4).

Table No. 4: Main types of financing used for renewable energy, agriculture and sustainable transport projects
(%)

Main type of financing	Business relocation	SMEs	Sustainable transport	Sustainable agriculture	Renewable energies
Subsidies	29%	21%	17%	31%	16%
Warranties and insurance	14%	37%	22%	31%	21%
Blended finance instruments	29%	26%	11%	19%	16%
Debt instruments	71%	68%	83%	69%	89%
Other	29%	37%	28%	31%	16%

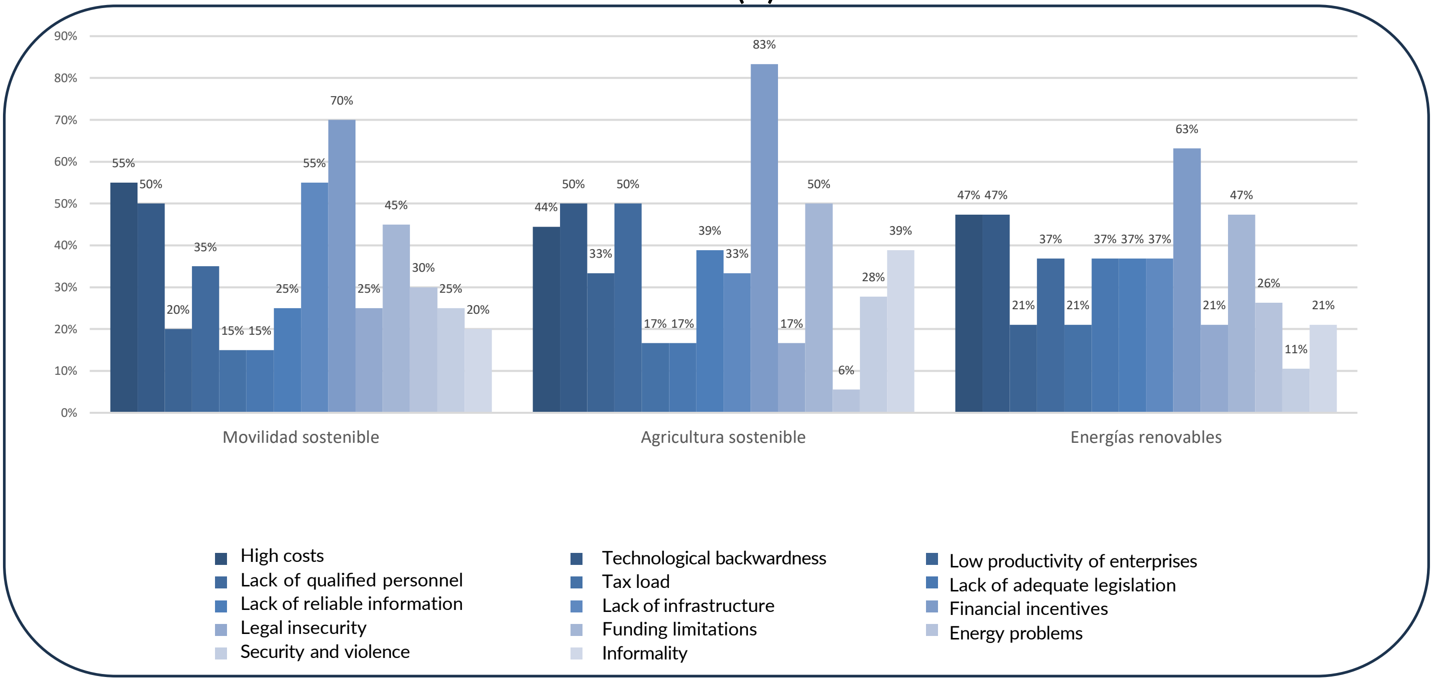
5.2.3. Barriers to supporting this type of project

In sustainable transport and public transit, 70% of DFIs confront a lack of economic incentives, while 55% and 50% point out technological backwardness and lack of infrastructure, respectively.

In sustainable agriculture, 83% of DFIs require economic incentives to overcome challenges related to financing, while 50% mention technological backwardness, the lack of qualified personnel and the absence of financing as key limitations.

Finally, in terms of renewable energies, the main barriers are related to restrictions on technological capacity, high costs and financing, affecting 47% of DFIs.

Figure No. 24: Barriers or difficulties that prevent support for transport and public transit, agriculture and renewable energy projects (%)



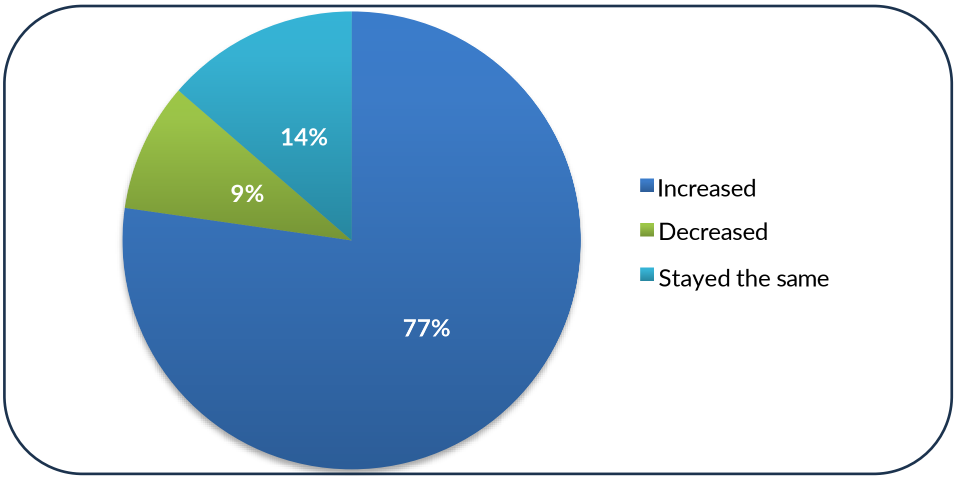
VI. SUPPORT FOR PROJECTS FOR THE RELOCATION OF ENTERPRISES AND SMEs

6.1. Project financing

88% of DFIs do not have a strategy to promote the relocation of companies, and only 20% of the institutions surveyed participate in projects related to this issue. This notwithstanding, 71% express interest in participating in this type of initiative in the future.

As for the SMEs segment, in the last five years 77% of institutions have increased financing to this sector, 9% have registered a decrease, and 14% point out that financing has remained the same. The DFIs that reported a decrease or stability in financing to SMEs (Figure No. 25) identify as the main causes the increase in interest rates, the internal economic crisis and the lack of adequate funding.

Figure No. 25: Behavior of financing to SMEs in the last five years (%)



6.2. Types of financial instruments used

Debt instruments are the most relevant mechanism for funding business relocation operations (71%) and support for SMEs (68%), followed by subsidies, guarantees and insurance. In particular, the latter are mainly aimed at smaller business segments.

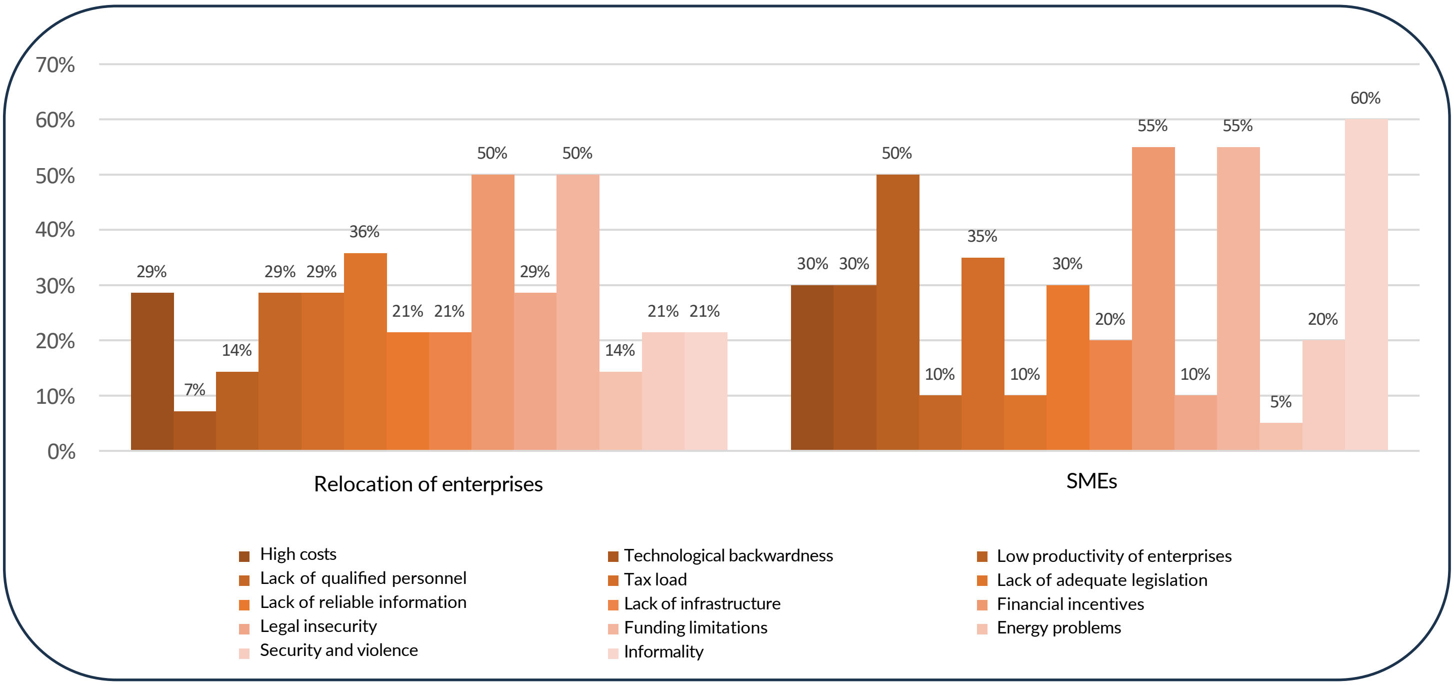
Table No. 5: Main types of financing used for business relocation projects and support for SMEs (%)

Main types of financing	Business relocation	SMEs
Subsidies	29%	21%
Guarantees and insurance	14%	37%
Blended finance instruments	29%	26%
Debt instruments	**71%**	**68%**
Other	29%	37%

6.3. Barriers to supporting this type of project

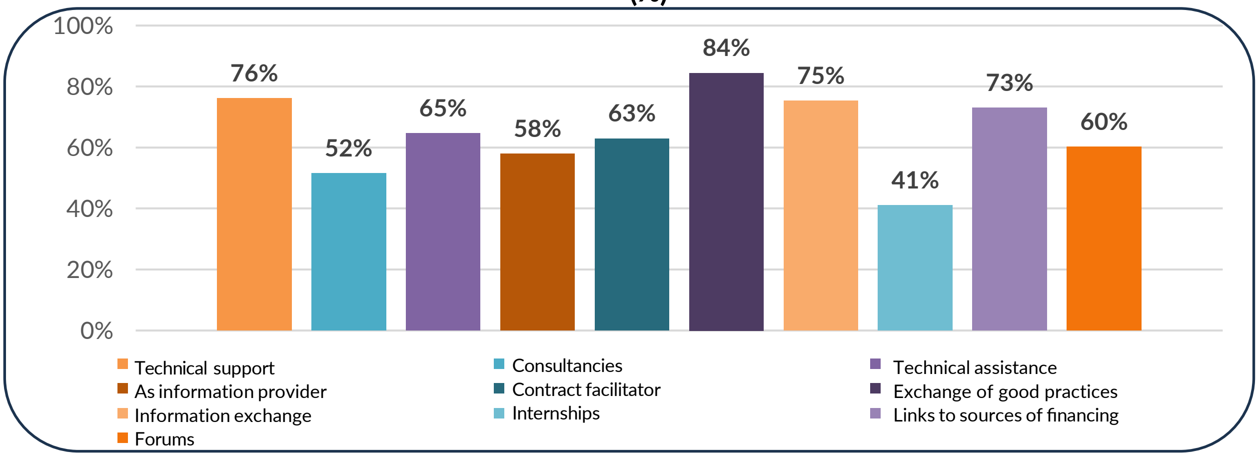
The main barriers reported by institutions when offering financing for business relocation projects include lack of economic incentives and funding limitations, according to 50% of DFIs. In the case of SMEs, 60% of them mention informality, while 55% point out funding limitations and lack of incentives as significant problems (Figure No. 26).

Figure No. 26: Barriers that prevent financing for projects with companies (%)



In this context, DFIs suggest that the most effective support that ALIDE could provide to improve or increase the financing of relocation projects, as well as to support SMEs and sustainable projects in public transit, agriculture and renewable energies, would be through technical assistance, exchange of information and good practices, as well as the creation of links with sources of financing.

Figure No. 27: Support that DFIs wish to receive from ALIDE to achieve (or increase) financing for sustainable projects (%)



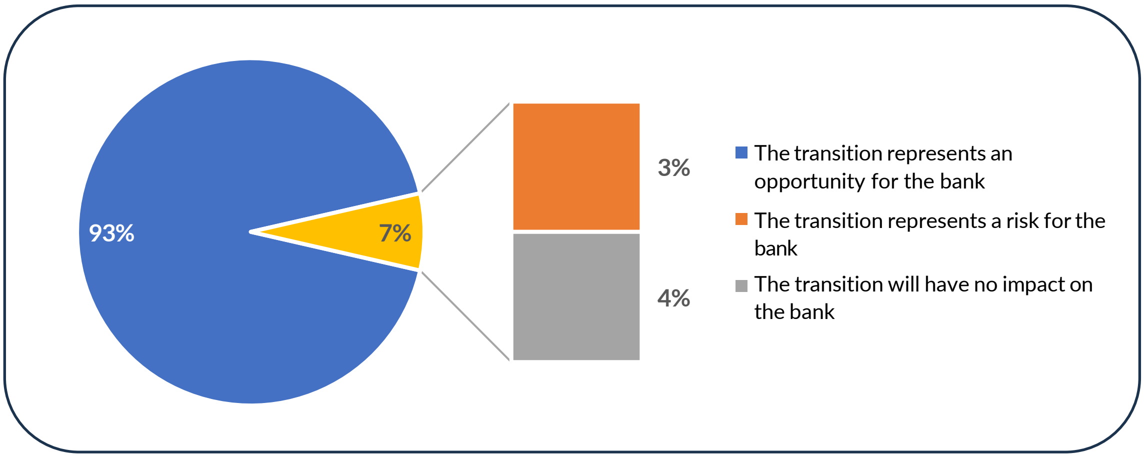
VII. RISKS AND CLIMATE CHANGE

Public development banks already play an important role in managing climate risks, but they must intensify their efforts. This implies increasing climate-related lending, building technical capacities, raising awareness of these issues, and catalyzing private investment.

Although climate-related financing is perceived as an opportunity, most DFIs do not consider themselves as leaders in this ambit[4].

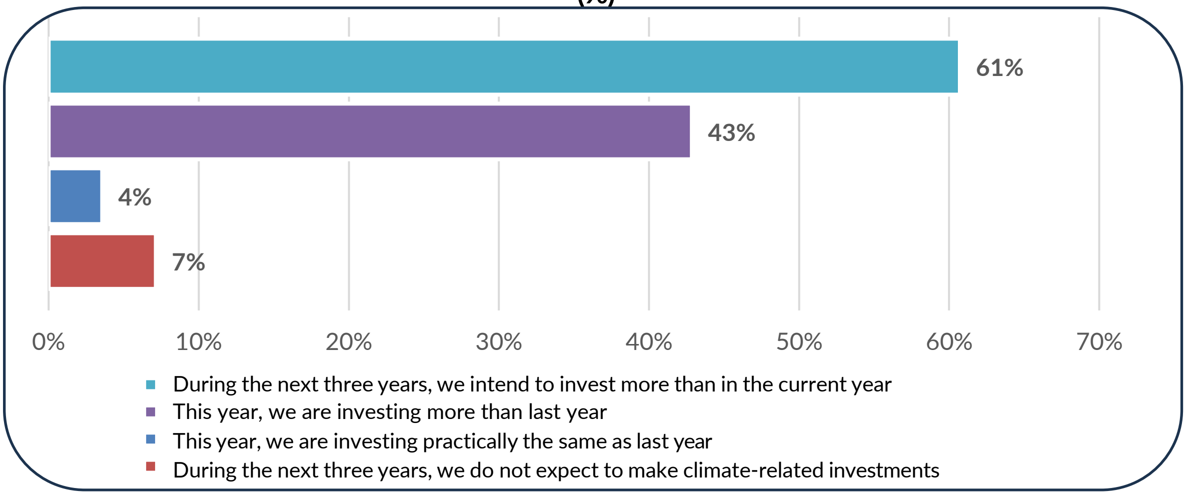
Over the next five years, 93% of DFIs opine that the transition to strict climate standards and regulations represents an opportunity to grant loans and positively impact their businesses. However, 4% consider that this transition will not have a significant impact, while another 4% perceive it as a risk for the institution.

Figure No. 28: Expected impact of the transition to stricter climate standards and regulations over the next five years
(%)



61% of DFIs plan to increase their investments in the next three years to address climate impacts and reduce carbon emissions. Moreover, 43% are already investing more in 2024 than in the previous year in these areas (Figure No. 29).

Figure No. 29: Investments to address the impacts of climate events and help reduce carbon emissions
(%)

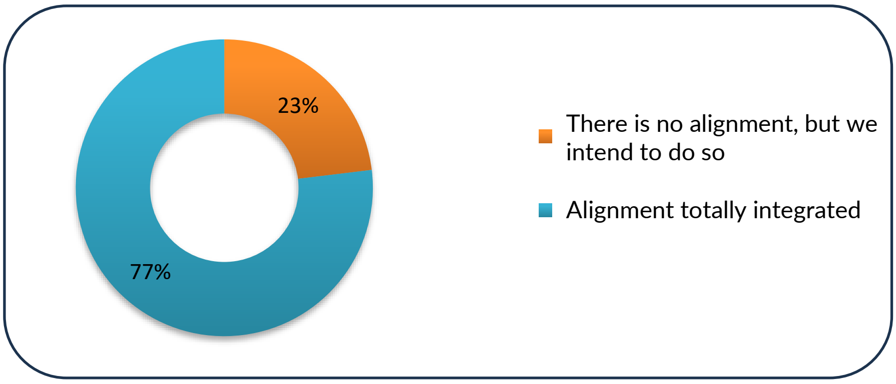


[4] Joana Conde, Ricardo Santos, Barbara Marchitto, Emmanouil Davradakis, Enrique Galán and Lara Wiedmann, Romy Calderón, Jesús Gutiérrez and Kevin Fiestas. "Climate-related Financing in Latin America and the Caribbean: How Are Public Development Banks Supporting the Climate Transition?". Joint study between ALIDE and the European Investment Bank (EIB).

DFIs identify as **the main limitations to increasing green financing** the fact that climate investments have a low priority for clients, the lack of technical capacity, both among clients and development banks, and, in some cases, the lack of long-term financing adequate to the profile of these investments.

77% of DFIs **have fully integrated in their business processes a strategy of alignment with international frameworks,** such as the UN SDGs and the goals of the Paris Agreement, into their business processes. The remaining 23% do not consider adopting this alignment currently, but plan to do so in the future (Figure No. 30).

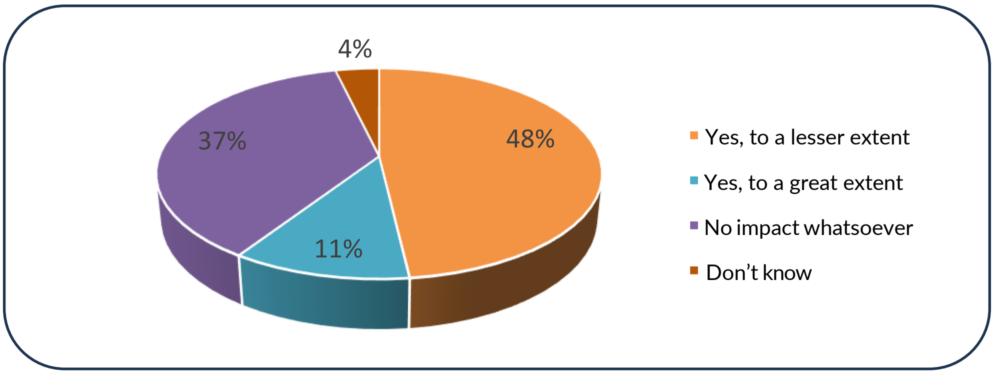
Figure No. 30: Alignment with international sustainability frameworks



43% of DFIs already **have advanced tools, such as scenario analysis and stress testing, in order to assess the exposure of their loan portfolios to climate risks.** Moreover, 59% of them review the sustainability and environmental impact of projects before granting financing, and actively monitor the impact of climate-related credits. However, 70% still do not have a results-based framework to measure the impact of new climate-related investments.

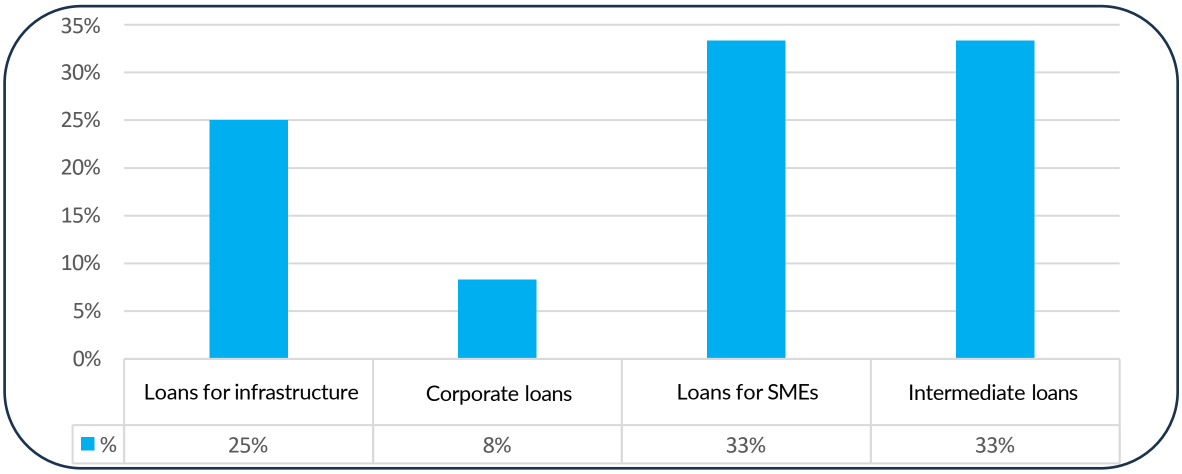
In 2023, 59% of DFIs reported that the quality of their assets in their loan portfolios was affected by physical risks derived from extreme weather events such as storms, floods, droughts, or landslides (Figure No. 31).

Figure No. 31: Extent to which the quality of the assets of the loan portfolio was affected by physical risks



33% of the DFIs affected by these climatic events indicate that the segments most impacted were intermediate (or retail bank) loans and those aimed at SMEs, followed by loans for infrastructure (25%) (Figure No. 32).

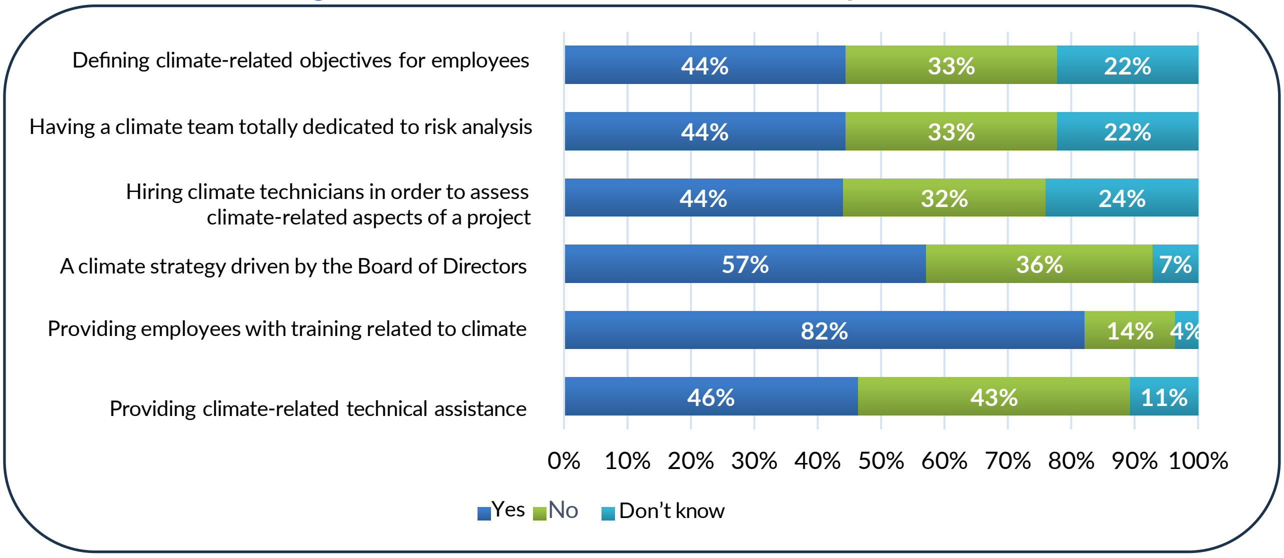
Figure No. 32: Portfolio segments that have been most affected by physical risks



In the same period of 2023, 54% of DFIs reported that they have green financial products with environmental sustainability criteria, although these represent a relatively small proportion (~15%) of their portfolios. Only 21% indicate that these products exceed that percentage, while the rest do not yet have them.

Regarding business lines, 26% of institutions plan to restrict their loan offer to specific industries due to climate change. The majority have implemented climate-related measures, such as employee training (82%), climate strategies driven by the Board of Directors (57%), and technical assistance (46%).

Figure No. 33: Climate-related measures implemented



Moreover, despite the increasing focus on sustainability and climate risk management, only 33% of DFIs surveyed regularly disclose a wide range of climate indicators in their annual or other reports. This low percentage highlights a significant gap in transparency and accountability in relation to the exposure and climate impact of loan portfolios.

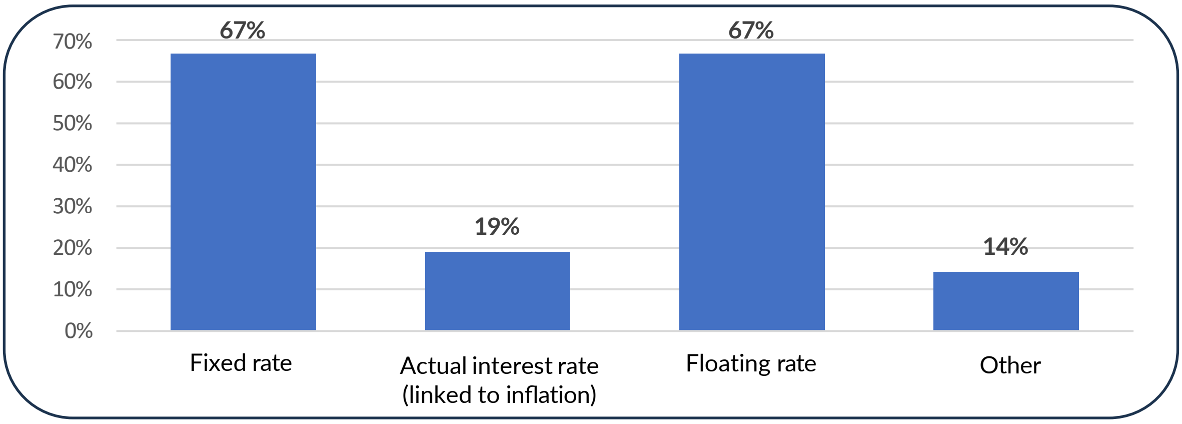
VIII. FUNDING AND FINANCIAL ACCESSIBILITY

The sources of funding for DFIs are diverse and vary according to their operational modality and the powers that their laws or statutes of creation grant them as mandates and functions to be fulfilled. This notwithstanding, a key source of resources comes from international markets, due to their more suitable characteristics for financing development.

68% of the DFIs surveyed have credit lines contracted with international organizations, which represent an average of 33% of their portfolios. Of these institutions, 74% consider these loans to be competitive and 96% show interest in increasing their lines of financing with these international entities (Figure No. 34).

On the other hand, 45% of DFIs[5] have acquired credit lines specifically for climate-related actions, through their cooperation with international agencies or institutions specialized in climate financing. Among these, most have credit lines contracted with fixed and floating interest rates. Moreover, 79% of DFIs maintain these credit lines in foreign currencies.

Figure No. 34: Interest Rate Type of the Lines of Credit Contracted



[5] In addition, 21% of DFIs have contracted technical assistance for their clients, in collaboration with these same agencies or institutions.

CONCLUSIONS

The results presented in this study reflect the perception, feeling, and day-to-day reality of development finance institutions (DFIs). They also show closely the challenges, barriers and limitations that hinder progress in their objectives, priority areas of attention and new sectors identified, as well as the opportunities and the direction in which they are oriented in relation to financing for development in the countries of Latin America and the Caribbean.

- **DFIs identify various regional challenges that may also represent opportunities for their action.** 69% of these institutions point out the fight against poverty and the improvement of social equity as key challenges, along with the need to finance infrastructure and promote financial inclusion, both highlighted by 54% of the entities. Moreover, 77% highlight the importance of supporting small and medium-sized enterprises (SMEs), while 69% emphasize the need to promote a green and sustainable economy. To address these challenges, it is essential to develop social and financial inclusion policies through specific financing programs for social infrastructure and basic services in marginalized communities. As well, it is recommended to implement financial products adapted to vulnerable sectors, to create lines of credit and support programs for SMEs with financing aimed at sustainable improvements, and to complement these initiatives with sustainability training to promote the transition to a green and low-carbon economy.

- A significant 85% of DFIs **believe that Development Banking has gained prominence in recent years**, playing a key role in responding to economic and social crises through financial and technical support. However, only 40% report the existence of an integrated national financing system, which shows a lack of coordination between institutions and limits the effectiveness of development policies and programs. Hence, it will be essential to implement a system of coordination and integrated financing that allows for the consolidation of resources, the sharing of risks and the increase in the effectiveness of development programs. Furthermore, it is recommended to strengthen the role of Development Banking through collaboration mechanisms with local and national governments, which will facilitate a more agile and effective response to socioeconomic crises, combining technical and financial assistance adapted to regional challenges.

- As for the lines of action, **DFIs have established several strategic priorities**. Environment and climate change top the list, with 73% of entities focusing on this issue, followed by entrepreneurship and innovation (50%), financial inclusion (38%) and infrastructure support (35%). To improve financial inclusion, measures are proposed such as expanding access to services in rural areas (69%), establishing microcredit programs (62%), promoting financial education (77%) and facilitating the inclusion of informal sectors (73%).

- In the ambit of regional cooperation, **DFIs highlight the creation of networks and strategic alliances as a fundamental pillar for collaboration in Development Banking.** Interregional cooperation is expected to promote sustainable development and provide financial and technological support. Furthermore, we anticipate an increase in training and internship opportunities to strengthen collaboration in this area. This cooperation could also translate into the development of technical studies and analyses on the variability of financing in relation to foreign exchange risk and interest rates, especially in the context of long-term projects, to improve the financial sustainability of DFIs.

- **The adoption of environmental, social and governance (ESG) strategies and criteria is another key aspect, with 85% of DFIs implementing them**. However, 54.5% of those that do not have an ESG framework point out the lack of a comprehensive approach as the main barrier, along with the lack of technical training and necessary information. To overcome these limitations, 73% of DFIs that lack an ESG framework consider it essential to encourage the exchange of information. It is recommended to create a common framework for the implementation of ESG criteria through regional guides, guidelines and trainings adapted to the needs of DFIs, in addition to encouraging the exchange of successful experiences through a network of shared knowledge that strengthens technical capacities.

- As for their participation in impact projects, **92% of DFIs finance sustainability initiatives, especially energy transition, biodiversity and the reduction of gender gaps**. Most of them use debt instruments to finance these projects, with 74% using them for sustainability and 89% for energy transition. However, 71% of DFIs identify the lack of economic incentives as the main barrier to implementing projects in various areas. Hence, it will be necessary to explore options to develop or improve economic incentive systems that promote sustainability projects, including tax credits, preferential interest rates and risk guarantees for projects with social and environmental impact.

- **Interest in sustainability and public transit is significant**, with 68% of DFIs having financing programs for sustainable transport and agriculture, allocating an average of 14% of their portfolio to these projects. The majority of them are looking to expand their initiatives in sustainable transport, while 39% have a specific mandate related to food security.

- **Despite the fact that 88% of DFIs do not have a specific strategy for promoting the relocation of companies, 71% express interest in future initiatives**. Subsidies and guarantees are key to financing relocation projects and SMEs, although they face significant barriers such as lack of economic incentives and informality problems.

- Finally, **the DFIs identify that ALIDE can be a key platform to promote the financing of sustainable projects and to improve Development Banking competencies in the region**. This can be achieved through an increase in training (58%), internship opportunities (54%), bilateral meetings (69%) and information exchange (12%). This comprehensive and collaborative approach will enable DFIs to effectively address challenges and seize current opportunities, contributing to a more inclusive and sustainable economic and social development.

ANNEX

National Development Finance Institutions that Participated in the Surveys

Argentina	Banco de la Provincia de Buenos Aires (BAPRO)
Belize	Development Finance Corporation (DFC)
Bolivia	Banco de Desarrollo Productivo S.A.M. (BDP)
Brazil	Banco de Desenvolvimento de Minas Gerais S.A. (BDMG)
	Banco do Nordeste do Brasil (BNB)
	Banco Nacional de Desenvolvimento Econômico e Social (BNDES)
Chile	Instituto Nacional de Desarrollo Agropecuario (INDAP)
Colombia	Financiera del Desarrollo (FINDETER)
	Instituto de Financiamiento, Promoción y Desarrollo de Caldas (INFICALDAS)
	Instituto Financiero para el Desarrollo del Valle del Cauca (INFIVALLE)
	Financiera de Desarrollo Territorial (FINDETER)
	Banco de Comercio Exterior de Colombia S.A. (BANCOLDEX)
Costa Rica	Banco Nacional de Costa Rica
	Sistema de Banca para el Desarrollo (SBD)
	Caja de Ande
	Banco Nacional de Costa Rica (BNCR)
Curaçao	Curaçao's Sustainable Development Corporation (KORPODEKO)
Ecuador	Banco de Desarrollo del Ecuador B.P. (BDE)
	Corporación Nacional de Finanzas Populares y Solidarias (CONAFIPS)
El Salvador	Banco de Fomento Agropecuario (BFA)
	Federación de Cajas de Crédito y de Bancos de los Trabajadores (FEDECRÉDITO)
	Banco de Desarrollo de El Salvador (BANDESAL)
Honduras	Banco Hondureño para la Producción y la Vivienda (BANHPROVI)
Mexico	Fideicomisos Instituidos en Relación con la Agricultura (FIRA) – Banco de México
	Nacional Financiera S.N.C. (NAFIN)
	Sociedad Hipotecaria Federal S.N.C. (SHF)
	Banco Nacional de Obras y Servicios Públicos S.N.C. (BANOBRAS)
	Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT)
Nicaragua	Banco de Fomento a la Producción (BFP)
Paraguay	Agencia Financiera de Desarrollo (AFD)
	Banco Nacional de Fomento (BNF)
Dominican Republic	Banco de Desarrollo y Exportaciones S.A. (BANDEX)
Suriname	Suriname National Development Bank Ltd.
Uruguay	Banco de la República Oriental del Uruguay (BROU)
	Banco Hipotecario del Uruguay (BHU)

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