

Perspectives for Promoting a More Sustainable Latin American Financial Sector

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Overarching Goals

- Promote a more sustainable form of development in Latin America
 - Poverty reduction
 - Better management of natural resource base
 - New opportunities for wealth creation
- Involve the financial sector in promoting a more sustainable form of development in our Region



Context: Limited SD Action

- Little awareness of opportunities
- Immature regulatory systems
 - decent laws, weak institutions
- Fiscal and monetary policies create perverse incentives
- Lack of business sustainability skills
- Extremely high cost of understanding market trends and accessing markets
- **Financial sector policies, practices and regulatory systems deter SD investment**



Drivers

- Trade integration (with world)
 - raise environmental and social standards
 - more “strings attached” to major financial flows (WB, IDB, OPIC, Equator Principles, etc)
- Rapid urban growth
- New market dynamics favor what Latin America has to offer
 - tourism
 - agriculture
 - energy
 - genetic information
- Recognition that resources have a limit
- Nascent mainstream interest



L.A. Financial Markets

- Commercial banking
 - Stock markets
 - Asset management=pension funds
 - Microfinance (formal and informal)
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- No venture capital
 - Few investment funds

Equity Markets

- Only three “large” markets (SP, BA, MX)
- Immature
- Highly concentrated
- Not very transparent
- Companies closely held => minority shareholder interests and rights
- Represent trivial part of region’s total finance



Pension Funds

- Long tradition of public funds
 - New development is private funds (last 3 to 8 years)
 - Large amounts of excess liquidity (\$10 to 20 billion?)
 - Most investment in government bonds (90%?)
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- Little talk of SRI filters (or even “standard” investments, like forestry)
 - Regulatory problems (banking oversight)
 - Perverse results in destination of investment



Commercial Banks

- Backbone of financial system
 - 80% of all financing?
 - Very “traditional” operations
 - Almost all will face future “client crisis”
 - Tightly regulated, few degrees of freedom
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- Generally unaware of sustainability trends
 - Increasing interest in environmental and social risks (this group, others)
 - SRI action **MUST BE** in this sector



Commercial Banks (2)

Critical Importance

- THE dominant source of capital for foreseeable future
- Huge client base
- Intermediate almost all project finance
- Consensus of segment can change regulatory structures
- Long-term strategic interest
 - Risk management
 - Pending client crisis
 - Increasing international competition

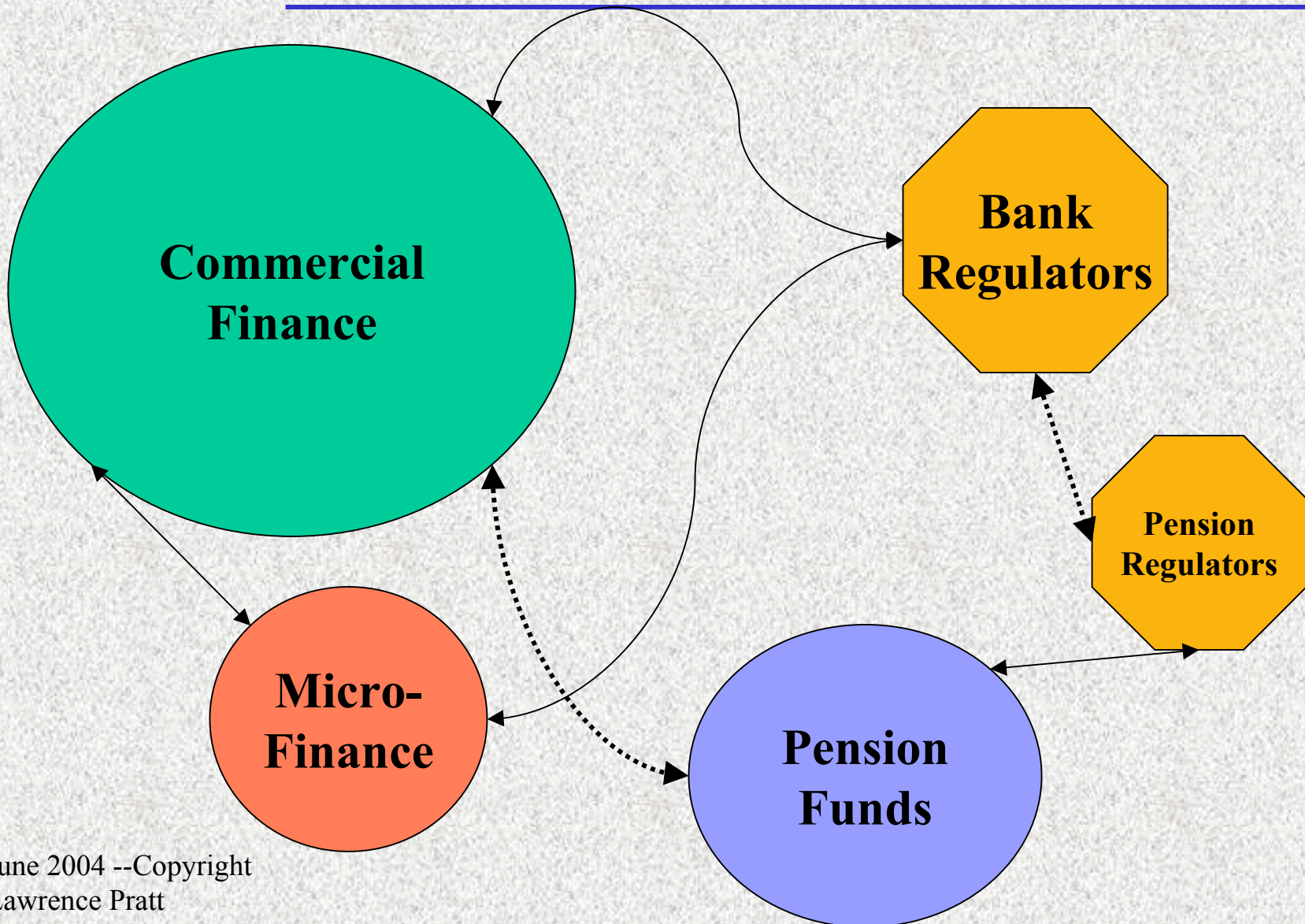


Microfinance

- Conceptual Issues
 - MF is assumed to be inherently “sustainable”, Is it?
 - Little is known about needs, in general, or in sustainability.
- LA is one of only two successful MF regions (other is South Asia)
- Opportunity to merge sustainability into poverty alleviation?



Targets





Findings of Study

- **Some exciting things happening**
- **General level of activities is very low**
- **Underperformance vs. interests**
- **Surprising gaps (MNCs, risks)**
- **Excellent opportunities**
 - **client reorientation**
 - **new products**
- **Major information gaps**



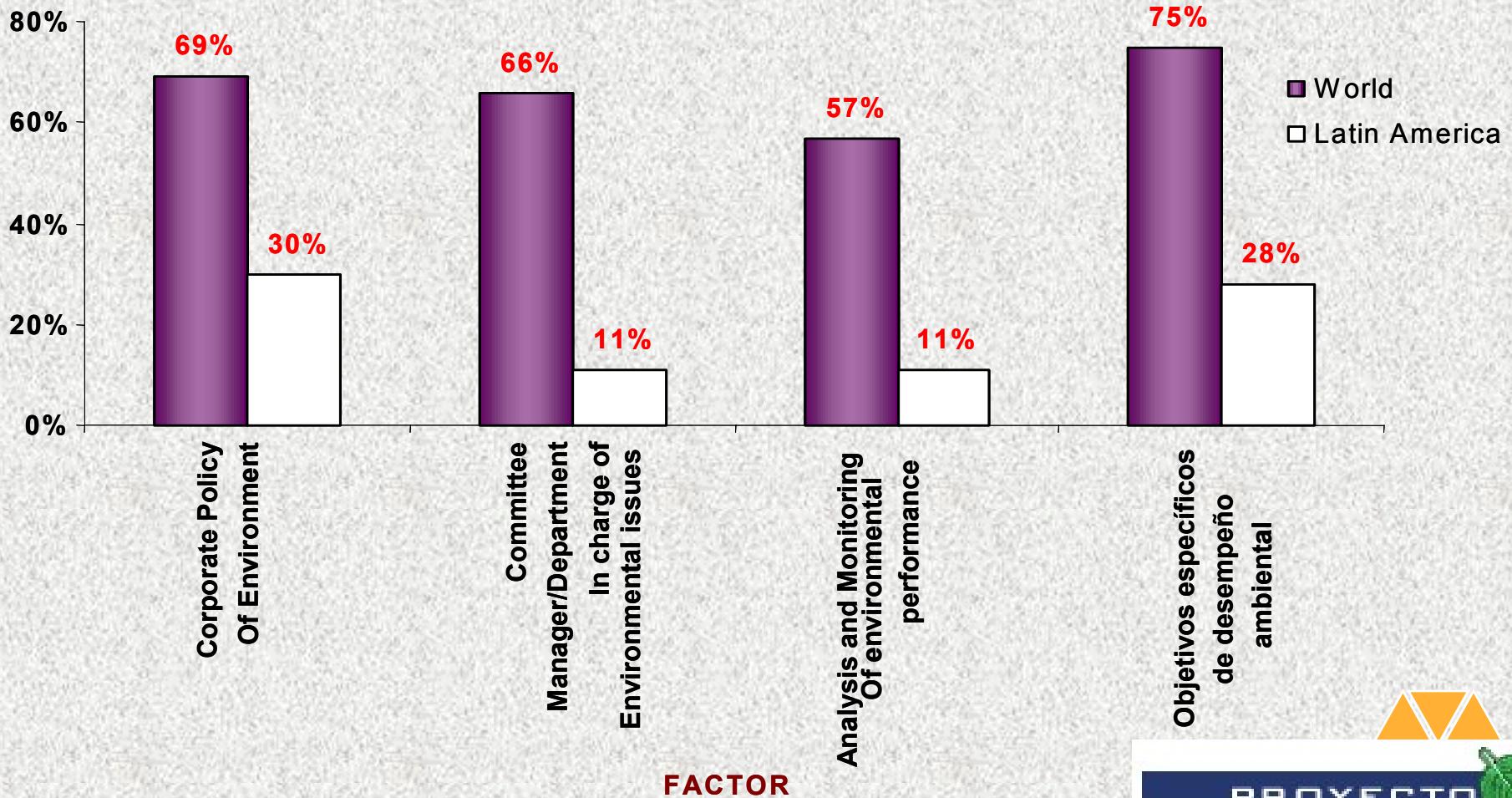
Environmental Risk Perception

- 62% have no analysis
- Only 39% check legal compliance
- Only 25% does credit committee
see issue



Survey CLACDS-UNEP

Figure 10
Comparative analysis – environmental management controls





How Latin American Banks Create “Green Value”

- 1) Risk reduction**
- 2) Orienting toward new clients**
- 3) Relations with multilateral and international institutions**
- 4) Internal efficiency**
- 5) New products**



Winning Strategies

- Information and awareness
- Much to learn from leading banks in US and Europe, particularly in risk area
 - yet the specifics are different and local
- Evaluation and possible reorientation of client base
- Explore new products (new or redesign)

Regulatory Issues

- Awareness
 - Superintendents
 - Boards
 - Technical staff
 - Advisory Boards
- Collateral
- Separation of banking and pension oversight (rules, institutions)



Pension Funds

- Awareness of sustainability issues
- Best practices in incorporating sustainability
 - Screens/filters
 - “Sustainable investments”
- Separation of banking and pension oversight (rules, institutions)
- Help in design of products?

