

# Perspectives for Promoting a More Sustainable Latin American Financial Sector

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# Overarching Goals

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- 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

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- 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

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- 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

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

# Equity Markets

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- 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

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- 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

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- 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)

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## 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

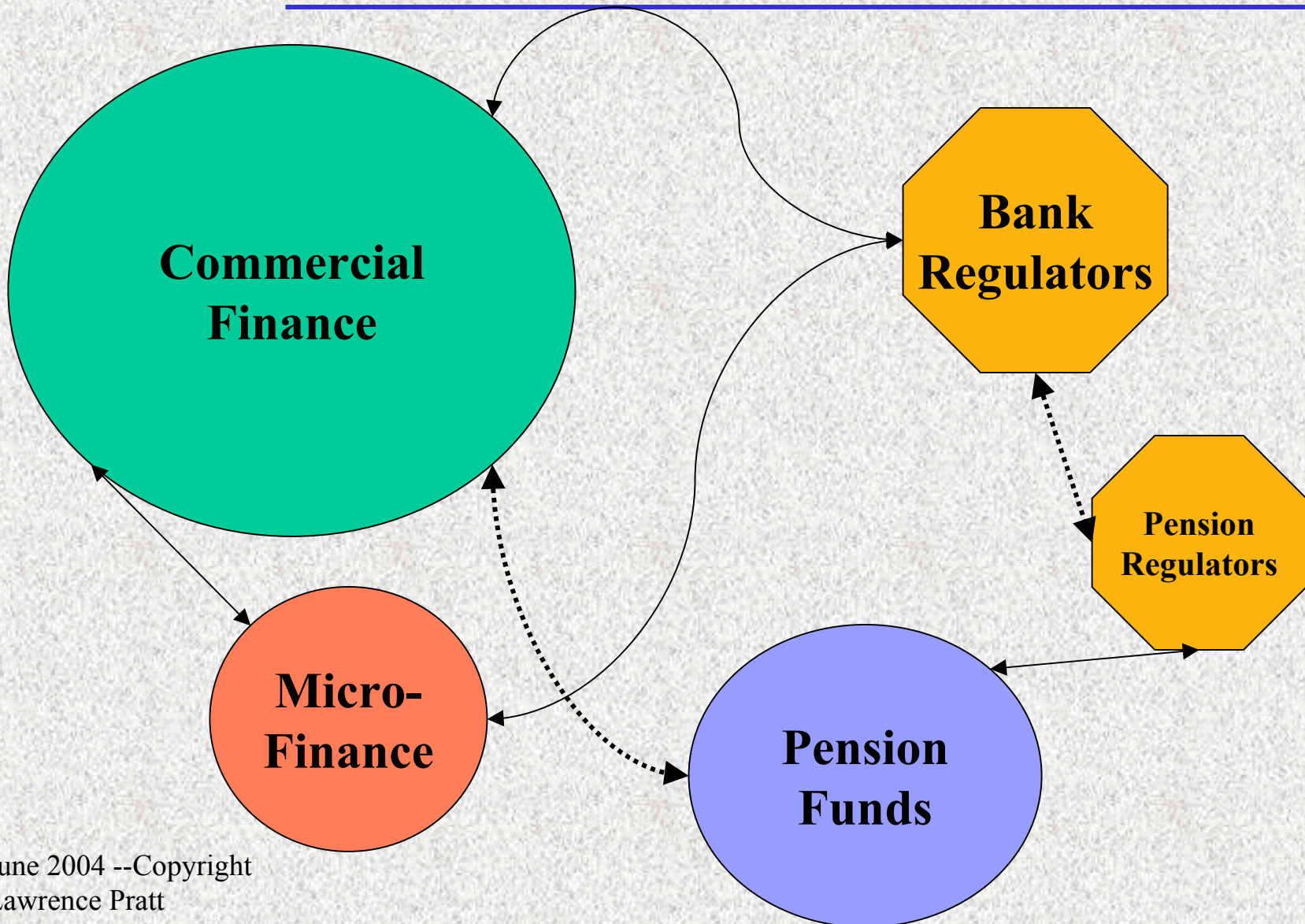
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- Conceptual Issues
  - MF is assumed to be inherently “sustainable”, Is it?
  - Little is known about needs, in general, or in sustainability.
- LA is one of only two successful MF regions (other is South Asia)
- Opportunity to merge sustainability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



# Targets

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# Findings of Study

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- **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**



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# Environmental Risk Perception

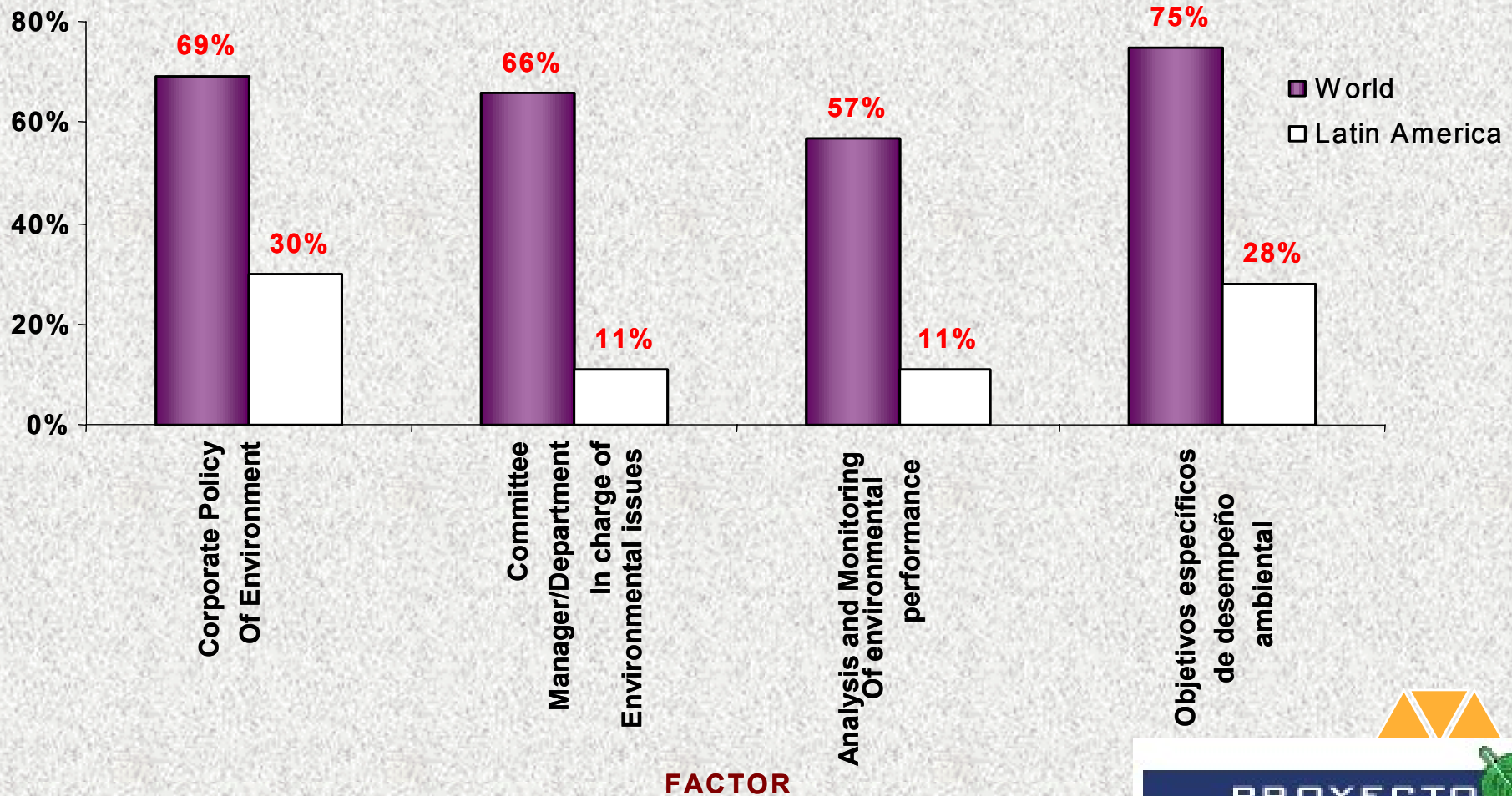
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- 62% have no analysis
- Only 39% check legal compliance
- Only 25% does credit committee  
see issue



# Survey CLACDS-UNEP

**Figure 10**  
**Comparative analysis – environmental management controls**





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# How Latin American Banks Create “Green Value”

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



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# Winning Strategies

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- 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)



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# Regulatory Issues

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



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# Pension Funds

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- 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?

