EXECUTIVE SUMMARY

SUSTAINABLE DEVELOPMENT IN THE ECUADORIAN BANKING SYSTEM

A survey of the Latin American and Caribbean regional groups of the UN Environment Finance Initiative (LATF - UNEP FI) and CAF - Latin American Development Bank -
The following report reflects the results of a survey of the Ecuadorian financial system with the intention of understanding and analysing the current level of integration of social, environmental and governance considerations within the country’s financial business models and operations.

53% of banks representing approximately 80% of assets within the Ecuadorian banking sector responded, providing us with a significant sample. The survey was taken between October and November 2016. The questionnaire consisted of 40 questions divided into 6 sections: i) General Information, ii) The nature of commitment to environmental management and sustainable development, iii) Green financial products, iv) Social and Environmental Risk Analysis, v) Examples and Initiatives, vi) Future planning on the subject of the environment. ASOBANCA (the banking association of Ecuador) and CAF (the Latin America development bank) contacted financial institutions and the survey responses were collected during in-person interviews.

The results of the survey show that just 41% of responding banks have implemented a socio-environmental management system. Also, the application of environmental and social management systems is not consistent; these systems may have different scopes and in many cases the indicators used to measure impact are limited. Despite the disparity in these systems, there has been a growing interest in expanding the progress achieved up until now. Proof of this can be seen in the level of adherence to environmental, social and governance codes and initiatives, where 71% of institutions report having supported some form of initiative or code. The Global Reporting Initiative is the most commonly adopted initiative.

Given that the regulatory framework in Ecuador does not specify or establish any reporting requirements or socio-environmental risk management from financial institutions, the implementation of these systems has been on a voluntary basis and usually in response to the requirements of International Financial Institutions. This lack of regulation has not, however, affected the supply of green financial products: 35% of institutions are reported to have green products in lines of ecotourism, organic products, biotrade and payments in environmental services. However, in sectors such as renewable energy, waste management, energy efficiency, emission reduction, etc., this percentage decreases to 29%. Financial institutions show knowledge and an interest in these products, but they are not fully established in the market.

Banks identified the main obstacles to promoting and integrating social and environmental criteria as: a lack of understanding of the negative impacts on clients’ performance from environmental issues, and consequently within the financial institution itself (76%); and the lack of training and/or knowledge (59%).

These obstacles are consistent with the areas identified by the banks which require strengthening. Among these areas are: the adoption of a more integrated approach that does not just consider social and environmental aspects, but also issues such as national context, gender equality, etc.; a standardized set of environmental criteria within the banking system; the training and capacity building of employees; raising awareness within institutions as well as amongst clients; along with additional topics.

The results of the survey allow us to identify a series of basic criteria to measure the progress on integration of environmental, social and governance considerations, and which will help increase the supply of green products within the Ecuadorian banking system. The study has contributed information to the recently established Sustainable Finance Protocol in Ecuador.

The report shows that the Ecuadorian banking system has begun to adopt environmental, social and governance concepts as part of their business models. Leading banks already show awareness of sustainable finance and are starting to develop and demand more sophisticated products. ASOBANCA is promoting the adoption of environmental, social and governance criteria, and recognizing the importance of promoting them to all the different segments of the financial system, to ensure the finance industry promotes practices and activities that protect the health of the environment and the wellbeing of our society.