BBVA
Creating Opportunities

Sustainable Finance in the Global South

Industry keynote

Sustainable Finance Research Forum
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Agenda

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02 Sizing the sustainable finance challenge in the Global South

03 Reimaging sustainable finance in the Global South: 4 building blocks and 12 key actions

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01.

Introduction

About BBVA

€713.1
billion in total assets

89.3
million customers

>25
countries

6,040
branches

29,807
ATMs

115,675
employees

Data at the end of December 2022. Those countries in which BBVA has no legal entity or the volume of activity is not significant, are not included.

Sustainability as a strategic priority: helping our clients transition towards a greener and more inclusive world

Supporting business growth and manage our impacts, with **3 main goals**

Foster new business through sustainability

To channel sustainable business

BBVA's 2025 Goal

€300 Bn

FROM 2018 TO 2025

Climate change & Inclusive growth

Achieve Net Zero 2050

2030 Credit Portfolio Alignment Targets for 6 carbon intensive sectors

OIL & GAS · POWER · AUTO · STEEL · CEMENT · COAL

Working on the targets of more sectors

Decarbonization targets for Asset Management portfolio

Carbon Neutral in our own operations

Make a positive impact

Community investment

BBVA's 2025 Community Investment Goal

€550 Mn

FROM 2021 TO 2025

Gender diversity

35% in management positions

BY 2024

BBVA, a founding member of the Net Zero Banking Alliance and strongly committed in scaling up sustainable finance in developing economies

NZBA membership

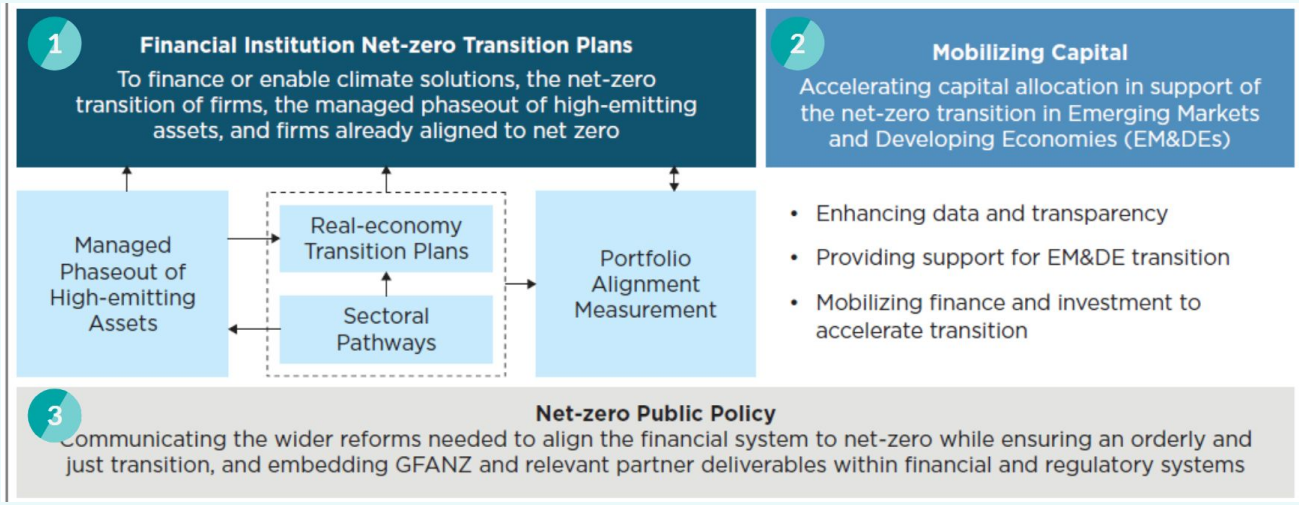
126
Members

41
Countries

US$73 Trn
Total assets

41%
Global banking assets

Mobilizing capital into developing economies, a key priority for NZBA and the Glasgow Finance Alliance for Net Zero (GFANZ)



BBVA, member of the EU High-Level Expert Group on Scaling Up Sustainable Finance in Low and Middle-Income Countries

02.

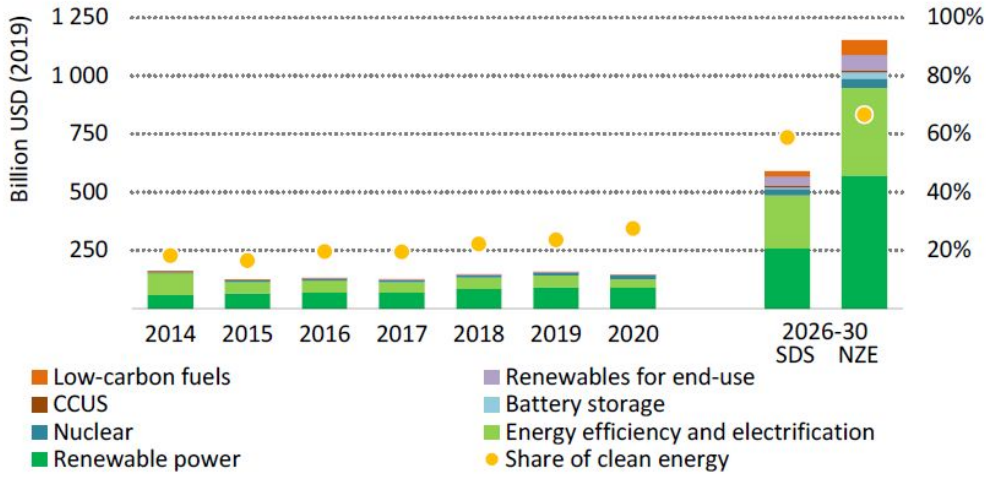
Sizing the sustainable finance challenge in the Global South

According to the International Energy Agency we need $ 1 trillion annual investment in clean energy in developing economies to reach net zero

Annual clean energy investment in emerging and developing economies **needs to increase by more than seven times** – from less than USD 150 billion last year to over $1 trillion by 2030 to put the world on track to reach net zero emissions by 2050.

Such a surge will require far-reaching efforts **to improve the domestic environment for clean energy investment within these countries – in combination with international efforts to accelerate inflows of capital.**

Figure 1.10 ▷ Clean energy investment in EMDEs compared with projections in the SDS and NZE



IEA. All rights reserved.

Source: Financing clean energy transitions in emerging and developing economies. IEA. 2021

The climate investment gap is very heterogeneous, ranging from 1 to 10 percent of GDP, a clearly higher in low-income countries

According to the World Bank, **reducing emissions can be done without compromising development**: taken together, CCDR low-carbon development strategies reduce emissions by 70%, without significant impact on growth, provided that policies are well designed and financing is available.

In **lower-income countries**, financing needs can exceed 5%, which will require **more support from high-income countries, including increased concessional resources**.

b) By income group

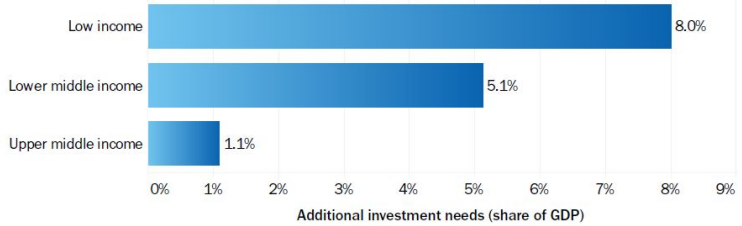
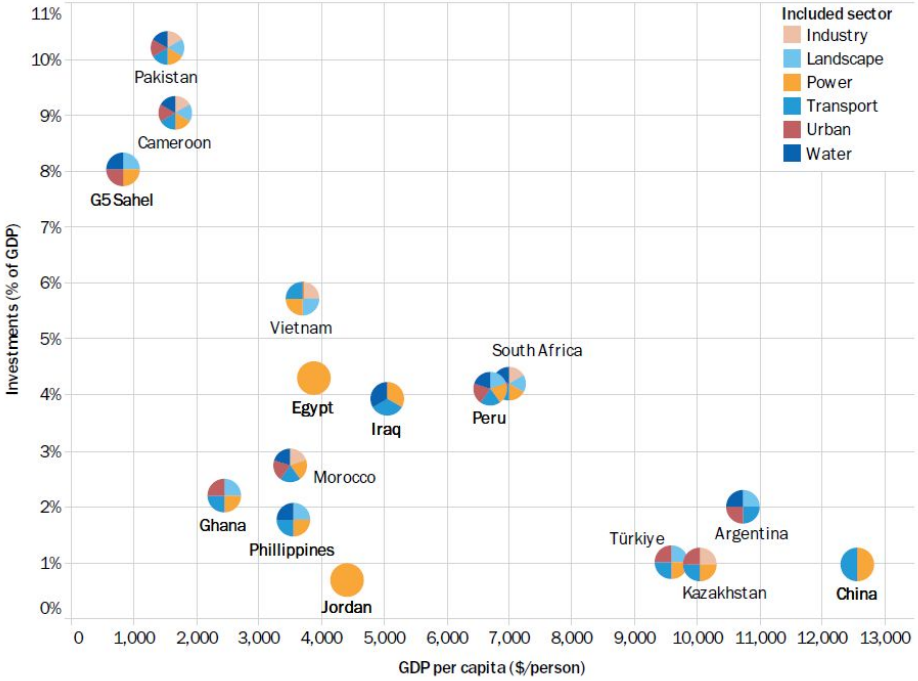


FIGURE 14: *Investment needs for a resilient and low-carbon pathway, 2022–30*

a) By country



Source: Climate and Development: an Agenda for Action. County Climate and Development Reports (CCDRs). The World Bank. 2022

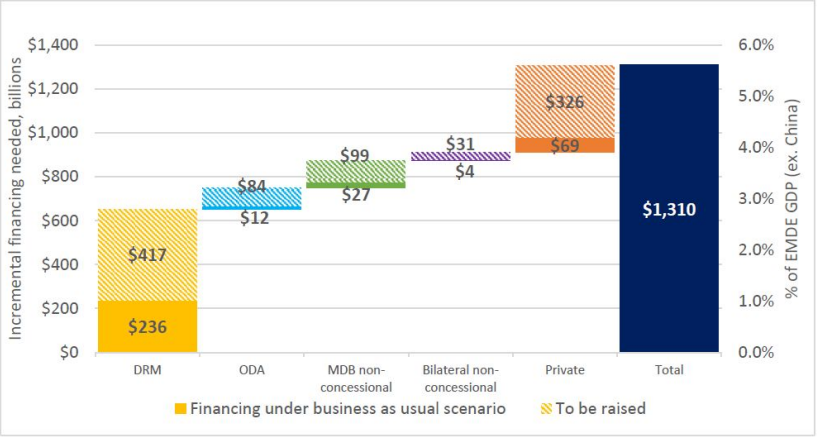
Considering not only climate, but also nature and inclusive growth, the investment needs increase from 11.3% of GDP in 2019 to 15.1% in 2025 and 18.2% in 2030

Table S1. Investment and development spending targets (excluding China)

	Gross spending 2019		Spending target 2025		Spending target 2030	
	US$bn	% GDP	US$bn	% GDP	US$bn	% GDP
Human capital	1,470	7.0%	2,000	8.2%	3,065	9.5%
Sustainable infrastructure	730	3.5%	1,160	4.8%	1,840	5.7%
AFOLU (agriculture, food, land use, nature)	150	0.7%	355	1.4%	650	2.0%
Adaptation and resilience	35	0.2%	180	0.7%	325	1.0%
Total	2,385	11.3%	3,695	15.1%	5,880	18.2%

Notes: The estimates for human capital investment are based on analysis by Kharas and McArthur (2019). The estimates for sustainable infrastructure investment build on analysis by Bhattacharya et al. (2016), incorporating the additional investment required for the energy transition, as discussed above. The estimates for AFOLU investment combine analysis of agricultural spending by Kharas and McArthur (2019) and analysis of investments to protect and restore nature by Systemiq (2021b). The estimates for adaptation and resilience investment are based on analysis by Systemiq (2021b).

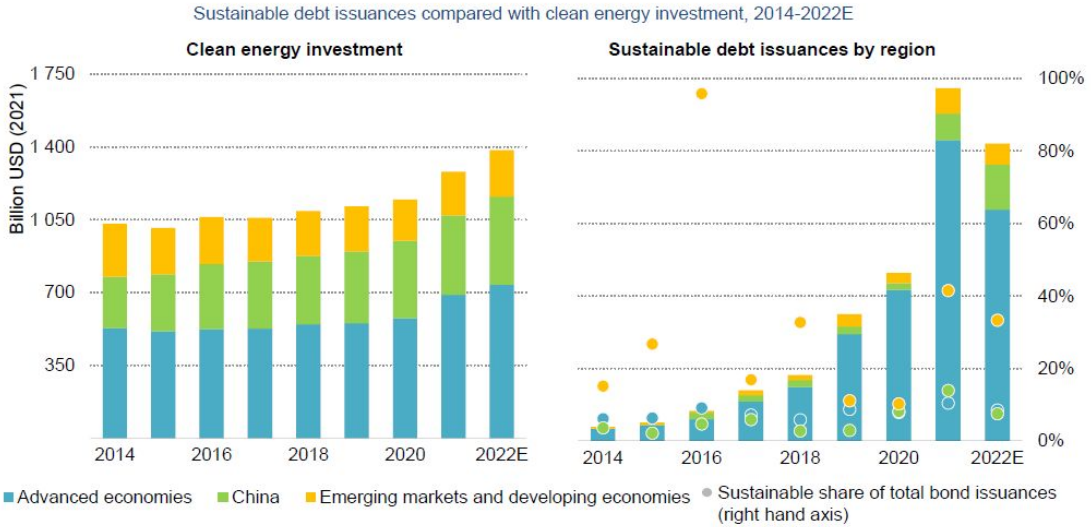
Figure S1. Grand Match financing strategy – incremental financing needed between 2019 and 2025 (billions 2019 US$)



Source: Authors' calculations

Source: Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth. Grantham Research Institute on Climate Change and the Environment, and Center of Sustainable Development at Brookings. 2022

Current clean energy investment is growing but not enough and it is very concentrated in developed economies



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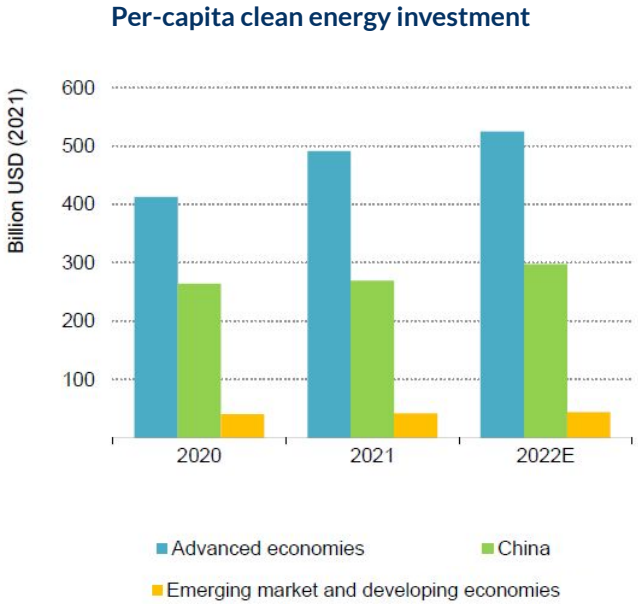
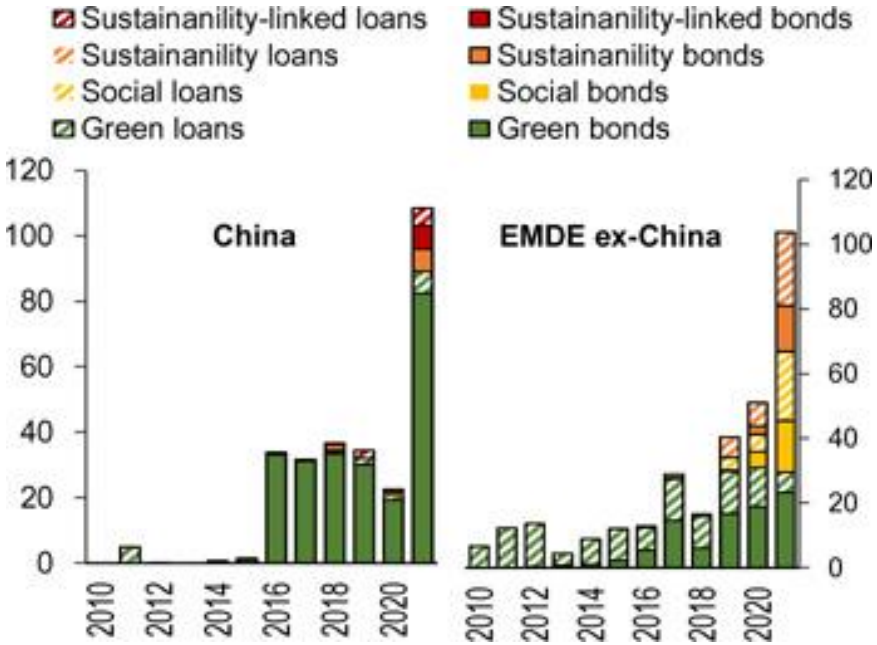
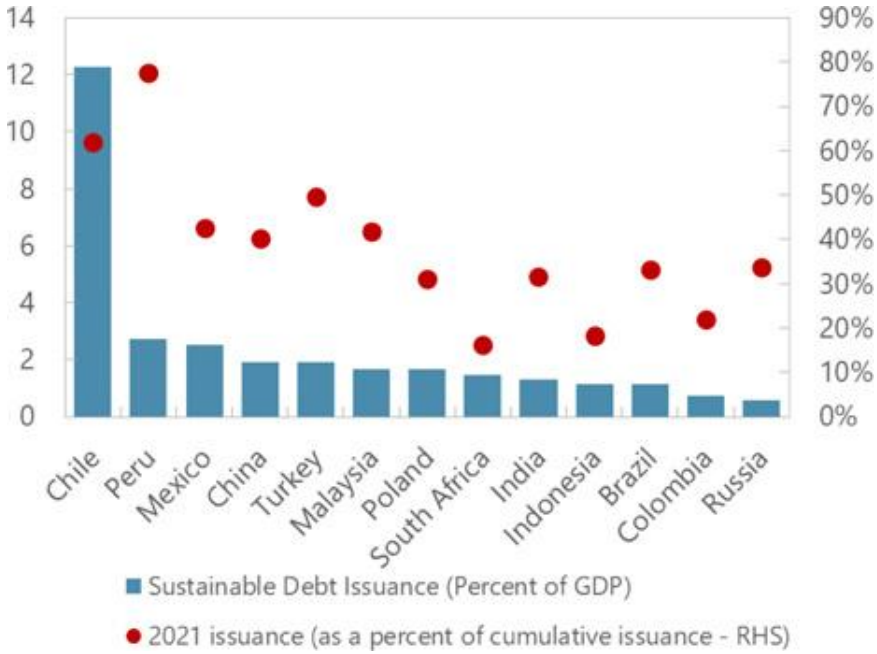
Note: 2022 sustainable debt estimate based on level of issuances in Q1 2022.
Source: Sustainable debt data are from Bloomberg and Refinitiv (2022).



Source: World Energy Investment 2022. IEA

There is a quite range of ESG debt instruments also in developing economies. Excluding China, bonds and loans are equally represented





Source: Sustainable Finance in Emerging Markets: Evolution, Challenges, and Policy Priorities. IMF 2022

Public debt at record highs calls for a greater role of private financing, especially in emerging economies

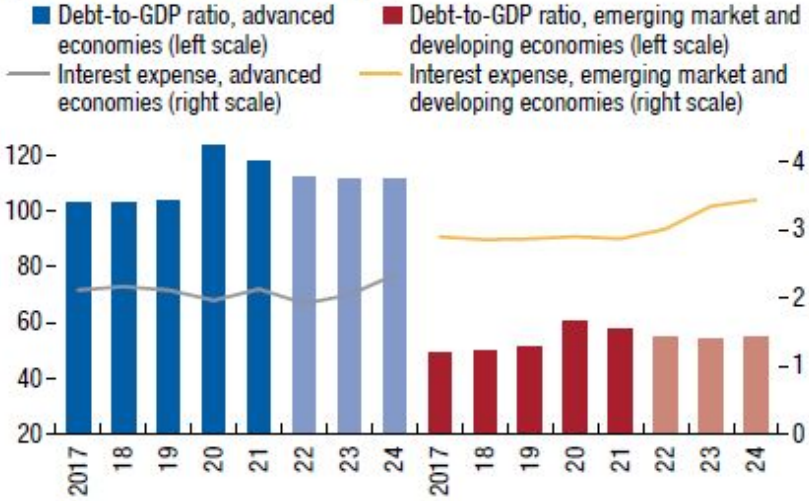
Public debt is at record highs as a result of the measures taken to mitigate the Covid crisis against a background of interest rates at record lows.

Rising interest rates reduce room for maneuver, especially in **emerging economies**, with a higher interest burden than in developed economies.

In addition, **vulnerability to physical and transition climate risks is higher in emerging economies**, which further justifies **encouraging private financing from more developed economies**.

Figure ES.2. National Gross Debt and Interest Expense, by Income Group, 2014–24

(Percent of GDP, weighted averages)



Source: IMF Fiscal Monitor Oct-22

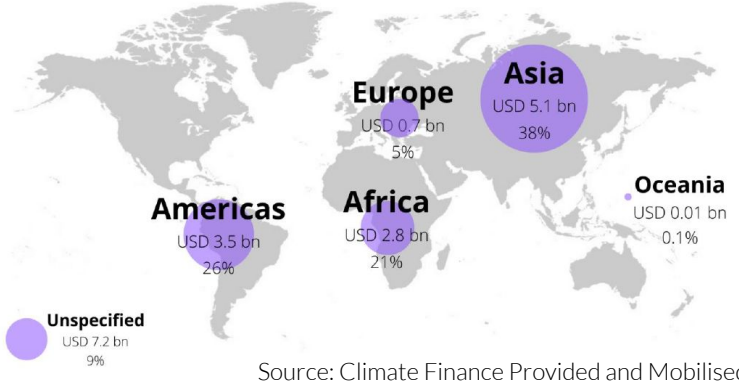
Much more blended finance will be needed as private capital is expected to finance 70% of the clean energy investments

From $150 billion channeled in 2020, $83 billion were mobilised through the support of developed economies according the OECD. **Only $13 billion were private financing.**

Mobilising capital on a much larger scale will require **a dramatic increase in the role of the private sector**, and an enhanced role for international and development finance institutions will be critical to catalyse this investment.

Energy investments today in emerging and developing economies rely heavily on public sources of finance, but in IEA climate-driven scenarios, over 70% of clean energy investments are privately financed, especially in renewable power and efficiency.

Distribution of private climate finance mobilised across developing country regions (annual average)



Source: Climate Finance Provided and Mobilised by Developed Countries in 2016-2020. OECD. 2022

And to scale up private climate finance in developing economies requires "**economic sense**"

Barriers to climate finance in developing economies according to Climate Policy Initiative

- **The cost of capital is generally higher in emerging markets compared to advanced economies,** and is increasing due to climate vulnerability (United Nations Environment Programme, 2018).
- **High up-front costs and long time horizons associated with mitigation and adaptation projects can act as a significant deterrent for private investment.** (IMF, 2022).
- **Climate solution projects suffer from regulation uncertainty**. Cost overruns, delays, and permit risk limit the supply of high quality climate solution projects.
- **DFI risk mitigation tools are being deployed at too small a scale**. To meet needs, the public investment and/or the ratio of public to private investment, must further increase.
- **Lack of price signalling,** in the form of effective carbon markets (among others) reduces incentives for investors to provide capital to climate solutions.
- **Scarce public funding is being directed at subsidizing the fossil fuel industry** in many emerging countries.
- **Lack of local currency instruments** poses risks to foreign currency denominated investment. Current underdevelopment of domestic financial ecosystems and short ability to raise capital.
- **Institutional reform takes time**. Many of the underlying risks investors face in developing economies are structural and requiere. long term solutions (IMF, 2022)

Source: Global Landscape of Climate Finance. Climate Policy Initiative. 2022

Fundamental enabling factors to promote climate private finance in developing economies

Creating investment-friendly business environments and strong pipelines of bankable sustainable infrastructure opportunities requires an approach tailored to each country and sector, as each market has its own diverse economic, legal, political, and financial circumstances. There are, however, **a set of enabling environment factors that cut across sectors and require whole-of- government and whole-of-industry efforts to address.**

1. **Macroeconomic stability, economic growth prospects and currency stability**
2. **Policy stability and rule of law. Political will and execution capacity**
3. **Government commitment to stable and predictable investment incentives**
4. **Financial market depth and willingness of local investors**
5. **Clear and predictable licensing and permitting procedures**
6. **Standardization and sustainability frameworks**

Source: Adapted from Unlocking Private Climate Finance in Emerging Markets. Cli,mate Finance Leadership Initiative Bloomberg, EDFi and Global Infrastructure Facility. 2021

03.

Reimaging sustainable finance in the Global South: 4 building blocks and 12 key actions

1 Increasing financial support from developed economies

I. From $100 billion to $200/300 billion in annual financial support

In 2023 is expected to achieve US$100 billion annual target set for the period 2020 to 2025

We need **ambition** in the new climate finance target for the period after 2025 and a clear **implementation framework**

II. Multiply country platforms in partnership with the private sector

Innovative country platforms such as JETPs (South Africa, Indonesia, Vietnam) and CFLI (India, Colombia) are catalysing the climate finance momentum in these economies, including just transition

We need to **extend** these initiatives in close engagement with the **private financial sector**

III. Increase capital flows to nature based solutions in developing economies

Quality NBS can be a relevant source of additional investment to the Global South

We need **robust standards in carbon credits** but also the right incentives to use carbon credits not to substitute corporate emissions targets, but for **additional actions in their net zero commitments**

Country platforms: Innovative mechanisms to mobilise capital to EM&DEs with the support of the private sector through GFANZ

Just Energy Transition Partnerships (JETPs)

Multilateral cooperation agreements **promoted by G7** and other public donors to address big-emitter countries and their transformational efforts.

- Strong national ownership,
- Support for coal exit of large emitters and low carbon energy generation
- Focus on "just" aspects
- Strong support from private sector expected to close investment gaps

South Africa	Indonesia	Vietnam	... and next
US$8.5 Bn (Nov 21)	US$20 Bn (Nov 22)	US$10.5 Bn (Dec 22)	Senegal India

Climate Finance Leadership Initiatives (CFLIs)

Initiatives **promoted by the private sector and supported by Bloomberg** to mobilize and scale private capital for climate solutions in EM&DEs.

I. To catalyze immediate investment aligned with country's NDCs

II. To push for one to three upstream policy priorities to facilitate private and multilateral capital flows

CFLI Colombia (Apr 22)/ India (Nov 21)

CFLI Country Pilots bring together leading domestic and international financial institutions and corporates at the CEO level and the finance practitioner level ("Members") as well as Government partners and Multilateral Development Banks ("MDBs") to accelerate local climate finance solutions

CFLI Colombia progress

Members

Co-chairs

BBVA

Bancolombia

Brookfield

BANCOLDEX

enel

FDN

GRUPO ARGOS

GRUPO BOLÍVAR

Goldman Sachs

ecopetrol

J.P.Morgan

MACQUARIE

sura

SEGUROS, TENDENCIAS Y RIESGOS

Priority areas and concept generation under way

Low-carbon Transportation

Sustainable Infrastructure

Nature, Resilience, and Adaptation

Renewable Alternatives

10 catalytic financing concepts to be developed as bankable transactions

13 blended finance and policy concepts that de-risk and strengthen the enabling environment for capital mobilization

1 policy concept that recommends a public private partnership (PPP) model for policy makers to implement

Status update and year ahead

- Received support from the Petro Administration and close engagement
- Members are refining, and will ultimately execute, their originated financing concepts and policy considerations within each working group
- CFLI Colombia will continue monthly Steering Committee meetings and engage with relevant Colombian Gov't partners and/or MDBs
- Q4'23 CFLI Colombia targets completing 1-3 financing transactions and 1-3 policy solutions

2 Improving pipeline of projects and activities

IV. Build capabilities to get better sustainable projects

Projects can improve its bankability through more robust definition and partners

We need **capabilities programs**, especially relevant **in low income countries** where cost of capital is much greater

V. Channel sustainable finance not only for projects but also for SMEs and households

Climate transition requires big projects in energy infrastructure, but also granular investments in production processes, energy efficiency, mobility, distributed solar energy, NBS….

We need an **holistic approach promoted by the local governments** with policies for all priorities

VI. Deploy ready-to-scale technologies but also promote investment in new technologies

The Global South must participate in the industrial revolution of those sectors difficult to abate with global and critical supply chains

We need to promote **investments in those new technologies** (hydrogen, carbon capture, new materials, fuels and fertilizers…)

3 Reimaging blended finance to create the right incentives to multiply public finance through private finance at scale

VII. Modernise the governance and business models of MDBs and DFIs

Climate finance is not enough prioritized (World Bank) & MDBs aren't creating enough the enabling environment for private capital

We need **new mandates** with targets not only in public climate finance but also in a **multiplier ratio on private finance mobilised**. **Scale up de-risking mechanisms** based on guarantees and first-loss, together with grant-funded measures for capacity building

VIII. Create incentives not only to attract internacional flows but also to multiply local ones

70% of the economies of the developing countries are financed through local banks, domestics and international ones. **Local banks will have to implement their net zero commitments including inevitably the Global South**

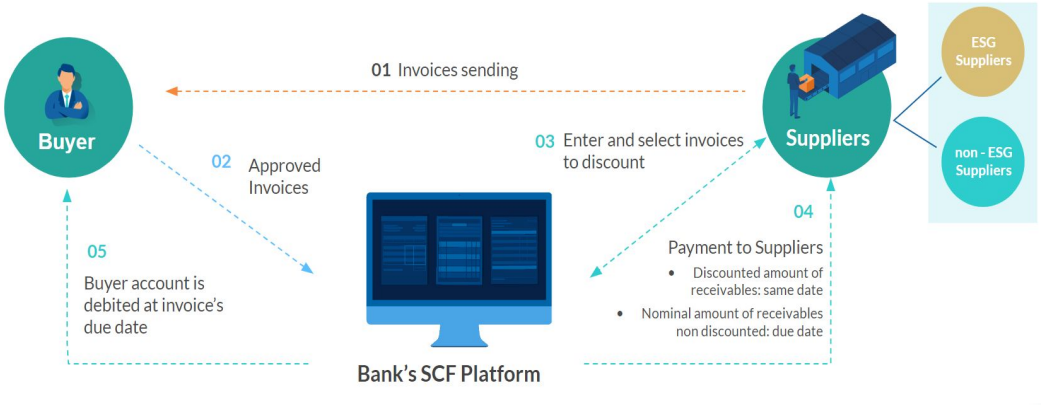
We need to support local financing to help the whole economy to transition

IX. Innovate in financial solutions to de-risk and to promote transition finance

There are innovative use of proceeds financial solutions that can be replicated, and also other ESG debt solutions KPI linked that can be highly impactful (ie sustainable supply chain finance)

We need to promote all type of financial solutions to have an **holistic approach to transition finance as proposed by GFANZ**

Sustainable Supply Chain Finance, an example of innovative financial solution and where for MDBs can have a catalytic role to play



Linking the interest rate for **working capital finance** to specific sustainable KPIs (carbon emissions, water usage…) can be very powerful to drive change in these economies and **promote sustainable practices through the value chain of big corporations**

- **MDBs should promote programs** to help commercial banks to deploy **a packaged offering for corporate clients and their suppliers** to scale up sustainable supply chain financing
- Introducing de-risk mechanisms or concessional finance **to increase the incentives.** It is very important to offer enough incentives to promote data reporting from suppliers, otherwise this type of solution will not be massively used.
- **Offering training and technical assistance** to those suppliers in their sustainability journey, providing additional incentives.

4 Defining sustainable finance frameworks and standards to develop local capital markets and provide international confidence

X. Set local sustainability standards in line with the global developments

ISSB & EFRAG are developing their sustainability reporting standards. ISSB has launched a **partnership framework** to help low and middle-income countries

We need a **fast adoption of sustainability reporting standards** to provide the financial market players with the key **sustainability data**

XI. Set local sustainability taxonomies in line with the G20 recommendations

Thanks to the **International Platform on Sustainable Finance** promoted by the EU, some countries are developing their local sustainability taxonomies (ie Colombia, Mexico)

We need **to ensure interoperability** between the different local sustainability taxonomies

XII. Develop a sustainable finance regulation adapted to local specificities

Sustainable finance regulation is critical to promote sustainable finance and to manage sustainability risks

We need local **enabling regulations that provide clarity, certainty and transparency** to the financial players

European regulator requires their banks to outsource its laws outside its borders (through corporate subsidiaries), which can generate a positive social effect. But in some cases can damage competitiveness of European companies

Potential areas of research: some ideas

Better understanding of the multiplier effect of the private/public climate finance in the Global South

- What are the current multipliers in the different jurisdictions, sectors and financial solutions types
- What are the key success factors to reach the required multiplier (IEA use x7 in its scenarios)

Biodiversity Loss, the new "Climate Change" in terms of analysis and policies

- How to seize the biodiversity and natural capital potential of the Global South as an effective development opportunity

Against a given Global Warming in the next decades, adaptation policies become increasingly relevant

- How to foster adaptation climate policies in the Global South, more vulnerable to climate physical risks and same time with fewer financial resources

04.

Conclusions

Conclusions: reimagine sustainable finance in the Global South

I. **$1 trillion annual investment** is required in clean energy in developing economies to reach net zero. Annual clean energy investment in emerging and developing economies needs to **increase by more than seven times.**

II. The climate **investment gap is very heterogeneous**, ranging from 1 to 10 percent of GDP, a clearly higher in low-income countries

III. We need **to increase financial support from developed economies** up to annual $200/300 billions, multiplying country platforms and creating the right conditions for credible NBS

IV. We need **to improve the pipeline of projects and activities** through capability building, including big projects and SMES/households, and also in new technologies

V. We need **to reimagine blended finance** to create the right incentives to multiply public finance through private finance at scale, mobilising international and local financing for green and transition activities

VI. We need **to define sustainable finance frameworks and standards** to develop local capital markets and provide international confidence

thank you