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ANALYSIS

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Evolution of sustainable finance in Paraguay and the region

Evolución de las finanzas sostenibles en Paraguay y la región

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Abstract

Financial industry is competitive and driver of economic development. Environment is affected by decisions and investments made, and the society has concerns for future generations. Integrating these ideas, the concept of Sustainable Finance arises, that which, by conscience and own decision, provides socially and environmentally responsible products or services. Objective is evaluating performance and environmental commitment of financial entities, and their evolution as the dialogue linked between sustainability and industrial competitiveness progressed. A bibliographic review is carried out on the main conceptual and/or applied advances, including the efforts in Paraguay and in the region. It's confirmed that institutions with sustainable products and services demonstrate good replicable practices to overcome the challenge. Becoming a Sustainable Bank is not an option, it is the path to take to stay competitive.

Keywords: *Sustainable development, sustainable finance, sustainable finance, environmental finance, sustainable banking.*

Resumen

La competitiva industria financiera es un impulsor clave del desarrollo económico. El medio ambiente es afectado por las decisiones e inversiones realizadas, y la sociedad tiene preocupaciones por las futuras generaciones. Vinculando estas ideas, surge el concepto de las Finanzas Sostenibles, aquella que, por conciencia y decisión propia, provee productos o servicios, socialmente y ambientalmente responsables. El objetivo es evaluar el desempeño y compromiso ambiental de las entidades financieras, y su evolución conforme avanza el diálogo y vinculación entre la sostenibilidad y la competitividad industrial. Se realiza una revisión bibliográfica sobre los avances conceptuales y/o aplicados, incluyendo una mirada a los esfuerzos en Paraguay y en la región. Se confirma, que las instituciones con productos y servicios sostenibles, demuestran buenas prácticas replicables para superar el desafío de la sostenibilidad. Convertirse en una Banca Sostenible no es una opción, es el camino a tomar para mantenerse competitivos.

Palabras clave: *Desarrollo sostenible, finanzas sostenibles, finanzas ambientales, banca sostenible.*

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Introduction

The financial sector is one of the most competitive and demanding industries, overseen both by supervisory bodies and by investors who entrust their capital to the management of institutions such as banks, insurance companies, cooperatives, and others. At the same time, humanity faces the pressing challenge of sustainability. Dependence on natural resources—most of which are non-renewable—raises the issue of preservation so that future generations may also be able to meet their needs. From the convergence of these two elements arises the concept of Sustainable Finance, defined as financial practices that, by awareness and deliberate decision, provide socially and environmentally responsible products and services (Centurión Bedoya, 2003).

Sustainable finance encompasses economic, environmental, and social aspects, but also the governance of financial institutions in terms of investment decisions, operations, labor practices, and competitive strategy (Papageorgiou et al., 2019).

Sustainable Banking considers, from an economic standpoint, fostering growth and development through the financing of projects and businesses; from a social perspective, addressing the needs of the current population without jeopardizing those of future generations; and from an environmental perspective, requiring the rational use of natural resources in order to promote a stable, healthy, and clean environment (López, 2023). Several stakeholders have highlighted that, in order to gain competitiveness, institutions are increasingly incorporating environmental management, analyzing the efficient use of resources, evaluating the origin and destination of funds, raising client awareness, and launching green products—all of which aim to achieve sustainable competitive advantages (Rojas, 2003).

Between 1998 and 1999, the Financial Initiatives Unit of the United Nations Environment Programme (UNEP FI) conducted a survey on environmental performance and commitment among 77 banks across Europe (65), North America (7), Asia (4), and Africa (1). The sample was predominantly composed of institutions from industrialized countries and the most competitive actors in the industry (Pratt & Rojas, 2001).

Pratt and Rojas (2001) point out that in 2001 environmental programs in Latin American banks were evaluated. Eighty-six institutions from 18 countries (five from Paraguay) were included in the survey. The banking commitment to environmental management, the promotion of debate on banking and the environment, and the identification of best practices were part of the objectives of the evaluation carried out by the Ecobanking Project in 2001, in addition to professional internships that were conducted in Europe between 2002 and 2023 (Polo Cheva & Rojas et al., 2004).

Two decades later, a new evaluation of Paraguayan institutions is being proposed. In Paraguay, there are currently 18 banks supervised by the Central Bank of Paraguay (BCP, 2024)**,** and the plan is to apply a survey similar to that of 2001. The main focus will be on analyzing policies, performance, processes, and environmental communication in order to measure the degree of environmental commitment among banking institutions. In preparation, a literature review has been conducted to compile the main conceptual advances and their application to sustainable finance, while also considering the efforts made in the region and in the country since that time.

Methodology

The bibliographic review began with publications produced by the Ecobanking Project (www.incae.edu/es/clacds.html) of the Latin American Center for Competitiveness and Sustainable Development (CLACDS) at INCAE Business School, within the framework of the 2001 evaluation. Subsequently, documents were searched on two platforms hosted on the website of the National Council of Science and Technology (CONACYT, www.conacyt.gov.py/), specifically via the CICCO portal. The platforms used were Scopus and Web of Science.

The search included the keywords: Sustainability, Sustainable Finance, Environmental Finance, and Sustainable Banking. The time frame prioritized publications from 2013 to 2023. As for document type, the review was limited to scientific articles, review notes, and conference papers.

Development

Since the end of the last century, concern for the world's sustainability and its resources has been present on national agendas. In 1972, in Stockholm, Sweden, the United Nations Conference on the Human Environment was held; it adopted principles on the rational management of the environment and, above all, highlighted the link between economic growth, air, water, and ocean pollution, and the well-being of people worldwide (UN, 1972).

The ensuing dialogue intensified and culminated in 1992 with the Earth Summit in Rio de Janeiro, Brazil, marking a milestone for future action on sustainability. It underscored the broad interconnection among social, economic, and environmental factors—independent in themselves, yet dependent on sustained action across sectors for success. The concept of sustainable development became firmly established, noting that all actors bear responsibilities toward future generations (UN, 1992). What is produced and consumed, and the ways in which people live and work, affect both present and future society. At that stage of dialogue among countries, firms, and citizens, concern arose that the investments and operations of industry and households require financing. Sustainable Finance thus emerged as a substantial challenge.

In the wake of the Rio Summit, UNEP FI (www.unepfi.org) emerged as a partnership between the United Nations Environment Program and the global financial sector. Headquartered in Geneva (Switzerland), it promotes sustainable finance by encouraging the financial sector to integrate environmental, social, and governance (ESG) aspects into operations, thereby reducing risks and harnessing opportunities for sustainable financing. It comprises signatory financial institutions that actively participate in various activities and initiatives (López García, 2020).

In 2001, through a project called Ecobanking at INCAE Business School, a survey was carried out on the environmental performance of financial institutions in Latin America. Since then, Sustainable Finance has seen major advances in its understanding and in its integration into the operations of Latin American financial institutions. Some institutions have implemented social and environmental risk management in their operations (Aráuz, 2004), and—fundamentally—have developed sustainable products and services aimed at opportunities emerging in the markets (Pratt & Rojas, 2001).

López García (2021) presents an overview of the conceptual and managerial evolution of finance identified in various countries in the region. Her account begins with Brazil, which since 1995 has had a Green Protocol that enabled implementation of Environmental and Social Risk Analysis (ARAS), eco-efficiency-based institutional management, and the financing of green and social products and services.

She then notes that several countries in the region have similar protocols under various names, such as Colombia, Mexico, Peru, Ecuador, Chile, and Argentina.

The same author notes that Colombia developed a market for green, social, and sustainable bonds, even "orange bonds" for cultural projects. In Mexico, green bonds aligned with the Sustainable Development Goals (SDGs) are issued.

In Chile, analytical roundtables were promoted beginning in 2001 (López, 2016). A green finance roundtable was established in 2019, and the Santiago Stock Exchange (BCS) offers green, social, and sustainable bonds (López García, 2021).

López García (2021) refers to Paraguay, which since 2012 has had a Sustainable Finance Roundtable (www.mfs.org.py/es/) made up of banks representing more than 90% of the Paraguayan banking system. They highlight the development of sustainable financing guides for the country's main productive sectors (livestock, agriculture, and agribusiness). It is a voluntary collaboration platform among entities in the Paraguayan financial system, joining efforts to promote initiatives and strategies that contribute to building a more solidaristic and inclusive economy. In the same context, in 2018 a guide was created for the

Management of Social and Environmental Risks for regulated and supervised entities; moreover, in 2020 the National Securities Commission (CNV) established a regulatory framework and guidelines related to sustainable bonds.

Among the principal sustainable financial products currently in use are sustainable investment funds, green and social bonds, social venture capital, and green loans (Banco Santander, 2023).

The maturity of markets with respect to green and/or sustainable products is fundamental to the development of Sustainable Finance. The degree of maturity depends on factors such as the regulatory framework and public policies, the level of understanding and, therefore, the existence of effective demand for the aforementioned products; consequently, the level of development of the financial system as a whole—where institutional governance is fundamental (Eco Business Fund, 2022).

An important point is that these efforts to develop Sustainable Finance go hand in hand with several of the United Nations Sustainable Development Goals (SDGs), adopted in 2015 in the 2030 Agenda for Sustainable Development, which represented an opportunity for countries and society to embark on a new path to improve the lives of all people (García Navarro & Granda Revilla, 2020). The agenda comprises 17 SDGs (United Nations, 2024).

Economies have a threshold of growth, one that is affected by crises such as political instability, forced migration, the climate crisis, and the degradation of natural resources. These challenges call for urgent efforts to secure a better future based on sustainability. The SDGs set forth in the 2030 Agenda address these issues, and they are directly relevant to the initiatives that the financial sector must undertake in the transition toward a sustainable economy (Boria et al., 2021). The main challenge in achieving the SDGs lies in fostering awareness and knowledge related to sustainable development, strengthening financial sector regulations, and advancing the standardization of socio-environmental evaluation criteria.

Echagüe-Pastore et al. (2022) state that shared effort, public–private partnerships, and international cooperation are favorable conditions in the case of Paraguay for advancing Sustainable Finance.

Green services and products are ultimately a cornerstone that organizations must possess in order to develop the conditions established and regarded as key by international cooperation for achieving the SDGs (Toca Torres, 2022).

Awareness within society is fundamental, but so too is awareness within financial institutions (Szauer & López, 2003). In this regard, the efforts of several cooperation agencies stand out, among them UNEP, which developed a variety of tools that facilitate environmental education as well as the identification of key areas related to sustainability that financial institutions must take into account in their operations—both internal activities and financing opportunities. These areas include water, air, biodiversity, climate change, energy, sustainable consumption, the circular economy, and waste management (UNEP, 2023).

The cooperation of UNEP FI in the region focuses on the development of training programs aimed at decision-makers within financial institutions, as well as on the creation of instruments and/or materials to be applied by these institutions. It is important to note that, through a set of principles, the initiative seeks to advance the concept of responsible banking (UNEP FI, 2019).

Discussion

Sustainable development is arguably the main challenge that unites society as a whole with a view to the future. Since concerns were raised regarding the connection between economic activities, social aspects, and environmental impact, the understanding has gained strength that having responsible financial institutions that offer sustainable products and services is essential. The review carried out identifies replicable good practices that can contribute to meeting this challenge (Gallardo, 2017).

From a global perspective, sustainable finance is essential for an economy that respects both people and the planet. Close collaboration between the public and private sectors has been key to the progress achieved in the countries of the region. Awareness-raising efforts targeting citizens must be prioritized, as ultimately it is individuals who must become clients of financial institutions, requiring and/or demanding sustainable products and services, and thus driving sustainable management.

As the understanding of its scope reaches individuals and companies—who are ultimately the clients of financial institutions and the ones who will demand increasingly sustainable products and services—banks will be compelled to move toward the development of responsible banking and sustainable finance. Beyond the necessary awareness, this effort is part of the demands of an increasingly competitive industry.

The competitiveness of financial institutions therefore depends on their capacity to develop responsible and sustainable management. Institutions that fail to grasp this challenge will almost certainly be left out of the market. Becoming a Sustainable Bank is not an option; it is the path that must be taken to remain competitive.

Significant progress can be observed both regionally and in Paraguay in advancing sustainable finance. Reviewing the current state of Sustainable Finance has expanded the perspective on the vast opportunities it offers, as well as the areas of inquiry and research that are both feasible and necessary. Building alliances and fostering cooperation can further enhance research endeavors, enabling greater analytical depth and a broader scope of impact.

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