

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL- Argentina, Chile, Colombia, Mexico and Peru.
▪ TC Name:	Institutional Support for the Consolidation of the Digital Financial Inclusion Ecosystem in Latin America and the Caribbean
▪ TC Number:	RG-T3967
▪ Team Leader/Members:	Herrera Falla, Diego Mauricio (IFD/CMF) Team Leader; Almeida Oleas, Natalia (LEG/SGO); De La Torre Ortiz, Sahara (IFD/CMF); Marquez, Claudia (IFD/CMF) Team Leader; Almeida Oleas, Natalia (LEG/SGO); De La Torre Ortiz, Sahara (IFD/CMF); Marquez, Claudia (IFD/CMF) Team Leader; Almeida Oleas, Natalia (LEG/SGO); De La Torre Ortiz, Sahara (IFD/CMF); Marquez, Claudia (IFD/CMF) Team Leader; Almeida Oleas, Natalia (LEG/SGO); De La Torre Ortiz, Sahara (IFD/CMF); Marquez, Claudia (IFD/CMF)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	05 Aug 2021.
▪ Beneficiary:	Financial Superintendencies, Central Banks, Financial Authorities, other public agencies
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS)
▪ IDB Funding Requested:	US\$230,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months, including Execution period
▪ Required start date:	January, 2022
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	IFD/CMF-Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	IFD/IFD-Institutions for Development Sector
▪ TC included in Country Strategy (y/n):	
▪ TC included in CPD (y/n):	
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Institutional capacity and rule of law; Gender equality

II. Objectives and Justification of the TC

- 2.1 **Objective.** This operation aims to provide support to Governments in Latin America and the Caribbean (LAC) in improving their institutional capacity to face the challenges that digital financial inclusion creates for public policies, supervision, and regulation. The specific objectives are to implement policies that foster digital financial inclusion and to support the development of regulatory financial innovations.
- 2.2 **Outcome.** Public sectors with capacity to perform regulation, supervision and financial sector activities in accordance with innovative business models and technologies.
- 2.3 **Fintech in LAC.** Fintech platforms have been modifying the way in which the financial industry offers products and services to consumers around the world. New business models, based on emerging technological developments, are challenging traditional

financial entities while generating new ways to create, deliver and capture the value of consumers. According to a study by the Inter-American Development Bank (IDB) and Finnovista, Latin America and the Caribbean (LAC) are part of this transformation and the Fintech industry has been strengthening throughout the region with more than 700 platforms that currently offer financial solutions based on new technologies. Of these, 32.7% are in Brazil, 25.6% in Mexico, 11.9% in Colombia, 10.2% in Argentina and 9.2% in Chile. Leading activities in the region are alternative finance, with 25.6% of the total platforms dedicated to this business, and payments (25.2%), followed by business finance management (13.2%). Finally, it is interesting to note that more than 40% of monitored enterprises in the region state that their mission is to serve clients that remain excluded or underserved by the traditional financial services sector.¹

2.4 Furthermore, Fintech platforms have been responding to the gaps and asymmetries that persist in the region for the allocation of credit, mainly to Micro, Small and Medium Enterprises (MSME). For example, the alternative financing market is growing notably in LAC. According to the figures calculated by the Universities of Cambridge and Chicago, in a study sponsored by the IDB, in 2016 the segment tripled its growth with respect to 2015, reaching US\$342 million. The document shows how alternative finance grows in a very relevant niche: enterprise loans, which represent 71% of the total volume of origination for 2016. Likewise, the study shows how the regional leader in origination is Mexico with US\$114.2 million (33.3% of the total), followed by Chile (US\$97.8 million, with 28.5%), Brazil (US\$64.4 million, 18.8%), Argentina (US\$12.6 million, 3.7%), Colombia (US\$11.2 million, 3.3%) and Peru (US\$9.9 million, 2.9%).²

2.5 **Institutional Capacity, Regulation and Policies: the triad.** There is a large challenge for governments across the region given the need to build up institutional capacity required to properly understand the FinTech sector and its actors, activities, business models, among other factors, to appropriately foster it through policy and regulate it. Three aspects are key in developing institutional capacity: organization, human resources and technology. First, the new sector frequently requires specialized units to regulate and supervise it. In the region, Mexico and Colombia have taken the lead in creating FinTech units within their supervisors, modifying or adding up to their current organizational structures. Second, such specialized units require trained human capital capable to understand the challenges that FinTech poses. Third, technology assessment and support is vital for supervisors and regulators to understand new business models and ways to supervise.

2.6 Concomitantly, there are jurisdictions where FinTech has evolved and there is a need to establish regulations for the Fintech activities. This is also true at the sub-regional and regional levels, where regulatory convergence and common principles may help in generating certainty for entrepreneurs, financial consumers and, even so, in the platforms. The path towards regional regulatory convergence in Fintech is critical in at least two senses: First, it will allow for less uncertainty and friction for platforms and regulated financial institutions to offer their products in different jurisdictions. Second, it will allow for reaching scale in the region, increasing the benefits of Fintech products

¹ Inter-American Development Bank and Finnovista, (2017). "[FINTECH: Innovations You May Not Know were from Latin America and the Caribbean](#)".

² Ziegler et al. (2017). "[The Americas Alternative Finance Industry Report. Hitting Stride.](#)" Cambridge, United Kingdom: The Cambridge Centre for Alternative Finance.

and the opportunity set for platforms and financial institutions. This is feasible through the application of similar regulatory principles across the region, as a base for convergence. Furthermore, a balance with policies that foster innovation in the financial services industry is necessary to increase the benefits from Fintech to the region.

- 2.7 IDB's Role. The Bank has had a substantial role since the year 2014 towards its consolidation as a regional multi-lateral organization for Fintech. To begin with, the bank issued a series of publications to identify best practices for regulation and policy and to describe the regional ecosystem.³ Such publications include the deconstruction of the FinTech ecosystem by country, verticals, size, among other factors. On the other hand, discussion papers have been issued with the idea of guiding regulators and supervisors on the FinTech ecosystem oversight.
- 2.8 The Bank has also led the efforts to supporting governments through the issuance of recommendations for *crowdfunding* regulations in several countries across the region: Mexico (where a Fintech Law was recently approved with the support of the Bank⁴), Argentina (where the support led to the issuance of a crowdfunding General Resolution⁵), Chile, Brazil, Peru and Paraguay. This was possible through the utilization of the resources from Technical Cooperation (TC) "Support to the Development of Alternative Finance in LAC countries: ICT and Regulatory Approach" ([OC-15368-RG](#)), in its final stages of execution. This TC was characterized by the application of the same set of principles to every jurisdiction for crowdfunding regulations and regulatory sandboxes, opening the door for regulatory convergence in the region⁶. Moreover, with the support of the Bank, the Pacific Alliance countries (Chile, Colombia, Mexico, Peru) developed a common set of principles for Fintech regulation, opening the path for regulation convergence⁷. Also, Regional Policy Dialogues for the last three years have had Fintech as one of the main discussion topics where regulators, traditional financial institutions and Fintechs have debated about opportunities and risks on the subject. Among others, the development of regulatory frameworks, the reach for multi-country agreements and the development of institutional capacities have caught the eye of such different groups. All these cumulative experiences, among other efforts, such as collaborations with IDB Invest and the Multilateral Investment Fund -MIF-, have positioned IDB Group as a regional leader for Fintech policies and regulations.⁸ This TC will contribute to the Bank's operational program through the development of key actions, regulatory frameworks,

³ Publications include: (i) [Alternative Finance \(Crowdfunding\) Regulation in Latin America and the Caribbean: A Balancing Act](#); (ii) [Regulatory Sandboxes in Latin America and the Caribbean for the FinTech Ecosystem and the Financial System](#); (iii) [Fintech: Innovations You May Not Know were from Latin America and the Caribbean](#); (iv) [Hitting Stride: The 2nd Americas Alternative Finance Industry Report](#); (v) [Digital Finance: New Times, New Challenges, New Opportunities](#); (vi) [Digital Central Bank Money and the Unbundling of the Banking Function](#).

⁴ Secretaría de Gobernación de los Estados Unidos Mexicanos: ["DECRETO por el que se expide la Ley para Regular las Instituciones de Tecnología Financiera"](#).

⁵ Comisión Nacional de Valores de Argentina: ["CNV reglamenta el Sistema de Financiamiento Colectivo."](#)

⁶ Principles are based on publications (i) and (ii) as seen on footnote 4.

⁷ The document was issued as a result of the XVII Pacific Alliance Ministries of Finance Meeting in July 2018. The document is available as: ["Principios orientadores para la regulación Fintech en la Alianza del Pacífico"](#).

⁸ For instance, IDB Invest approved its first Fintech Investment with the participation of IDB: <https://www.iadb.org/en/news/idb-invest-invests-5-million-moni-online-its-first-operation-fintech-company>

and assessments that are part of Policy Matrices for Policy-Based Loans (PBL) and Policy Based Guarantees (PBG).

- 2.9 Pending Gaps.** The aforementioned work on digital financial inclusion, with the support from IDB, is just the beginning of a broader agenda. There are many remaining challenges to be attended to achieve digital financial inclusion. Although the support of the bank ended with the issuance of the Fintech Law in Mexico, Regulatory Sandbox regulations in Brazil, Crowdfunding regulations in Argentina and the potential issuance of the Open Finance Law in Chile, more needs to be done. For instance, only seven (7) countries in the region have issued comprehensive regulations for crowdfunding or alternative finance, two (2) for open finance or centralized low amount digital payments, one (1) for cryptoassets or roboadvisors. In terms of the regulatory innovations needed to foster digital financial inclusion, there are four (4) jurisdictions with regulatory sandboxes, and one with an innovation hub. This, besides the work that IDB is doing in cooperating with four governments and the Pacific Alliance. In conclusion, from the perspective of public policies and the strengthening of institutional capacity, there is a huge opportunity for the Bank to support the region.
- 2.10 Lessons learned.** Based on the learnings from execution and evaluations of the operations mentioned above, and other programs, lessons and good practices have been included in the design of this TC. Among others, it is relevant to mention: (i) the need to support governments in the creation of specialized departments focused on innovation in the financial sector; (ii) the importance of properly training policymakers in innovative business models and technologies; (iii) the relevance of regulations that enable concurrence and competition in the financial markets through innovation; (iv) the relevance of updating technology in financial sectors supervisors and regulators, including financial innovations such as regulatory sandboxes; and (v) the importance of knowledge generation and dissemination.
- 2.11 TC Alignment.** The TC is consistent with the Update to the Institutional Strategy (UIS) 2020-2021 (AB-3190-2). It aligns with the Updated Area of Emphasis to Address Development Challenges of “Productivity and Innovation” by supporting the development and deploying instruments that nurture innovation in the financial sector and supporting countries in creating, re-skilling up-skilling regulators, supervisors, and other public sector actors. Also, it is consistent with “Increasing Resource Mobilization” through the support to policies the Fintech sector and financial innovations, which has proven to be an effective vehicle for mobilizing financial resources in the region. Finally, the TC aligns with the Cross-Cutting Issues of “Promoting Gender Equality, Diversity and Inclusion”, given the potential of Fintech platforms to include women as financial consumers in payments and credit through the implementation of policies that foster digital financial inclusion,⁹ and “Enhancing Institutional Capacity and the Rule of Law” that the TC will support the institutional arrangements for the implementation of digital financial inclusion regulations, issuance of new rules, and analysis to implement public policies. Also, it is consistent with the “Ordinary Capital Strategic Development Programs” document (GN-2819-1), Section IV: “Ordinary Capital Strategic Development Program for Institutions” and its objectives of contributing to public

⁹ For a reference: Cambridge Judge Business School. 2021. The 2nd Global Alternative Finance Market Benchmarking Report. Available at: <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-2nd-global-alternative-finance-market-benchmarking-report/>.

policies and institutions that are more effective, efficient, open and citizen-centered; reducing the constraints for business growth and productivity and strengthening enforcement of the rule of law. In this sense, the TC contributes in enhancing capabilities of beneficiary public institutions to regulate, oversight and foster the fintech ecosystem. The TC aligns with the Corporate Results Framework 2020-2023 ([GN-2727-12](#)) through the indicators of agencies with strengthened digital technology and managerial capacity, through the strengthening of public financial agencies in the creation, development and implementation of digital financial inclusion policies. Also, it aligns with the priority of productivity and innovation through the fostering of digital financial inclusion and fintech. The TC is an excellent fit for the Vision 2025, "REINVEST IN THE AMERICAS" the Inter-American Development Bank Group's blueprint for achieving economic and social development in Latin America and the Caribbean. The TC touches with the opportunities from: Opportunities of Financing Micro, Small, and Medium Enterprises, the Digital Economy, and Resource Mobilization from Vision 2025. Finally, the TC aligns with the IDB Group Country Strategies of: (i) Chile (2019-2022) ([GN-2946](#)) in the priority areas of Innovation and research and development and Access to finance; (ii) Colombia (2019-2022) ([GN-2972](#)) in the strategic areas of Innovation and digital ecosystems and private sector financing; (iii) Mexico (2019-2024) ([GN-2982](#)) in the priority area of Encouraging more buoyant investment; and (iv) Peru (2017-2021) ([GN-2889](#)) in the priority area of productivity. In all the cases, this is reached through the creation of institutional capacity, knowledge, and the support for the creation and implementation of financial regulations and other public policies to foster financial services and inclusion.

III. Description of activities/components and budget

- 3.1 **Component 1: Improvement of institutional capacity.** This component focuses in supporting governments in the creation of institutional capacity. To this extent, the component will offer support in terms of: (i) supporting legal assessments, structuring, and implementation of innovation departments and digital financial inclusion offices and other dependencies; (ii) training and knowledge for civil servants and officers in topics related to digital financial inclusion through, among others, academic training on Fintech and technologies; (iii) support for the adaption to the new technologies for the oversight process; studies to understand the financial services ecosystem for regions and countries. The acceptable outputs for this component consist of assessment, policy recommendation, presentation, and other consultancy documents. In any case, Diagnostics and assessments completed. The activities in this component could be carried by individual or firm consultancies.
- 3.2 **Component 2: Implementation of Public Policies.** Support for the design, structuring, issuance and implementation of public policies focused on digital financial inclusion. This component includes the support for implementing regulatory innovations such as innovations hubs, regulatory sandboxes, among others. The support should include consultancies, trainings, knowledge sharing, studies, and the generation of institutional capacity for the proper functioning of the regulatory innovations. In any case, strategies and action plans implemented. The activities in this component could be carried by individual or firm consultancies.
- 3.3 The total cost of the financing by the INS fund is expected to be US\$230,000

Indicative Budget

Activity/Component	Description	IDB/Fund Funding (US\$)	Total Funding (US\$)
Component 1	Payments Study	50,000	0
Component 2	Implementation of public policies for financial innovations	180,000	0
TOTAL		230,000	230,000

IV. Executing agency and execution structure

- 4.1 **Executing Agency.** The executing agency will be the IDB, through its Division of Connectivity, Markets and Finance (IFD/CMF), according to Annex II from OP-619-4. Through its experience and extended networks with governments and financial institutions in the region, the Bank will play a catalyzing role in the success of this TC. The TC will be executed by the Bank. The TC will be deployed with regulators, supervisors and public sector agencies as counterparties. IFD/CMF will coordinate with them to facilitate interaction and ease outcomes and results. Contracting by the Bank would enhance independence required for the objectives of the TC. Also, centralized efforts would avoid delays in the execution of support for institutional capacity. In Mexico, the beneficiary will be the National Banking and Securities Commission (CNBV), and in the Pacific Alliance the Ministries of Finance, Central Banks, and financial Commissions.
- 4.2 **Executing Plan.** Eligible institutions (public policy, regulatory and supervisory agencies) will deliver a timetable detailing dates and activities to be executed during the duration of the TC at an individual or regional level.
- 4.3 **Government Request.** Each country or group of countries will submit a Request Letter containing its specific demand, based on the components of the TC, to be eligible for its resources. Coordination within the Bank and each of the involved institutions from each eligible country will be direct. The Bank has received a request letter from the Pacific Alliance countries requesting the resources for a payments analysis and policy recommendations to improve the development of payments ecosystems in the group of countries. Also, the Bank received a request from Mexico for a consultancy to help CNBV and the Central Bank, among other authorities, in the implementation of Open Finance. Colombia and Argentina are expected to be applying for resources from the TC and in any case, the letters for non-objection, complementary or equivalent documents will be received before execution. Also, the letter should request IDB to be executing agency. In every case, the countries must have a country-wide decision approach as opposed to a single-agency approach.
- 4.4 **Procurement and financial management.** All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) [GN-2765-4](#) and Guidelines [OP-1155-4](#) for Consulting Firms for services of an intellectual nature and; (c) [GN-2303-28](#) for logistics and other related services.
- 4.5 **Monitoring and Evaluation.** The Executing Agency will hire an independent individual consultant to prepare a final evaluation report of the TC. The source for this activity will be administrative resources at IFD/CMF.

V. Major issues

5.1 This TC could have some potential risks:

Risks	Risk level	Mitigation Strategy
Institutional (Mexico)	Low	The implementation of credit transactional data will involve Dialogue with the main actors from the financial sector, including the incumbents and entrants (fintechs and bigtechs). The coordination of CNBV with other government agencies with the support of IDB will reduce the probability of difficulties in the implementation of the rules.
Legal (Mexico)	Low	The secondary regulations will account for the institutional and legal architecture in Mexico and will be supported by public-private dialogue. A legal framework review will mitigate any risks.
Institutional (Pacific Alliance)	Low	The pro-tempore Presidency of Colombia will cooperate with the Bank in the socialization of the payment systems recommendations. A Dialogue has been put in place with finance ministries and other financial authorities
Institutional (Regional)	Low	Based on the experience of previous operations, the TC has risks of having its products not fully appropriated or implemented by governments. The Bank has been working with the authorities in reinforcing the need for "country-wide policies", including every actor and allowing for execution of the activities.

VI. Exceptions to Bank policy

6.1 There are no exceptions to the Bank policy on this TC.

VII. Environmental and Social Strategy

7.1 This TC will not finance feasibility or pre-feasibility studies of investment projects nor associated environmental and social studies; therefore, it does not have applicable requirements from the Bank's Environmental and Social Policy Framework (ESPF)"

Required Annexes:

[Request from the Client - RG-T3967](#)

[Results Matrix - RG-T3967](#)

[Terms of Reference - RG-T3967](#)

[Procurement Plan - RG-T3967](#)