

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ 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; MARQUEZ, CLAUDIA (IFD/CMF); DE LA TORRE ORTIZ, SAHARA (IFD/CMF); ALMEIDA OLEAS, NATALIA (LEG/SGO); JAIME SARMIENTO (IFD/CMF)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	05 Aug 2021
▪ Beneficiary:	Public Institutions
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$230,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ 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):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Institutional capacity and rule of law; Gender equality

II. Objective and Justification

- 2.1 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.
- 2.2 Latin America and the Caribbean (LAC, the region) faces the need to improve the way in which people and companies access and use financial services. Only 54% of adults in LAC report having an account (by themselves or together with someone else) at a bank or another type of financial institution. Likewise, the financing gap for Micro, Small, and Medium Enterprises is still very high in LAC, reaching 50% of the regional Gross Domestic Product (GDP). The Fintech industry plays a fundamental role in this context by offering products and services that have superior product designs and innovative business models that, in turn, have been changing the dynamics of the financial services offer. Towards the end of 2020, a total of 2,301 Fintech platforms were identified in Latin America and the Caribbean, a significant jump of 97,6%, when compared to 2018 in which 1,166 companies were reported. Fintech and Financial Digital Inclusion Public Policies. These numbers create a case for regional policymakers in terms of the potential for Fintech as a disruptive industry to originate more vehicles for financial inclusion to enterprises. Institutional Capacity. With public policies such as the issuance of regulations focused on digital financial inclusion and Fintech, and innovations such as the regulatory sandboxes, policymakers need to develop their institutional capacity

III. Description of Activities and Outputs

- 3.1 **Component I: Component 1: Improvement of institutional capacity.** (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.
- 3.2 **Component II: 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, legal knowledge sharing, and the generation of institutional capacity for the proper functioning of the regulatory innovations.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1: Improvement of institutional capacity	US\$115,000.00	US\$0.00	US\$115,000.00
Component 2: Implementation of Public Policies	US\$115,000.00	US\$0.00	US\$115,000.00
Total	US\$230,000.00	US\$0.00	US\$230,000.00

V. Executing Agency and Execution Structure

- 5.1 The TC will be executed by the IDB through its Connectivity, Markets and Finance Division (IFD/CMF). Execution of this TC will be performed with regulatory agencies, central banks or any other government agency related to its objectives and activities.
- 5.2 The TC will be executed by the Bank. IFD/CMF will coordinate with regulators, supervisors and public sector agencies to facilitate interaction and ease outcomes and results. Contracting by the Bank would enhance independence required for the objectives of the TC. The interventions stemming from this TC will be demand-based and should be concentrated in the activities proposed in its components. The beneficiary institutions include financial regulators and supervisors, public development banks, competition and identity authorities, Ministries of Finance or Technology among others. For instance, the National Securities and Banking Commission of Mexico (CNBV), which has already approved its Fintech Law, has informally requested support from the Bank to develop secondary regulations for implementing Open Finance transactional data with the support of the Bank. On the other hand, the Pacific Alliance countries (Chile, Colombia, Mexico, Perú) through the pro-tempore Presidency of the Ministry of Finance of Colombia has requested funds for a regional innovation hub. Finally, Colombia, through its Financial Superintendence, has launched a regulatory sandbox and has consulted on the availability of funds for institutional capacity building, among others.

VI. Project Risks and Issues

- 6.1 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 agenda for the implementation of the innovation hub for the region. An inclusive, hands-on dialogue has been already planned to put in place the innovation hub with the collaboration of the financial authorities.

VII. Environmental and Social Classification

7.1 The ESG classification for this operation is "undefined".