

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	FINLAC: Knowledge and Dissemination Initiative on Financial Inclusion
▪ TC Number:	RG-T4054
▪ Team Leader/Members:	HERRERA FALLA, DIEGO MAURICIO (IFD/CMF) Team Leader; ZARATE MORENO, ANA MARIA (IFD/CMF) Alternate Team Leader; PARRADO, ERIC (RES/RES); LIMA DE MORAES, VITORIA (ORP/REM); NAVAJAS, SERGIO (MIF/MSM); GALLAGHER, TERENCE LIAM (INO/FLI); VARGAS MOGOLLON, DAVID LEONARDO (RES/RES); ESCOBAR GENES, MYRIAM HELVECIA (RES/RES); BACHELET, PABLO A. (KIC/URC); CAMERA, FERNANDA (KIC/KLD); ISABELLA ESPANA QUEZADA (IFD/CMF); MARTINEZ LOPEZ, CYNTHIA GUADALUPE (IFD/CMF); MARQUEZ, CLAUDIA (IFD/CMF); FONSECA, DANIEL FERNANDO (IFD/CMF); AZAR BARROS, KARINA (IFD/CMF); VERA COSSIO, DIEGO ALEJANDRO (RES/RES); JIMENEZ MOSQUERA, JAVIER I. (LEG/SGO)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	31 Mar 2022
▪ Beneficiary:	LAC countries
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$250,000.00
▪ 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/CMF - Connectivity Markets and Finance Division
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Social inclusion and equality ; Productivity and innovation ; Institutional capacity and rule of law; Gender equality; Diversity

II. Objective and Justification

- 2.1 The general objective of this Technical Cooperation (TC) is to improve, create and disseminate cutting-edge applicable knowledge to be used for the design and implementation and policies to increase financial inclusion in Latin America and the Caribbean (LAC). The specific objective is to speed up financial inclusion in the region through: (i) the generation of policy-relevant knowledge and data on financial inclusion; (ii) the dissemination of recommendations, best practices, and evidence on policies and innovations for building more inclusive financial markets; (iii) the promotion of partnerships across many sectors and industries, with a focus on bringing together the private and public sectors to work on common solutions.
- 2.2 LAC is one of the world's most underserved regions in financial services. The financial inclusion gap hurts development and thwarts the hopes of millions who want a better future. The region needs to improve how people and companies access and use

financial services. Adults over 15 years of age in the region, face limitations and persistent financing gaps: 51% of them are excluded, or exclude themselves, by not finding a value proposition from formal financial services, compared with 8% in high-income countries. A similar situation occurs with enterprises. The financing gap for Micro, Small, and Medium Enterprises MSMEs in the LAC reaches 35% of the regional Gross Domestic Product, contrasted to 10% less in comparable regions such as East Asia and the Pacific.

- 2.3 During the pandemic, the region witnessed a growing demand for digital-enabled financial services. Public transfers positively affected financial inclusion, as an indicator of this change. For instance, Brazil, Colombia, Argentina, and Uruguay, witnessed the creation of more than 40 million accounts due to subsidies distribution programs in 2020.
- 2.4 The financial sector is essential for productivity. The relevance of access to financing and the development of financial systems as a determining factor in the dynamics of productivity has been widely documented. The literature has provided empirical evidence that there is a causal relationship between the level of development of the financial system and economic growth through productivity.
- 2.5 Acknowledging this relevance, several governments have their financial inclusion strategy, and IDBs Country Development Challenges mention financial inclusion. There is, however, an opportunity to build knowledge to inform better the design and implementation of strategies, policies, regulations, and innovations so they can spur growth through increasing financial inclusion in the region and understand the current situation of the digital transformation in the financial sector and among MSMEs, both at the regional and country level.
- 2.6 As a result, policymakers could benefit from specialized datasets, allowing them to assess the extent of financial inclusion. Also, a comprehensive review of lessons learned derived from research and innovations in the region could be beneficial to implementing the region's public policy objectives better. The region faces several challenges: i. lack of systematized evidence; ii. the generation of new evidence; iii. lack of up-to-date information on the state of the digital transformation and recovery; iv. and engagement with policymakers and private-sector clients require a multi-sectoral, transversal approach.
- 2.7 This TC is consistent with the Update to the Institutional Strategy (AB-3190-2) and the IDBGs Vision 2025, as it will provide both key data and evidence on the intersection of financial inclusion and investments on digitalization, integration and SMEs' growth and other areas which are central to Vision 2025. Also, the TC's activities and results are aligned with the expected results of the Effective, Efficient and Transparent Institutions priority area of the Ordinary Capital Strategic Development Program (GN-2819-14). Finally, the knowledge created and systematized, and the data gathered as part of the TC activities will inform the operational program of the Bank.

III. Description of Activities and Outputs

- 3.1 **Component I: Component 1: Smart knowledge repository.** . This component will support creating a knowledge products smart repository, including but not limited to data dashboards and documents previously published by IDBG on financial inclusion and the financial sector digitalization. The TC will promote collaborations with the private sector and other relevant stakeholders to identify and measure regional and national gaps in financial inclusion. Secondly, the TC will build an internal inventory of knowledge products and conduct in-depth analysis.
- 3.2 **Component II: Component 2: Generation of knowledge on public-private initiatives that promote financial inclusion..** This component will finance activities to generate policy-relevant evidence by managing and launching annual calls for

proposals targeted at technically rigorous projects. Areas of work will be selected in coordination with all relevant units of the Bank (CMF, IDB Lab, IDB Invest and RES) and external partners (in coordination with ORP and KIC). Priority areas identified are: financial inclusion of vulnerable populations; digital transformation; payments ecosystems; open finance.

- 3.3 **Component III: Component 3: Dissemination..** This component will finance activities to disseminate best practices, knowledge, and insights to promote practical collaboration and replicability. Activities include the development of events to share findings and promote dialogue among all stakeholders regarding financial inclusion in the region and the dissemination of products such as videos and blogs. It will build on past, and current IDBG experiences (Foromic, Fintech LAC, Public-Private Dialogue) but will have an agnostic approach.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1: Smart knowledge repository.	US\$100,000.00	US\$0.00	US\$100,000.00
Component 2: Generation of knowledge on public-private initiatives that promote financial inclusion.	US\$140,000.00	US\$0.00	US\$140,000.00
Component 3: Dissemination.	US\$10,000.00	US\$0.00	US\$10,000.00
Total	US\$250,000.00	US\$0.00	US\$250,000.00

V. Executing Agency and Execution Structure

- 5.1 The IDB will be the executing agency for this TC through IFD/CMF, in line with the "Operational Guidelines for Technical Cooperation Products" (GN-2629-1) and Annex II (OP-619-4). IFD/CMF has ample experience and a proven record of successfully executing similar projects. Likewise, the TC team has the necessary expertise to ensure compliance with the relevant procurement policies and procedures. The activities will be carried out in close coordination with RES/RES, KIC, IDBLab, IDBInvest, IFD/IFD, and the focal points in other relevant units.
- 5.2 The Bank will be responsible for selecting and hiring the consulting services. All activities under this TC have been included in the Procurement Plan (see Annex II) and will be contracted following 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. All products from this TC will be the intellectual property of the Bank.
- 5.3 To ensure proper execution of the proposed program, the project team will fulfill all the annual and periodical monitoring requirements established by the Bank, and a final evaluation, under current policies and procedures for this type of operations.
- 5.4 Given the regional nature of the TC, the technical expertise in the identified field of work, and all research activities will be coordinated by the Bank; it is sensible that the administration of the resources is centralized.

VI. Project Risks and Issues

- 6.1 There are two main risks identified for this TC. After this TC has been executed, the first one is associated with the sustainability of the initiative and platforms, both content and financial resources. To mitigate this risk, the Bank is working to strengthen strategic partnerships with the private sector, donors, and other relevant actors willing to support the initiative's efforts and implement the activities. Furthermore, the team will engage early to fund complementary activities in a second phase, improve further, and create and disseminate cutting-edge applicable knowledge for the design, implementation, and policies to enhance financial inclusion in LAC. The second risk identified is lack of qualified researchers and quality of proposals. The team plans to conduct an aggressive campaign through websites, social media, and direct emails to mitigate this risk.

VII. Environmental and Social Classification

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