

TECHNICAL COOPERATION (TC) DOCUMENT

I. BASIC INFORMATION

▪ Country/Region:	Regional
▪ TC Name:	Digital Finance 2025: Institutions and Innovation for Financial Inclusion in LAC
▪ TC Number:	RG-T2506
▪ Team Leader/Members:	Sylvia Gabriela Andrade (IFD/CMF), Team Leader; Gloria Lugo (IFD/CMF); Antonio Garcia (IFD/CMF), Monica Lugo (LEG/SGO), and Stephanie Suber (IFD/CMF)
▪ Operation Type	Client Support
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	June 4, 2014
▪ Beneficiary:	Latin America and Caribbean countries (LAC)
▪ Executing Agency and contact name	Inter-American Development Bank, through IFD/CMF
▪ Donors providing funding:	Special Program for Institutional Development
▪ IDB Funding Requested:	250,000
▪ Disbursement period	36 months
▪ Required start date:	November 1st, 2014
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	IFD/CMF
▪ Included in Country Strategy or CPD:	No (Regional)
▪ GCI-9 Sector Priority:	Growth and Social Equity

II. OBJECTIVE AND JUSTIFICATION

- 2.1 The catalytic role of technological innovations and new business models to facilitate financial inclusion is widely accepted and documented¹. The delivery of financial services through digital channels, in particular mobile, offer the greatest potential for reducing the costs of reaching a broader population and expanding operations in remote areas, while also enhancing the convenience of accessing the services, thereby tackling two of the main obstacles limiting financial inclusion. The experience in countries where digital financial services² are more widely available suggests that this can be indeed a relevant and fast way of providing access to financial services³.
- 2.2 The objective of this TC is to enhance financial inclusion in LAC by supporting the identification and the design of financial regulatory frameworks⁴ and institutional structures that promote the

¹ Please see: Demirguc-Kunt and Klapper (2012), Kapoor et al. (2007), Mendoza and Thelen (2008), Morawczynski (2009). At the political level, promoting technological and institutional innovation as a mean to expand financial system access and usage is one of the priorities of the Global Partnership for Financial Inclusion by G20 leaders.

² The concept of “digital financial services” is broader than “mobile financial services” as it includes electronic payments (by cards) in addition to mobile payments.

³ In Tanzania, for instance, the provision of mobile financial services helped to reduce the proportion of adults who were completely excluded from the financial system from 55% to 27% between 2009 and 2013.

⁴ While the focus of this TC is the financial sector regulatory frameworks, regulatory implications from the telecommunications standpoint will also be highlighted when merited.

supply and demand of digital financial services while also ensuring that the stability of the system is preserved and that consumers are protected. This objective would be achieved via: (i) deepening the knowledge of existing business models for the provision of digital financial services as well as the type of innovations and new technologies expected in the next 10 years; (ii) identifying the type of regulations and institutional arrangements that need to be in place to foster an adequate supply of digital financial services while also promoting competition among providers and product innovation; and (iii) supporting two countries in the application of these activities.

- 2.3 **Justification.** Despite the potential offered by digital finance and the relative high penetration of mobile phones, LAC still shows low levels of access and use of digital payments. While the use of electronic payments is larger in LAC than for the aggregate of middle income countries (10.3% of adults in LAC reported using electronic payments versus 5.4% of adults in middle income countries), the proportion of the population with access is still low and concentrated in the richer segments and in urban areas⁵. Mobile payments in LAC are still emerging, and currently a very small percentage of the population are using them (less than 2% of adults in LAC reported using of a mobile phone to pay bills or receive money, whereas this percentage reaches 16% in Sub-Saharan Africa). In terms of provision, out of the 219 mobile money services, defined as the use the mobile phone to transfer money and make payments to the underserved, which existed by the end of 2013 in 84 countries, only 13% were in LAC⁶. The limited availability of digital payments, in turn, precludes the provision of digital financial services, and thus, the delivery of financial inclusion⁷.
- 2.4 Regulatory barriers have been one of the key factors hindering the expansion of mobile money in LAC, and the extent of services currently offered in each country reflects what is feasible under existing regulations. A few countries, such as Peru, Paraguay and Colombia, have recently established clear regulatory and institutional frameworks for mobile money, while several other countries are still on the designing phases. And even though there is an heterogeneity of approaches among these frameworks⁸, they are generally only addressing mobile money or payments (first stage) but not the eventual provision of financial services through digital platforms (second stage), which entail even more complex regulatory and institutional issues that will need to be nonetheless addressed in the next 10 years along with the advances in digital innovations (hence “Digital Finance 2025”). The different challenges in every stage merit a differentiated approach, while the lessons learned of the more advanced cases can eventually inform those that are still developing.
- 2.5 On the other hand, low levels of usage of available digital payments can also undermine the business case for expanding the provision of services. The almost immediate cash-out of digital payments, for instance, is still quite prevalent, resulting in low transactional levels that, in turn, affect the business case of servicing the target population, which is largely based on volume. As such, achieving higher levels of usage is equally important for keep expanding financial inclusion.

⁵ Only 3.5% of adults in the bottom 40% of the income distribution, and only 6.9% of adults in rural areas report using electronic payments. All data regarding access and use is from the Global Findex Database, 2011.

⁶ A total of 19 new mobile money services are expected to be launched in LAC, reflecting in part regulatory reforms that are becoming more enabling (GSMA’s Mobile Money for the Unbanked Programme, 2013).

⁷ An expansion in the use of digital payments does not necessarily entail financial inclusion, which implies the access and use of a set of financial services provided with quality and at reasonable cost.

⁸ For instance, few countries have created a new license for electronic money providers within the system.

To address low usage levels, providers need to innovate in product design so as to offer a clear value proposition for clients in the target segments, for which competition among market players is required. Regulatory frameworks thus should also promote a leveled playing field and competition among services providers, and should also address the different elements of the digital finance ecosystem, such as cash-in cash-out (CICO) agents, which can also affect the level of usage.

- 2.6 The benefits of a broader availability of digital financial services go beyond financial inclusion, offering also ways to innovate in the relation between governments and citizens. The ability to transact digitally would facilitate, for instance, the payment of public basic services and taxes, notably for local and municipal taxes that tend to be easily estimated. The use of digital channels for government payments to citizens and employees can also greatly reduce the cost of delivering programs, leakages and corruption⁹, while also proving more convenience to recipients. Moreover, the progressive digitalization of transactions increases transparency and fosters formalization relative to cash transactions that can go undetected. This in turn, can translate in improved tax collection and reduced fraud. Importantly, digital transactions reduce the need to maintain and transport cash, which translates in lower operational costs and in enhanced security for all users.
- 2.7 **GCI-9 Priorities.** By supporting the expansion of access to financial services to low income households, this TC supports the Institutions for Growth and Social Welfare GCI-9 Priority. This TC will also contribute to IFD/CMF's Financial Inclusion Support Program, and to the objective of improving the quality of services for citizens of the Special Program for Institutional Development. By encompassing all digital channels, notably the mobile channel, this TC will be complementary to the TC "Using Broadband to Enhance Financial Inclusion" (RG-T2442), which has a narrower scope by focusing on web-based systems for financial service delivery, and thus entail an also different scope of regulatory and public policy implications.¹⁰

III. DESCRIPTION OF ACTIVITIES/ COMPONENTS AND BUDGET

- 3.1 The project will have three components: (i) Analysis of the business models (both existing and those expected to emerge) and the required regulatory and institutional arrangements; (ii) Support to the implementation in two countries, and (iii) Knowledge Dissemination.
- 3.2 **Component 1. Analysis of business models and the required regulatory and institutional arrangements.** This component will include two activities:
- a. **Background Paper.** This paper will clearly delineate the basic characteristics that financial regulatory frameworks should have to enable and promote digital financial services. To this end, the paper will analyze (i) the main existing business models for providing digital payments and digital finance, including the experiences in other regions; (ii) the expected or

⁹ In Brazil switching to electronic delivery of Bolsa Familia grants led to a drop in administrative costs from 14.7% of the grant value to 2.6%. The Mexican government's shift to digital payments trimmed its spending on wages, pensions, and social welfare by 3.3 percent annually, or nearly \$1.3 billion (Babatz, 2013).

¹⁰ Operation RG-T2442 is not focused on the financial regulation aspects of web-based delivery, although the Background Paper will provide some basic recommendations in that regard that will be used as inputs to this TC.

possible trends and prospects for the provision of digital financial services during the next 10 years in the LAC context; and (iii) what are the basic features of a regulatory framework that are deemed appropriate to foster innovation and the provision of adequate digital financial products. This paper will fill the knowledge gap related to existing and, notably, the expected future business models in LAC, as well as the type of regulatory and institutional aspects that need to be considered as we transition to a more digitalized world, taking also into account the specific characteristics of the regulatory and institutional landscape in LAC¹¹.

- b. **Differentiated Analysis and Recommendations by Stage Paper.** For Stage 1 countries (i.e. those countries that still do not have mobile money/payments regulations), and on the basis of the findings of the Background paper and the lessons learned in countries that have already passed Stage 1, the study will make an in-depth analysis and recommendations regarding the regulatory aspects that need to be in place for fostering digital payments, taking into account that different approaches are possible, and thus also highlighting the advantages and disadvantages of each. For Stage 2 countries (i.e. those with mobile money/payments regulations already in place), also on the basis of the findings of the Background paper and the lessons learned in the few countries where a breadth of digital financial services is being offered, the study will make an in-depth analysis and recommendations regarding the regulatory and institutional aspects that need to be in place for fostering the provision of digital financial services, including savings, credit, and insurance, as well as other potential solutions such as innovative payment mechanisms through digital platforms. Please note that these analyses are not country specific but rather “stage” specific with the objective of providing a set of common basic principles that regulations at each stage should contain.

3.3 The audience of these studies will be policy makers, particularly financial sector and telecommunications regulators, private sector players and industry leaders, as well as the broader development community in LAC. Validation workshops with both the providers of services and regulators will be included as part of each activity in order to receive feedback from all relevant stakeholders. The knowledge generated through this TC will also inform the design of future Bank operations in support of financial inclusion.

3.4 **Component 2. Support to the implementation in two countries.** This component will provide technical assistance to two countries, each at a different stage, for two main activities:

- a. **Diagnostic and recommendation.** On the basis of the knowledge generated in component one, and a diagnostic of the existing regulatory framework in the country¹², this activity will provide specific recommendations for the institutional and regulatory arrangements that would be required in that specific country; and
- b. **Support to the implementation.** This activity will support the implementation of country recommendations, and may include, consulting services for the design of frameworks or laws,

¹¹ LAC has some characteristics that are broadly different from those in the regulatory and institutional landscape in the African countries where digital finance evolved more rapidly.

¹² The diagnostics will also take into account the applicable regulatory recommendations stemming from the operation “Using Broadband to Enhance Financial Inclusion” (RG-T2442).

specific training, the facilitation of discussions between the relevant public sector institutions and private sector actors, among others. Given the early stage of development of this topic in the region and given the disparities in the initial conditions and challenges in each country, the mix of the activities implemented through consulting services and the respective funding would be determined based on the characteristics and needs of each country and participating institution.

3.5 The selection of the two countries that will receive the assistance will be based on demand and will follow specific criteria. For Stage 1, countries without an existing regulatory framework for mobile money will qualify, and the selection will depend on the commitment –and feasibility- to introduce the respective measures in a reasonable period of time. For Stage 2 countries, only countries with an existing regulation and functioning digital payment services will qualify, and the selection will depend on the commitment -and feasibility- to design and prepare a new round of regulations and institutional arrangements (or reforms)¹³. Public sector institutions and officials expected to participate in these activities are those from the financial sector (notably regulators) and from other relevant institutions such as the Telecommunications Ministry or regulator. This component will result in two clear interventions aimed at improving the delivery of digital payments and services to citizens, especially the unserved and underserved populations and firms. It will also generate valuable knowledge and lessons learned that can be used by all the other countries in the region that will be transitioning between stages.

3.6 **Component 3. Knowledge Dissemination.** This component will include the preparation of dissemination material, including brochures and a video, and a Regional Conference where policy makers in LAC, industry leaders, and other stakeholders can discuss the way forward for promoting digital finance and financial inclusion in LAC given the intelligence generated through this TC. All the material will also be disseminated through the SPID's website (www.iadb.org/spid).

Table 1: Results Framework

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		Baseline		End-of Project		Expected Completion Date	Data Source
	Unit	Value	Year	Planned	Actual		
Analysis of business models and the regulatory and institutional arrangements							
Copies of Background Paper Distributed	#	0	2015	100		04/31/2015	Project Documents
Number of private sectors providers and regulators participating in the validation sessions	#	0	2015	30		07/31/2015	Project documents
Copies of the study with differentiated analysis and recommendations by stage distributed	#	0	2015	100		06/31/2015	Project documents
Support to the implementation in two countries							

¹³ The selection of countries will be based on demand, which is expected to be generated on the basis of the knowledge and recommendations generate in component 1, and will require a commitment from authorities to introduce new regulation or pursue a regulatory reform. Letters of request or non-objection from the official country counterparts will be secured once the countries have been selected.

Number of reports containing country-specific recommendations	#	0	2014	2		09/31/2015	Project documents
Number of Countries implementing new laws, regulations or norms for digital financial services	#	0	2014	2		12/31/2016	Project documents
Knowledge Dissemination							
Number of internet hits of Background Paper	#	0	2016	400		12/31/2016	IDB/FOMIN Financial Inclusion Website
Number of internet hits of the video	#	0	2016	250		12/31/2016	IDB/FOMIN Financial Inclusion Website
Number of countries represented at regional conference	#	0	2015	20		10/2015	Project documents.

3.7 **Budget.** The project is estimated to require US\$250,000

Table 2: Budget

Activity/Component	Description	IDB/Fund Funding	Total Funding
Component 1. Analysis of business models and the required regulatory and institutional arrangements¹⁴		130,000	130,000
Background Paper	Preparation (individual Consultant)	57,000	57,000
	Validation	13,000	13,000
Differentiated analysis and recommendations by stage	Preparation (individual Consultant)	45,000	45,000
	Validation	15,000	15,000
Component 2. Support to the implementation in two countries		90,000	90,000
Support country Stage 1	Recommendations & Implementation	45,000	45,000
Support country Stage 2	Recommendations & Implementation	45,000	45,000
Component 3. Knowledge Dissemination		30,000	30,000
Dissemination material	Production	8,000	8,000
Regional Conference	Organization	22,000	22,000
TOTAL		250,000	250,000

3.8 Monitoring will be based on the documentation generated. No formal evaluation report for the entire project will be prepared but an end-of project report will be prepared by the team leading the implementation of component 2 in each country. This report will summarize the execution, the results obtained, as well as the lessons learned for future projects of this nature.

IV. EXECUTING AGENCY AND EXECUTION STRUCTURE

4.1 The IDB will be the executing agency for this TC, through IFD/CMF acting as the executing and supervision unit. IFD/CMF has extensive experience executing similar types of demand-driven TC

¹⁴ Budget includes translation to English or Spanish.

programs that promote access to financial services. All contracting will be conducted by the Bank. For the second component, the Bank will execute the activities in coordination with, and with the support from, the corresponding public sector institution in each beneficiary country. The letter of request secured from each country for the implementation of the activities will include its commitment to cooperate with the Bank by providing all necessary logistical support, information and access for the successful implementation of the activities. The support may include: (i) organizing and coordinating the participation of other actors, including private service providers as well as other relevant public sector entities, depending on the type of support to be received; (ii) providing information on the execution of the initiative being supported by the Bank; and (iii) providing the data for the project results indicators and drafting the end-of project report.

- 4.2 The execution of the project will follow Bank Financial Management Policy for IDB-financed Projects (OP-273-2). The contracting of consulting as well as of non-consulting services will observe the following policies and procedures, AM-650, GN-23250-9, and GN-2303-20, as applicable.

V. MAJOR ISSUES

- 5.1 The main risk foreseen for this project relates to the countries' demand for participation, particularly for Stage 2 countries since there is a smaller pool of possible candidates. Nonetheless, as part of policy dialogue activities organized by IFD/CMF, notably in (i) a Financial Inclusion conference in April 2014; and (ii) A regional workshop on promoting mobile financial services in LAC in September 2014, most policy makers in LAC have stated that promoting the adequate regulation and institutional framework for the development and use digital solutions for financial inclusion is part of their policy agenda. Moreover, this topic is progressively gaining importance within the development agendas and several countries are preparing a national strategy for financial inclusion, where typically regulatory and institutional aspects for technological innovations in financial services are included. As such, is expected that will be sufficient demand from countries to participate in the program. A challenge for the implementation of the lessons learned generated by this TC relates to the difficulty of applying and adapting findings across countries with different regulatory frameworks. To address this challenge the recommendations will identify the set of common basic principles that this type of regulations should contain.

VI. EXCEPTIONS TO BANK POLICY

- 6.1 None.

VII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 7.1 There are no environmental or social risks associated with the activities outlined in this TC. Therefore its environmental classification according to the Environment and Safeguards Compliance Policy (OP-703) is "C". See [Safeguard Policy Filter Report \(SPF\)](#) y [Safeguard Screening Form \(SSF\)](#).

Digital Finance 2025: Institutions and Innovation for Financial Inclusion in LAC

Terms of Reference

Background Paper

I. Background

1. Innovations that involve leveraging ICTs together with low-price high-volume pricing strategies can greatly facilitate financial inclusion. Credit cards, debit cards and ATMs, for instance, have already transformed the access points for many users around the world. Digital channels, in particular mobile, offer the greatest potential for reducing the costs of reaching a broader population and expanding operations in remote areas, while also enhancing the convenience of accessing the services, thereby tackling two of the main obstacles limiting the financial inclusion excluded or underserved segments. In Kenya and Tanzania, for instance, the rapid expansion of mobile money not only helped to decrease the proportion of adults who were excluded from the financial system but it also paved the way for the emergence – albeit slow- of a new array of digital financial services¹.
2. Despite the potential benefits of digital finance and a relative high penetration of mobile phones, LAC still shows low levels of access and use of digital payments. Only 10.3% of adults use electronic payments and the incidence is even lower within the poorer segments and in rural areas². Mobile payments are still emerging, with less than 2% of adults reporting the use of a mobile phone to pay bills or receive money, percentage that reaches 16% of adults in Sub-Saharan Africa. LAC's relative success in terms of expanding the banking agent model can probably explain part of the different evolution in terms of digital financial services, but it also entails a more specific approach for the Region, which calls for the integration of mobile services with the existing financial infrastructure.
3. Regulatory barriers have been one of the key factors hindering the expansion of mobile money in LAC. A few countries in LAC, such as Peru, Paraguay and Colombia, have recently established clear regulatory and institutional frameworks for mobile money, while several other countries are still on the designing phases. And even though there is an heterogeneity of approaches among these frameworks³, they are generally only addressing mobile money or payments (first stage) but not the eventual provision of financial services, including credit, savings and insurance, among others, through digital platforms (second stage). These entail even more complex regulatory issues that will need to be nonetheless addressed in the next 10 years along with the advances in digital innovations 10 years along with the advances in digital innovations and the emergence of new digital “market places”.
4. Nonetheless, the experience of more developed markets suggest that even where robust digital platforms are in place, the levels of usage are low, and several challenges remain in the ecosystem, notably those related to interoperability and the liquidity and risk

¹ The concept of “digital financial services” is broader than “mobile financial services” as it includes electronic payments (by cards) in addition to mobile payments.

² Only 3.5% of adults in the bottom 40% of the income distribution, and only 6.9% of adults in rural areas report using electronic payments. All data regarding access and use is from the Global Findex Database (2011)

³ For instance, few countries have created a new license for electronic money providers within the system.

management of cash-in cash-out (CICO) agents. Low levels of usage and the immediate cash-out of digital payments in turn, undermine the business case for expanding the provision of digital financial services. To increase usage, providers need to innovate in product design so as to offer a clear value proposition for clients in the target segments, for which competition among market players is required. Regulatory frameworks thus should also promote a leveled playing field and competition among services providers, and should also address the different elements of the digital finance ecosystem.

5. The exact evolution of the industry and business models in the next 10 years is still uncertain and will depend on the competition and collaboration among market players, the entrance of new players and/or specialized start-ups, the development of new innovations and the respective deployment and usage costs, the design of new products and services for consumers, among others. In any case, regulatory frameworks will likely have a role in promoting, accelerating or slowing the trends in digital financial services; as such, an early analysis and discussion of the main regulatory and institutional elements that should be taken into account to enable digital finance and innovation in the medium term is also merited.
6. With the objective of enhancing financial inclusion in LAC by supporting the identification and the design of regulatory frameworks and institutional structures that promote the supply and demand of digital financial services, the IDB has developed the program “Digital Finance 2025: Institutions and Innovation for Financial Inclusion in LAC” (RG-T2506). The program includes three components. The first component will generate knowledge regarding the business models for providing digital financial services (both existing and those expected to emerge), as well as the required regulatory and institutional arrangements needed to foster them, including a separate analysis distinguishing those countries that already have mobile or digital payments regulatory frameworks in place from those that do not. The second component will provide support for the implementation of the recommendations in two countries, and the third component will focus on the dissemination of the knowledge generated. This study represents the initial activity of the first component of the program. The audience of this paper is targeted to policy makers, financial institutions and the broader development community in the Region.

II. Objective

7. Provide a description of the main current business models for digital financial services and those expected to emerge in the next 10 years, as well as a review of the basic features of the regulatory and institutional frameworks that should be in place to enable and promote the supply of these services. Acknowledging that it is not possible to predict the exact evolution of the industry in the medium and long term, the paper should present trends and develop a set of potential scenarios for the evolution in the next 10 years. The exact drivers of such scenarios will be agreed upon the presentation of the work plan and outline (see section IV).
8. The paper should include: (i) a detailed explanation of the main business models and the elements of the ecosystems for digital financial services; (ii) challenges and key lessons learned outside and within LAC; (iii) a description of current applications in the world and in LAC, as well as the breadth of financial services that can be eventually offered digitally, including but not limited to savings, credit, insurance, (iv) a set of scenarios regarding new

potential business models and or the evolution of the industry, (v) an identification of the regulatory issues that might be currently hindering an expansion in digital financial services, and (vi) an analysis and description of the basic features that the regulatory framework should have in order to enable and promote the supply of digital financial services (beyond payments), while ensuring product innovation and also preserving the stability of the system and the personal finances of individuals.

III. Characteristics of the Consultancy

- i. Type of Consultancy: Individual
- ii. Start Date: TBD
- iii. Duration and Location: 3 months
- iv. Requirements: (a) Financial Service Delivery expert, with expertise in digital/mobile channels to provide financial services to the unserved or underserved population. (b) Knowledge and experience in the regulatory aspects of mobile/digital financial services and the regulatory aspects. (c) Knowledge of Latin American financial markets.

IV. Activities

- i. Literature Review.
- ii. Interviews with current service providers in developed and emerging market economies including LAC, other experts in the field, senior executives of financial institutions in LAC and officials of relevant regulatory agencies.
- iii. Collection of relevant data on usage of digital financial services and estimates of their growth.
- iv. Preparation of a set of scenarios for the evolution of the digital finance industry in the 10 years, including a description of the drivers of each scenario.
- v. Preparation of draft and final report that cover the objectives noted above.

IV. Products (Provided electronically in Spanish or English).

- i. Proposed Outline of Report and Work plan. 1 week after signing of contract.
- ii. Draft Report
- iii. Presentation of key finding and recommendations.
- iv. Final Report

V. Payments

- i. 30% upon signing of contract. 30% upon presentation of draft report. 40% upon approval of final report.

VI. Supervision

- i. IFD/CMF

Digital Finance 2025: Institutions and Innovation for Financial Inclusion in LAC

Terms of Reference

Differentiated Analysis and Recommendations by Stage Paper

I. Background

1. Innovations that involve leveraging ICTs together with low-price high-volume pricing strategies can greatly facilitate financial inclusion. Credit cards, debit cards and ATMs, for instance, have already transformed the access points for many users around the world. Digital channels, in particular mobile, offer the greatest potential for reducing the costs of reaching a broader population and expanding operations in remote areas, while also enhancing the convenience of accessing the services, thereby tackling two of the main obstacles limiting the financial inclusion excluded or underserved segments. In Kenya and Tanzania, for instance, the rapid expansion of mobile money not only helped to decrease the proportion of adults who were excluded from the financial system but it also paved the way for the emergence – albeit slow- of a new array of digital financial services¹.
2. Despite the potential benefits of digital finance and a relative high penetration of mobile phones, LAC still shows low levels of access and use of digital payments. Only 10.3% of adults use electronic payments and the incidence is even lower within the poorer segments and in rural areas². Mobile money services, defined as the use the mobile phone to transfer money and make payments, are still emerging, with less than 2% of adults reporting the use of a mobile phone to pay bills or receive money, percentage that reaches 16% of adults in Sub-Saharan Africa.
3. Regulatory barriers have been one of the key factors hindering the expansion of mobile money in LAC. Nonetheless, there has been an increasing trend towards the definition of regulatory frameworks for mobile money and currently countries such as Colombia, Bolivia, Brazil, Guatemala, Mexico, Paraguay and Peru, have approved regulatory arrangements for mobile money. Nonetheless, there is a heterogeneity of approaches among the new and emerging frameworks³, which is mainly driven by the type of institutions that can provide mobile financial services. In cases such as Guatemala and Mexico, it is clearly stated that only entities that are part of the financial system, in particular banks, can develop and provide digital financial services, which are understood as channels for the provision of traditional financial services. In other countries, regulations aim to facilitate the entry of a different type of entities which would operate independently and that would be subject to the regulation and supervision of the financial authority, adapting the regulatory requirements in function of the risk assumed.
4. Despite these advances, most of these new or emerging regulatory frameworks are generally

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³ For instance, few countries have created a new license for electronic money providers within the system.

only addressing mobile money or payments (stage 1) but not the eventual provision of financial services, including credit, savings and insurance, among others, through digital platforms (stage 2). These entail even more complex regulatory issues that will need to be nonetheless addressed in the next 10 years along with the advances in digital innovations and the emergence of new players and digital “market places”. As such, looking forward, regulatory frameworks should also promote a leveled playing field and competition among services providers, which is needed to foster product innovation and reduce the cost for users.

5. With the objective of enhancing financial inclusion in LAC by supporting the identification and the design of regulatory frameworks and institutional structures that promote the supply and demand of digital financial services, the IDB has developed the program “Digital Finance 2025: Institutions and Innovation for Financial Inclusion in LAC” (RG-T2506). The program includes three components. The first component will generate knowledge regarding the business models for providing digital financial services (both existing and those expected to emerge), as well as the required regulatory and institutional arrangements needed to foster them, including a separate analysis distinguishing those countries that already have mobile or digital payments regulatory frameworks in place from those that do not. The second component will provide support for the implementation of the recommendations in two countries, and the third component will focus on the dissemination of the knowledge generated.
6. This paper represents the second activity of the first component of the program, and is intended to provide in-depth recommendations for the different aspects that regulatory frameworks for digital financial services should encompass. The analysis and recommendations should take as a reference the findings of the Background Paper, which constitutes the initial activity of the first component of the Program and which will provide the basic information regarding the business models for digital finance as well as the set of basic features that the regulatory frameworks should have to enable and promote the supply of these services. The analysis and recommendations should make a differentiation between the regulatory issues in countries still in stage 1 (i.e. those still without a mobile money regulation) and those in countries closer to stage 2. The audience of this paper is targeted to policy makers, notably financial sector regulators, financial institutions and the broader development community in the Region.

II. Objective

7. Provide in-depth analysis and recommendations for the regulatory frameworks and arrangements in support of digital financial services, making a differentiation between stages 1 and 2. For Stage 1, and on the basis of the findings of the Background paper and the lessons learned in countries that have already passed Stage 1, the study will make an in-depth analysis and recommendations regarding the regulatory aspects that need to be in place for fostering digital payments, taking into account that different approaches are possible, and thus also highlighting the advantages and disadvantages of each. For Stage 2 countries, also on the basis of the findings of the Background Paper and the lessons learned in the few countries with a more prevalent use of digital financial services, the study will make an in-depth analysis and recommendations regarding the regulatory and institutional aspects that need to be in place for fostering the provision of digital financial services, including savings,

credit, and insurance, as well as other potential solutions such as innovative payment mechanisms through digital platforms. Considering the forward looking objective of the Program, the paper should pay more attention to stage 2 issues and challenges.

8. The paper should analyze and provide recommendations for regulations in areas including, but not limited to⁴: (i) payments; (ii) mobile money and electronic fund transfers; (iii) electronic commerce; (iv) electronic signatures; (v) banking correspondents and cash-in cash-out agents, (vi) KYC requirements, (vii) consumer protection, (viii) interoperability, (ix) P2P, crowdfunding and marketplace lending, and (x) security of data and personal information. The recommendations should take into account the specific characteristics of the regulatory and institutional landscape in LAC⁵.

III. Characteristics of the Consultancy

- i. Type of Consultancy: Individual
- ii. Start Date: TBD
- iii. Duration and Location: 2 months
- iv. Requirements: (a) financial regulation expert with experience in Latin America. (b) Experience in the regulatory aspects of mobile/digital financial services)

IV. Activities

- i. Literature Review
- ii. Review and analysis of existing regulatory frameworks in LAC and collection of best practices and lessons learned from within and outside LAC.
- iii. Preparation of draft and final report that cover the objectives noted above.

IV. Products (Provided electronically in Spanish or English).

- i. Proposed Outline of Report and Work plan. 1 week after signing of contract.
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VI. Supervision

- i. IFD/CMF.

⁴ The final selection of required topics will depend on the findings of the Background paper, which constitutes the first activity in the component financing this study.

⁵ LAC has some characteristics that are broadly different from those in the regulatory and institutional landscape in the African countries where digital finance evolved more rapidly.

PROCUREMENT PLAN FOR NON-REIMBURSABLE TECHNICAL COOPERATIONS										
Country: Regional					Executing agency: IFD/CMF				Public or private sector: Public	
Project number: RG-T2506					Title of Project: Digital Finance 2025: Institutions and Innovation for Financial Inclusion in LAC					
Period covered by the plan: Nov 2014 - Dec 2015										
Threshold for ex-post review of procurements:				Goods and services (in US\$): _____		Consulting services(in US\$): _____ 250,000 _____				
Item Nº	Ref. AWP	Description (1)	Estimated contract cost (US\$)	Procurement Method (2)	Review of procurement (ex-ante or ex-post) (3)	Source of financing and percentage		Estimated date of the procurement notice or start of the contract	Technical review by the PTL (4)	Comments
						IDB/MIF %	Local/other % (IN KIND)			
1		Component 1: Analysis of business models and the required regulatory and institutional arrangements								
		Individual consultants								
		Background Paper	57,000	QCII	Ex-post	100%		Q3 2014 Q1 2015	N/A	
		Differentiated Analysis and Recommendations by Stage Paper	45,000	QCII	Ex-post	100%		Q1 2015 Q2 2015	N/A	
		Non consulting services								
		Validation workshop for Background Paper (rental of rooms, interpretation services when needed, sound and viedo systems, preparation of materials, etc)	13,000	PC or DC	Ex-post	100%		Q1 2015	N/A	
		Validation workshop for Differentiated Analysis and Recommendations by Stage Paper (rental of rooms, interpretation services when needed, sound and viedo systems, preparation of materials, etc)	15,000	PC or DC	Ex-post	100%		Q2 2015	N/A	
2		Component 2: Support to the implementation in two countries								
		Consulting Services								
		Diagnostic and support to implementation Country 1	45,000	QCII	Ex-post	100%		Q22015 Q3 2015	N/A	
		Diagnostic and support to implementation Country 2	45,000	QCII	Ex-post			Q22015 Q3 2015	N/A	
3		Component 3. Knowledge Dissemination								
		Non consulting services								
		Production of dissemination material	8,000	PC or DC	Ex-post	100%		Q22015 Q3 2015	N/A	
		Regional Conference	22,000	PC or DC	Ex-post	100%		Q22015 Q3 2015	N/A	
Total			250,000	Prepared by: IFD/CMF			Date: 10/01/2014			
(1) Grouping together of similar procurement is recommended, such as computer hardware, publications, travel, etc. If there are a number of similar individual contracts to be executed at different times, they can be grouped together under a single heading, with an explanation in the comments column indicating the average individual amount and the period during which the contract would be executed. For example: an export promotion project that includes travel to participate in fairs would have an item called "airfare for fairs", an estimated total value od US\$5,000, and an explanation in the Comments column: "This is for approximately four different airfares to participate in fairs in the region in years X and X1".										
(2) <u>Goods and works</u> : CB: Competitive bidding; PC: Price comparison; DC: Direct contracting.										
(2) <u>Consulting firms</u> : CQS: Selection Based on the Consultants' Qualifications; QCBS: Quality and cost-based selection; LCS: Least Cost Selection; FBS: Selection nder a Fixed Budget; SSS: Single Source Selection; QBS: Quality Based selection.										
(2) <u>Individual consultants</u> : IICQ: International Individual Consultant Selection Based on Qualifications; SSS: Single Source Selection.										
(3) <u>Ex-ante/ex-post review</u> : In general, depending on the institutional capacity and level of risk associated with the procurement, ex-post review is the standard modality. Ex-ante review can be specified for critical or complex process.										
(4) <u>Technical review</u> : The PTL will use this column to define those procurement he/she considers "critical"or "complex"that require ex ante review of the terms of reference, technical specifications, reports, outputs, or other items.										

**DIGITAL FINANCE 2025: INSTITUTIONS AND INNOVATION FOR FINANCIAL
INCLUSION IN LAC**

RG-T2506

CERTIFICATION

I hereby certify that this operation was approved for financing under the Special Program for Institutional Development (PID) through a communication dated June 30, 2014 and signed by Kai Hertz, ORP/GCM. Also, I certify that resources from said fund are available for up to US\$250,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount, may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

Original Firmado

10/28/2014

Sonia M. Rivera
Chief
Grants and Co-financing Management Unit
ORP/GCM

Date

APPROVAL

Approved:

Original Firmado

10/28/2014

Juan Antonio Ketterer
Division Chief
Capital Markets and Financial Institutions Division
IFD/CMF

Date