

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Support to public policies and institutional capacity for the development of Fintech in Latin America and the Caribbean
▪ TC Number:	RG-T4181
▪ Team Leader/Members:	Herrera Falla, Diego Mauricio (IFD/CMF) Team Leader; Acevedo Calle, Daniela (LEG/SGO); Jaime Sarmiento (IFD/CMF); Marquez, Claudia (IFD/CMF); Martinez Lopez, Cynthia (IFD/CMF); Sahara De La Torre (IFD/CMF); Suaznabar, Claudia (IFD/ICS); Zarate Moreno, Ana Maria (IFD/CMF).
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	NA.
▪ Date of TC Abstract authorization:	16 Sep 2022.
▪ Beneficiary:	Latin America and the Caribbean (LAC) countries
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US\$278,750.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	6 Dec 2022
▪ Types of consultants:	Individuals and 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):	NA
▪ TC included in CPD (y/n):	NA
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Gender equality; Institutional capacity and rule of law; Productivity and innovation; Social inclusion and equality

II. Objectives and Justification of the TC

2.1 Fintech in LAC. The fintech ecosystem in Latin America and the Caribbean (LAC) has grown significantly in recent years. Since 2018, the region went from having 1,166 platforms to 2,482 in 2021. In terms of the platform distribution per country in LAC, Brazil has the most significant number of platforms (31% of the total), followed by Mexico (21%), Colombia (11%), Argentina (11%), and Chile (7%). Analyzing by segments, payments consolidates itself as the most important one, driven by recent regulatory developments in Brazil and Mexico, with 25% of the total, followed by Digital Lending (19%), business technology solutions for financial institutions (15%), and enterprise financial management (11%). On the other hand, in terms of growth, Digital

Banking (57%), business technology solutions for financial institutions (49%), insurtech (46%), and lending (45%) are the most relevant segments.¹

2.2 LAC's expansion in the digital payments from fintech is noteworthy, with an average year-to-year growth of 36% since 2017. Among others, persistent financial inclusion gaps, increased access to mobile technology, and the dynamics caused by COVID-19 explain such growth. These numbers are relevant in a region where 27% of individuals do not have access to a financial services account.² One great example of this growth and fintech's potential for financial inclusion is PIX, the Central Bank of Brazil's Fast Retail Payment System -FRPS-. Starting in December 2020, PIX has increased the participation of financial institutions reaching a total of 773 in July 2022, of which 609 (79% of the total) are credit cooperatives, followed by payment institutions (74, 10%) -with a majority of Fintechs-. For the same period, PIX conducted more than 2 billion transactions for more than 124 million individuals and 10 million businesses. The share of Peer-to-Peer (P2P) transactions reaches 75%, showing the need for payments systems focused on the individuals. Furthermore, Peer-to-Business (P2B) transactions reach 12%, while B2P stands for 11% of the total.³ PIX allows fintechs to amplify the potential of technology for financial inclusion. Jurisdictions like Colombia have recently signaled that their public policy actions are focused on adapting PIX's model to their payments model under their central banks' realm to build a FRPS.⁴

2.3 **Role of fintech for financial inclusion.** The region's Micro, Small and Medium Enterprises (MSME) finance gap reaches a third of the total regional Gross Domestic Product -GDP-.⁵ Fintech platforms have the potential to close the gap partially. On the one hand, evidence shows that fintech platforms are a viable alternative for financing micro, small and medium-sized enterprises. According to the Center for Alternative Finance at the University of Cambridge -CCAF- and the Inter-American Development Bank, the region reached US\$5,2 billion in originations by 2020, representing a growth of 191% compared to 2018 (US\$1,81 billion). Of this total volume, 86% of the financing was directed towards MSMEs.⁶ A study by the Bank and CCAF also provides further evidence of the potential of Fintech for MSME financing⁷. The study uses a sample of 550 MSMEs from Argentina, Brazil, Chile, Colombia, Peru, and Mexico. Out of these, 57% of the firms funded their businesses with personal credit cards. First, the study found that 76% of the respondents used the P2P/Marketplace Lending Model as a channel to finance their activities, while 13% used invoice trading as an alternative to funding them. The models are relevant because they hint policymakers where to focus their actions. Furthermore, with a median credit value of US\$3,917, a total of 67% of the firms used the resources obtained in AF platforms for working capital, while 9.3% used it for asset purchases, 9.3% to refinance, and 9% for expansion of

¹ Inter-American Development Bank and Finnovista. 2022. [Fintech in Latin America and the Caribbean: A Consolidated Ecosystem for Recovery](#). Retrieved on 8/20/2022.

² World Bank. 2022. [The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19](#). Retrieved on 8/20/2022.

³ For information on PIX: <https://www.bcb.gov.br/en/financialstability/pixstatistics>. Retrieved on 8/20/2022.

⁴ [Sistema de pagos inmediato, producto en el que trabaja el Banrep](#). Retrieved on 8/21/2022

⁵ IFC. 2019. [MSME Finance Gap Report](#). Retrieved on 8/20/2022.

⁶ Ziegler et Al. 2021. [The 2nd Global Alternative Finance Market Benchmarking Report](#). Retrieved on 8/20/2022.

⁷ Ziegler et Al. 2022. [The SME Access to Digital Finance Study](#). Retrieved on 11/9/2022.

business. But more important yet, those firms that were able to access fintech funding, could also increase or maintain their number of employees (92% of the total), income (86%), and turnover (84%). Fintech-financed firms became resilient, even in the middle of a very adverse situation such as the pandemic, thanks to the availability of credit. The results are even more relevant if it is taken into account that 83% of the firms were microfirms (ten employees or less). Public policy actions can use these results as evidence to foster fintech regulations in the region.

- 2.4 On the other hand, there are good examples of fintech platforms addressing unmet demands from vulnerable populations such as women. In the region, there are more unbanked women (48.6%) than men (42.6%), and the financing gap for SMEs led by women reaches US\$93 billion.⁸ IDB and Finnovista data shows that the region's fintech initiatives with a woman on the founding team are increasing. The average number of fintech ventures with a female founder or co-founder grew from 35% in 2018 to 40% in 2020.⁹ Also, 15% of fintech startups in Latin America are approaching equal gender representation in their work teams. Finally, it is worth highlighting that the sector's potential goes beyond gender. The same study shows that thirty-six percent (36%) of the fintech startups in LAC present solutions that involve segments of the population totally or partially excluded from the formal financial system. Public policies for fintech might benefit groups such as women, as well.
- 2.5 **Public Policies.** Responding to this dynamic, LAC regulators and supervisors are increasingly adopting regulatory innovations and advancing regulatory reforms primarily focused on specific fintech subsectors. For the former, Barbados, Brazil, Colombia, Jamaica, Mexico, Peru, and Trinidad and Tobago implemented regulatory sandboxes, allowing the testing and, in some cases, licensing of financial products. In particular, Brazil and Mexico received support from the Bank in issuing regulations with resources from [ATN/OC-16998-RG](#). Also, Argentina, The Bahamas, Brazil, Colombia, and, Guatemala, implemented innovation hubs for dialogue with the private sector. Costa Rica, Dominican Republic, El Salvador, and the Pacific Alliance countries (Chile, Colombia, Mexico, and Peru) received resources to implement their own innovation hubs from [ATN/OC-17042-RG](#). As for the latter group of public policy actions, Chile successfully passed a Fintech Act in their Congress, including detailed rules for open finance, crowdfunding, trading, among other segments. The bill had the support of the Bank from the same Technical Cooperation (TC).¹⁰ This initiative follows suit with Mexico, which enacted a Fintech Law in 2018 with resources from [ATN/OC 16998-RG](#). On the other hand, Brazil, Colombia, and Peru issued crowdfunding regulations. Finally, Colombia recently adopted an open banking decree, among other examples.
- 2.6 While the sector has shown a process of consolidation in some jurisdictions, the region is still behind in having a mature ecosystem and the institutional capacity and knowledge needed for taking advance of the sector's potential. Different market and public sector actors highlight the need to: (i) create more rigorous and context specific information to understand the state of fintech and its subsectors in the region, and the challenges it faces, (ii) develop institutional capacity for policy design and

⁸ IFC. 2019. Op. Cit.

⁹ IDB and Finnovista. 2022. Op. Cit.

¹⁰ [Congreso de Chile aprueba el Proyecto de Ley Fintech](#). 2022.

implementation, and (iii) build consensus on strategies and tools to promote better financial services.

- 2.7 **Complementarity and lessons learned.** This TC complements past and present Bank's initiatives aimed at providing support to Governments across Latin America and the Caribbean (LAC) towards the enhancement of institutional capacity for Fintech ecosystem public actors such as "Toward Regulatory Convergence for the Fintech Regional Ecosystem" ([ATN/OC-16998-RG](#)), "Support to the Development of Fintech Institutional Frameworks, Policies and Regulations in LAC" ([ATN/OC-17042-RG](#)), Support to the Development of Alternative Finance in LAC countries: ICT and Regulations ([ATN/OC-15368-RG](#)) and "FINLAC: Knowledge and Dissemination Initiative on Financial Inclusion" ([ATN/OC-19379-RG](#)). Those projects have been key to advance proposals for regulations, attending institutional, legal and ecosystem particularities in Argentina, Brazil, Chile, Mexico, Paraguay, and Peru, among others. Some of the lessons learned include the need to complement activities with a proactive dialogue with all the ecosystem actors, including economic authorities, and communication strategies to create consciousness on the need for regulations and policies for the new sector. The TC aims to enhance the required institutional capacity needed for promoting a more dynamic and inclusive fintech market for the region's benefit.
- 2.8 **Strategic alignment.** The TC is consistent with the Second Update to the Institutional Strategy (AB-3190-2). Specifically, it is aligned with the development challenges of: (i) Productivity and Innovation, as it is aimed at supporting the fintech ecosystem, an innovative sector by nature and the potential for financing MSME; and (ii) Social Inclusion and Equality as it payment systems and Fintech in general are part of the solution for the financial inclusion gap in the region (¶2.2). It is also aligned with the cross-cutting themes of: (i) Institutional Capacity and the Rule of Law, by supporting changes and issuances of laws, decrees and other administrative acts to shape the Fintech ecosystem and the financial authorities architectures and powers; and (ii) Gender Equality and Diversity, as the TC will contribute to promote the inclusion of vulnerable populations. It is also aligned with the operational area of emphasis "promoting technology adoption and innovation".

III. Objectives and Justification of the TC

- 3.1 **Objective.** The objective of this TC is to support the creation of institutional capacity of LAC Governments to promote a more inclusive and dynamic fintech ecosystem through the creation and dissemination of policy-relevant knowledge and direct support, to improve the design and implementation of strategies, policies, and regulations. The activities and results envisaged in this TC are aligned with the expected results of the Effective, Efficient and Transparent Institutions priority area 3 of the Ordinary Capital Strategic Development Program (GN-2819-14). The TC aims to improve the quality of institutions, policies, and implementation capacity by utilizing innovative approaches and digital technologies.

IV. Description of activities/components and budget

This TC will support the following components and activities:

- 4.1 **Component 1. Knowledge creation and institutional capacity development (US\$100,000).** This component focuses on developing institutional capacity for the development and supervision of the Fintech ecosystem. Activities include consultancies, assessments and analysis aiming for: i) the structural re-organization or supervisory, regulatory and policy public agencies, including the building of capacity for regulation or supervision units for Fintech, and ii) the implementation of tools, methodologies, and technologies to improve the regulatory or policy function. This component will also finance activities such as trainings, internships, meetings and workshops related to the Fintech ecosystem and implementation capacity, and other related activities that could strengthen the institutional capacity of the public sector. When feasible and relevant, the activities will incorporate the gender perspective.
- 4.2 **Component 2. Design and implementation of Fintech policies and regulations (US\$100,000).** This component objective is to support LAC Governments in the design and enhancement of regulations and policies. Activities within this component include consultancies to inform the design and implementation of policies, strategies, and laws, acts and rules, depending on the case. This component may also cover diagnostics, recommendations, and support for implementing regulations and policies in different subsectors, focusing on digital payment systems.
- 4.3 **Component 3. Dissemination and communication plan (US\$78,750).** This component will promote the communication and dissemination of knowledge and lessons learned as an instrument to strengthen best practices in the field, and to encourage policy discussions within the private and public sector. Specific activities may include meetings, presentations, seminars, and regional events, to exchange best practices; and academic and discussion documents stemming from the experiences from the TC and its recommendations.
- 4.4 **Budget.** The total budget of the TC is US\$278,750 which will be financed by the Window 2, Priority Area 3: Effective, Efficient and Transparent Institutions (W2C) of the Strategic Program for Development financed with Ordinary Capital (OC-SDP). No local counterpart is foreseen. Table 1 details this budget:

Activity/Component	IDB/Fund Funding	%
Component 1. Knowledge creation and institutional capacity development	US\$100,000	36
Component 2. Design and implementation of Fintech policies and regulations	US\$100,000	36
Component 3. Dissemination and communication plan	US\$78,750	28
TOTAL	US\$278,750	100

V. Expected results

- 5.1 Consequently, the project will create institutional capacity and applicable policy relevant knowledge to promote a more inclusive and dynamic fintech ecosystem in LAC through the development and improvement of: (i) institutional analyses and action plans; (ii) policies and regulations; (iii) capacity building activities.

VI. Executing agency and execution structure

- 6.1 The TC will be executed by the IDB through its Connectivity, Markets and Finance Division (IFD/CMF).
- 6.2 **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. Execution of this TC will be performed with regulatory agencies, central banks or any other government agency related to its objectives and activities. IFD/CMF will coordinate with them to facilitate interaction and ease outcomes and results. Contracting by the Bank would enhance the independence required for the objectives of the TC.
- 6.3 **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.

VII. Dissemination

- 7.1 Each beneficiary institution or institutions must create a communication plan with two dimensions: (i) **Internal.** On the internal dimension, the institution must create an internal communication plan including but not restricted to meetings, presentations and information about the new regulation or implementations to the relevant authorities and decision-makers within the organization; (ii) **External.** Includes meetings, press reports on the regulations and public events to socialize the advances and results of the intervention, among others. Publications are considered dissemination activities.

VIII. Major issues

- 8.1 This TC could have some potential risks:

Risk taxonomy	Risk level	Risk and Mitigation Strategy
Institutional	Medium	First, the lack of updated and detailed data for the assessments and recommendations. To mitigate this risk, the team is working to strengthen strategic partnerships with relevant actors. Also, a close coordination with public sector counterparts will reduce the probability of difficulties in accessing key data and information.
Political	Medium	Based on the experience of previous operations, the TC has risks of having its products not fully appropriated or implemented by governments due to a change in priorities. To mitigate this risk, the team plans to coordinate closely with Governments to ensure the relevance of activities and products, and to conduct an

		aggressive communication and dissemination campaign.
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IX. Exceptions to Bank policy

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

X. Environmental and Social Strategy

- 10.1 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:

[Results Matrix - RG-T4181](#)

[Terms of Reference - RG-T4181](#)

[Procurement Plan - RG-T4181](#)