

# LATIN AMERICA'S DEVELOPMENT BANKING SYSTEM FIVE YEARS LATER







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#### Latin American Association of Development Financing Institutions (ALIDE)

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**ALIDE General Secretariat** 

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#### **ACRONYMS AND ABBREVIATIONS**

ABDE Associação Brasileira de Desenvolvimento (Brazilian Development Association),

Brazi

AFD Agencia Financiera de Desarrollo, Paraguay

AFD Agence Française de Développement

Al Artificial Intelligence

AIIB Asian Infrastructure Investment Bank

ALIDE Latin American Association of Development Financing Institutions

API Application Programming Interface

Ariel Online Interactive Response Assistant

Bas Business-to-Consumer
Baas Banking as a service

Bancoldex Banco de Comercio Exterior de Colombia

Bancomext Banco Nacional de Comercio Exterior, Mexico

Banco Nacional de Panamá

Banreservas Banco de Reservas de la República Dominicana

Bapro Banco Provincia de Buenos Aires

BB Banco do Brasil

BDE Banco de Desarrollo del Ecuador

BEN National Electronic Wallet

BHU Banco Hipotecario del Uruguay

Biess Banco del Instituto Ecuatoriano de la Seguridad Social

BNCR Banco Nacional de Costa Rica

BNDES Banco Nacional de Desenvolvimento Econômico e Social, Brazil

BNF Banco Nacional de Fomento, Paraguay

CEF Caixa Económica Federal, Brazil

**CESAR** Recife Center for Advanced Studies and Systems

CNI Confederación Nacional de la Industria

Cofide Corporación Financiera de Desarrollo, Peru

Corfo Corporación de Fomento de la Producción, Chile

DB Development Banks

DCD Development Co-operation Directorate (OECD)

**DeFi** Decentralized finance



DFTF Development Finance Institutions

DFTF Task Force on Digital Financing (UN)

**ECLAC** Economic Commission for Latin America and the Caribbean

**ESG** Environmental, Social and Governance

**ESRM** Environmental and Social Risk Management Systems

FAE-Mype Fondo de Apoyo Empresarial a las Mype

FiC Finance in Common

Financiera de Desarrollo Territorial, Colombia

FIRA Fideicomisos Instituidos en Relación con la Agricultura

Fonade Fondo Nacional de Desarrollo, Costa Rica

GDP Gross Domestic Product
GEF Generation Equality Forum
GSR General System of Royalties

**IDFC** International Development Finance Club

IPS Instant Payments System

Nafin Nacional Financiera, Mexico
NDB New Development Bank
NDTs New Digital Technologies

OECD Organization for Economic Co-operation and Development

P2P Peer-to-Peer

PDB Public Development Banks

PEAC Programa de Emergencia de Acceso al Crédito

PoC Proof of Concept

Pronampe National Support Program for Micro and Small Enterprises (Brazilian government)

RPA Robotic Process Automation

SDGs Sustainable Development Goals

Sebrae Serviço Brasileiro de Apoio às Micro e Pequenas Empresas

Sercotec Servicio de Cooperación Técnica, Chile
SHF Sociedad Hipotecaria Federal, Mexico



The Latin American Association of Development Financing Institutions (ALIDE) last January celebrated its 55th year of institutional existence, contributing to the economic and social development of Latin America and the Caribbean. This, it accomplished through proposals, promotion, stimulus and the reinforcement of good finance and technical assistance practices among the members.

In the framework of the celebration of this anniversary, our Association has issued, together with the conclusions of the recent 53rd Meeting of the ALIDE General Assembly, the publication entitled 55 years of ALIDE: Latin America's Development Banking system five years later. This new edition covers the important issues and matters of concern that have served as the basis for reflection, analysis and action over these past 5 years, of both the Association and its Latin American and Caribbean member development banks, in a continuation of the publication of 2018, Past, Present & Future.

It centers on a compilation of the financial initiatives, ideas and search for solutions in which the Association was involved from 1968 to 2023, the participation and transition of the development banks with the passing of the COVID-19 pandemic, and the challenges and threats that presented themselves in the areas of digital transformation and technology, financial innovation and sustainable finance. Examples have been given of best practices used by our member banks in their confrontation and, lastly, the opportunities that have arisen for the Latin American and Caribbean Development Banks and the trends they have followed.

I do not wish to gloss over the importance, today, of the opportunities available to us by the relocation of supply chains; the strengthening and support of small and medium enterprises in the food sector to fight inflation, and the promotion and management of investment in infrastructure, aspects that can be harnessed to favor the boosting of growth and competitiveness of enterprises and businesses and/or their integration into the national and international markets.

I am convinced that this contribution of ALIDE will help to reinforce coordination among the governments, the private sector and the Development Banking system and financial institutions and that it will further implementation of the agenda of initiatives and opportunities deployed and generate entrepreneurial solutions for sustainable, inclusive and equitable development and the wellbeing of society in our region.

#### Luis Antonio Ramírez Pineda

President of ALIDE

Chief Executive Officer (CEO) of Nacional Financiera S.N.C. (NAFIN) and of Banco Nacional de Comercio Exterior S.N.C. (Bancomext), of Mexico



«Latin America's Development Banking System five years later" is the continuation of «Past, present & future,» published in commemoration of ALIDE's 50th anniversary. As such, it seeks to constitute what we have called a «living history» of ALIDE and of the Development Banking system of Latin America and the Caribbean, enriched, every five years, with the ideas, concepts and proposals relating to the work of the development banks.

In this specific part of this «living history,» pre-pandemic, pandemic, and post-pandemic aspects are shared. Pre-pandemic: the look towards a multiregional projection of the region's economies; during the pandemic: the leading role of the national development banks and their various efforts, foremost among them: the digitalization process, with the incorporation of the new technologies into their processes to favor financial inclusion –of individuals, enterprises and territories, understood as being subnational governments—; the support of productive transformation, environmental sustainability and the potential for opportunities now within our reach, as well as the shortcomings and weaknesses toward which our efforts are targeted in order to enable these opportunities to be converted into realities.

And, lastly, in a look into the future, a review of the principal trends associated with finance, as well as with the development banks, which must be in keeping with their function and particular mandate in each of the region's countries, so as to achieve social and inclusive development.

**Edgardo Alvarez Chávez** 

**ALIDE Secretary General** 

# PRESENTATION

As part of the celebratory activities of the fiftieth anniversary of the Latin American Association of Development Financing Institutions (ALIDE), a book was published in 2018, with the idea of serving as reference material for understanding the world of Latin American and Caribbean (LAC) Development Banking.

The publication focused its analysis on three organizational levels: the past, the present and the future, providing a comprehensive picture of action taken by ALIDE and the Development Banking System within the sphere of the economic and social growth of the region's countries. A great deal of emphasis was placed on the institution's role and on the position assumed by the Association in regard to strategic areas of the financial institutions' sphere of activities and was based largely on testimonial accounts.

Today, five years later -- an extremely short period of time, but one intensively filled with multiple events,-- we stand as witnesses to the confluence of three simultaneous crises: economic, environmental and health, to which another --geopolitical-- crisis was added. This has led us to reexamine a series of concepts and to question the development of, and actions taken by, our financial institutions. By way of example, should investment decisions and the siting of production activities be determined by considerations of profitability alone or should security and risk diversification also be included? Do other problems like climate change, health and epidemics, such as COVID-19, in addition to food security, among others, also require global initiatives and solutions? How have development finance institutions been adjusting to these new circumstances by incorporating the new technologies in their processes and developing products and services tailored to the needs of the social and production sectors? What challenges and opportunities do we face as LAC countries and their development finance institutions? How should we position ourselves as a region at this stage that we could call «post-COVID»? And, more recently, to what extent do the new advances in artificial intelligence affect the economies and development finance?

The global disruptions produced by these events have given shape to a series of differing patterns of social behavior, such as, for example, digitalization of production,



energy transition, intensive use of digital means of payment —in other words, process digitalization,—in which development banks have not remained untouched; greater environmental awareness; the rethinking of logistics and value chains, and the relocation of production as a generator of investments. Interest was also awakened in health research, as well as in the revaluing and reconfiguration of strategic sectors for development.

At the same time, a series of threats and challenges have emerged for the countries of the region. Aspects like fund-raising to bolster investment in resilient production and social infrastructure, infrastructure for digital access, support for employment generating activities and for SME recovery, women's economic empowerment and entrepreneur development, the opening of new investments for relocating/regionalizing enterprises in international value chains; the boosting of rural and agricultural development, deepening of financial inclusion, raising of climate investments, support for technological development and enterprise innovation are all a part of the area of activity of the Development Banks.

All of the foregoing pose major threats and challenges for the states and their institutions, among them development banks, whose very reason for existing is to finance slow-to-mature or more risky projects for smaller enterprises, activities or new products relatively unknown in financial markets; distant localities or territories lacking a financial offering and, in general, fulfill demands for the financing of activities, sectors and territories that are potentially economically and socially profitable, as well as identify business opportunities and orient state development financing policies.

The publication we are making available to you offers a continuation of that presented to celebrate ALIDE's 50th Anniversary. Without making any claim to completeness, it sets out the most important ideas, actions, trends, threats, challenges and opportunities confronting Latin American and Caribbean Development Banks, taken from studies, analyses and discussions held within the spheres of operation of ALIDE and of many other institutions, at different moments in time during these past five years.







ALIDE has been witness to the exchange of ideas concerning different issues that has marked the discussion and analysis of the region's major concerns in regard to finance and development. As a result, it is worth taking a look at the subjects of importance to Latin America and the Caribbean over the Association's 55 years of existence.

From 1969 to 1972, the issues focused on institutional matters and internal governance, in an effort to firmly establish the newborn institution. Between 1973 and 1976, activities targeted matters relating to the development of strategic economic sectors, with emphasis on industry and agribusiness. Subsequently, from 1977 to 1983, the discussion centered more on Development Banking as a policy instrument and the redefinition of its role and approach with regard to supporting the development of the region, particularly the private sector.

During the 1984-1989 period, the subjects of most concern to us were indebtedness and structural adjustment, together with how to accumulate greater savings to be channeled into investment and furthering economic recovery in a context of dwindling international capital flows and crises accentuated by recession and high levels of inflation. From 1990 to 2000, the emphasis was placed on positioning Latin America and the Caribbean in a changing international economy and moving ahead with regional integration as globalization advanced, as well as on analyzing and boosting the development of national capital markets.

Over the period of 2001-2006, the emphasis was on the sustainability of the development banks<sup>1</sup> and financial innovation. Over the following three years, attention centered on how to confront the major international financial crisis. From 2010 to

<sup>1</sup> Throughout the publication, reference will be made to national development finance institutions, whether development banks (BDs) or development finance institutions (DFIs).

1/

2012, the attitude was fairly optimistic and transcended the short term, addressing the financing of Latin American development above and beyond the crisis. What was sought was to contribute to the analysis of, policies and measures for, moving gradually ahead towards shaping economies with lower levels of poverty and reduced gaps in inequality.

The key to the proposal was that all efforts were to take the form of productive inclusion, in order to contribute to overall sustainability. The major challenge was not only to achieve growth, but also to consolidate sustained and sustainable growth. Also to take a great leap toward shaping industries to transform our raw materials by developing and incorporating technology and deepening regional integration in order to promote more intraregional trade and investment, a natural market for our small and medium enterprises, particularly manufacturing.

During the following years, from 2013 to 2016, the orientation was on promoting action to bring about more intraregional trade and investment, productive diversification, innovation and technological development, infrastructure, entrepreneur promotion and improvement of human capital, among other aspects that are considered basic to any sustainable development strategy, including productive diversification and support for new sectors that contribute more heavily to the creation of added value. Unlike during the previous decade, however, the LAC countries faced budgetary restraints that hampered efforts to boost domestic demand and were, rather, more focused on balancing fiscal accounts and reducing trade deficits, with a view toward maintaining macroeconomic stability.

In 2018, when we celebrated our 50th anniversary, we viewed digitalization and the application of artificial intelligence (AI) in our daily lives and in development financing with expectation, curiosity and interest. When 2022 arrived, the astonishment, concern and interest in AI imploded, in the presence of a continuous flood of business models based on the Internet, intelligent and resilient infrastructure and the trend toward deepening globalization, together with the reinforcement of the resilience of cities and rural areas to extreme climatic events, as well as the inclusion and financial integration of people, sectors, projects and territories. Subsequently, in 2019, we moved toward an analysis of LAC's economic positioning in a world context marked by trends that were working a change in the international economy and the effect this had on the region's global insertion in general.

The year 2020 was unique throughout the world. For some people, perhaps, it brought back memories of the economic crisis of the thirties and the world wars of the past century. This time, however, the COVID-19 health crisis almost brought the world economy to a standstill and converged with two other crises: environmental and economic, to produce widespread uncertainty and confusion. The result was a legacy of negative effects and changes in the mechanics of production activities and social relationships. On the economic front, the global economy slowed down -3.5 % in 2020, according to the International Monetary Fund (IMF). In Latin America and the Caribbean,

the contraction amounted to -7.4%, and had a critical impact on the social fabric and business, with unemployment reaching levels of 10.7% and informality climbing to 54%. Some 2.7 million SMEs were forced to close their doors and poverty and extreme poverty rose rapidly and would have grown even more had not the countries adopted measures of social protection.

These global changes and trends, in what we could call the post-pandemic period, led the community of development finance institutions over the past two years -2022 and 2023- to view this moment as a major opportunity for investing in projects that would further Latin American and Caribbean development, help to incorporate or utilize the new emerging technologies that combine different knowledges, sciences and disciplines with specific innovations to upgrade production processes, boost a sustainable and competitive increase in productivity, harness resources and environmental sustainability more efficiently, and contribute to access to basic and financial services. At the same time, the community was aware that, at the present global level, the choice between economic growth and inflation has taken a turn towards the alternative of sacrificing economic growth in favor of controlling inflation.

At the same time, the international economy is facing problems that are more structural in nature, like growing food and energy insecurity in various countries, as a result of rising fuel and food prices and a foreseeable increase in demand and the population in coming years, and long-term geopolitical tensions that will trigger larger social conflicts. As a result of all of this, some sectors that are considered strategic, like agriculture, the pharmaceutical and health industry, semiconductors, fuel and clean energy, are becoming even more powerful. Meanwhile, the close links between national public policies and international agreements, like the Paris Agreement, the Sustainable Development Goals, world energy and food security and the environment, have grown even stronger.

This, as a number of different analyses at the global level point out, is jeopardizing the start of a «new era in which government support for enhancing industrial competitiveness will become more necessary and normal than in the past for reasons of business, national security, public health and the environment.» This will have an impact on trade, the demand for essential raw materials and inputs and the flow of investment. The trend in the area of trade is to move toward the proximity and diversification of suppliers, security of the supply and greater regionalization of trade relations; also toward the formation of trading blocs and routes that are not confined to economic and commercial objectives.

LAC has a number of challenges to be met in this new scenario. It is an important source of essential raw materials and food products. While it is geographically located in an area of geopolitical influence, commercially it has been linking up increasingly with Asia, and today has a chance to refresh and reinforce its relations with Europe and North America (Canada and the U.S.), which offer an opportunity for attracting investments, technology and regional suppliers. New industries with a large potential are going to

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require growing amounts of materials that are, or could be, produced in the region. In this new position, LAC requires technology and investments with which to enhance its productivity, build sustainable food systems and sustainable industries, and to move toward an equitable and sustainable development model in which its citizens have a part to play.

For that reason, at our Annual Meeting in early 2023, an analysis was made of the potential of Latin America and the Caribbean to establish firm international economic relations with the various world regions by harnessing the diversity of their resources to attract investments and world-class supplier enterprises to the region and drawing on their own domestic capacities and the capital of fellow citizens abroad. In this connection, a discussion was held on the role of public policy and the actions of development banks in a more diversified world with more active state participation in boosting economic development. This is already being seen in a number of countries, particularly the most developed, with a view to reducing their vulnerabilities and dependencies. At the same time, this goes hand-in-hand with the private sector, which is called upon to play an extremely important role in attracting investments, given the limited resources of states, which are now more highly indebted and under pressure to increase public spending, but are not in a position to do so.

Simultaneously, in a shared opinion that initiatives for change should be conceived from the position of a global community, in which cooperation and multilateralism should be reconsidered and dynamically imbued, we started work on the joint construction of the Global Finance in Common initiative. Funds were raised to finance a sustainable investment and we worked on providing the initiative with economic, financial and environmental resilience and also contributed to digital transformation and helped with SME recovery. In short, we achieved sustainable and inclusive recovery at all levels without leaving anyone behind.

The efforts of ALIDE and its member institutions have followed along this line of analysis of important issues and matters of concern relating to sustainable economic development, as solutions have been sought and proposals put forward through exchanges of views and economic and financial cooperation, to address both national and global problems. An example of this is climate change, which, in one way or another, affects the entire planet and all living matter, regardless of its nature and where it is to be found.







Prior to the outbreak of the COVID-19 pandemic, the global scenario was market by trade disputes, new integration initiatives, the readjustment of national economies to the new normalized financial situation and technological disruption, among other trends that affect economic performance and have an impact on the global positioning of Latin America and the Caribbean. A key challenge for the region at that time was to identify new opportunities for investment and business, as well as to strengthen its relations with regions with which it has strong economic ties, in order to improve its positioning insofar as trade, investment, the transfer of technology and financial and technical cooperation for advancing sustainable development are concerned.

Confronted by this challenge, development banks and financial institutions, as public policy instruments equipped to provide entrepreneurial development finance and services, play a basic role in diversifying exports, raising funds for investment and securing the international positioning of enterprises, particularly SMEs. They exercise this function by deepening their cooperative and business relations with their peers both in and outside the region, international financial organizations and agencies for cooperation, and the various national actors.

The internationalization of small and medium enterprises and their interlinkage with global value chains are viewed as being key elements in the framework of the cited challenge. That is why the enhanced productivity and connectivity of this important entrepreneurial segment are essential for further diversifying the region's productivity.

The extent of LAC's investments, trade and cooperation with the various regions of the world was studied in this context. Opportunities were identified for developing and enlarging markets in order to increase trade and attract investments, as were the actions taken by national development banks as key actors in leveraging national and international financial resources oriented toward public and private investment in priority projects to fight climate change, develop sustainable infrastructure, and in energy, SMEs, innovation and technological development, agriculture, sustainable tourism, and low-income housing, among other things.



The sudden outbreak of the COVID-19 pandemic at the end of 2019, however, created uncertainty and confusion. Even though fuller information became available a few months later, its economic effects and the resulting international crisis fueled a panorama of uncertainty. The pandemic ushered in an economic and social crisis on an unprecedented worldwide scale.

The Latin American economies confronted this crisis beset by a series of unresolved structural problems that only worsened, like informality, the lack of social protection and low productivity levels. COVID-19 ended up bringing to light serious deficiencies and weaknesses plaguing the health and education sectors.

The International Monetary Fund's «World economic outlook» (April 2020), stated that the global economy declined 10% and that of the developed countries, 16%, in the 1929 depression, while in the financial crisis of 2008, worldwide growth dropped from 2.8% to -0.6% in 2009. IMF estimates at April 2020 envisaged a global slowdown of -3% and of -6% if the situation at that time were to progress throughout the year, and a further -6% if it extended into 2021. In the end, the contraction of the global economy amounted to -3.5% in 2020, closer to the lower limit forecast by the Fund. In the case of the LAC region, however, the slowdown was much higher than estimated, reaching -7.4%, which undoubtedly meant greater deterioration of the countries' wellbeing and a rising poverty level. ECLAC, for its part, had forecast a -7.7%drop in the gross domestic product (GDP).

#### 2.1. General government actions and measures

In response to the crisis brought on by the COVID-19 pandemic, almost all of the governments in the world announced a series of policies, compensatory programs and subsidies to combat its effects. Some were based on budget expansions or reorientation; others, on the assumption of new debt, suspension of foreign or domestic debt payments, money issue and support programs for production sectors and/or the protection of enterprises and of the population at large, particularly the most vulnerable sectors.

Initially, the region's governments oriented their efforts towards seeking to stabilize the pandemic's onslaught. At the same time, they took some specific measures to support the production and social sectors and also adopted policies that were far more extreme and strongly expansive, like bringing down interest rates to a level close to 0%, making monetary policy more flexible, buying assets and giving the financial system more liquidity, relaxing regulations or deferring the application of regulatory measures, providing guarantees for bank loans or broadening their coverage, and authorizing public banks to channel resources through institutions like fintechs. In some cases, like that of Peru, these measures accounted for up to 12% of GDP.

The response of the governments and the actions taken in the fiscal and monetary areas were aimed at restraining the effects of the crisis by providing liquidity to enterprises,

families and local or subnational governments, thereby helping to safeguard jobs and avoid the collapse of the entrepreneurial system, particularly of the smallest enterprises, and strategic sectors that provide the basic products for the people's survival, like food items and health and other essential services including transportation, fuel supply and financial services that, among others, keep the economy running smoothly.

Unlike the case of past crises, on this occasion, the private banking system also took measures, although not to the same extent or of the same nature and scope as the public and development banks, which played an important role in upholding credit and supplying liquidity and short- and long-term financing. In fact, together with their general policy measures, the LAC governments took a series of specific measures to offset the adverse effects of the crisis on the national economies, many of which relied on national DFIs as their designers and executors, in cooperation with local financial systems and regional and multilateral financial agencies and organizations.

## 2.2. The Development Banking System under pressure to provide loans

A drop in income, combined with the need of enterprises and projects to meet wage and financial obligations, spurred demands for financing and/or the deferral of debt payments about to come due. This created a heavy pressure on DFIs to serve the production and social sectors that was reflected in the strong growth of their lending.

For example



In Brazil, during the first half of 2020,

- Banco do Nordeste invested R\$ 3,400 million (some US\$ 627 million) in the business sector, an increase of 34.8% compared with the same period of 2019.
- Banco de Desenvolvimento de Minas Gerais (BDMG), for its part, disbursed 280% more --a figure in excess of R\$ 400 million (US\$ 72.6 million)--to micro and small enterprises in the first half of 2020 than during the same period of 2019.
- At the same time, Banco Regional de Fomento del Extremo Sur (BRDE) found itself faced by a spontaneous spurt in demands for financing that brought its contracts up to a record high of R\$ 1,000 million (some US\$ 186.2 million) during the first five months of 2020.

#### In Colombia,

Financiera del Desarrollo (Findeter), had disbursed loans of more that 3.4 billion pesos (US\$921.6 million) at June of 2020 and estimated that the total for that year would reach 12 billion pesos (US\$3,252 million) --more than the expected 9.7 billion (US\$ 2,629 million)— and equivalent to a growth of 23.7%.



#### In Paraguay,

Banco Nacional de Fomento (BNF) was able to increase its portfolio of customers 22% in the first half of 2020 and its deposits 30%, making it the country's heaviest growing bank for that period.



#### Uruguay's

Banco República Oriental del Uruguay (BROU), in serving the micro and small enterprise segment through its República Microfinanzas branch increased its loan portfolio by 50% between March and July 2020, above all through the addition of new customers.



#### Chile's

Al 26 de julio de 2020 todo el sistema bancario no llegaba a los 200 000 créditos, de los cuales cerca de 100000 -el 50%-, correspondían a BancoEstado, que solo en los últimos 45 días previos a esa fecha de corte había aprobado 70000 créditos; esto es, en el periodo más complicado de la crisis.

## 2.3. Measures taken by Development Banks to confront COVID-19

Generally speaking, the measures taken by DFIs were in line with government decisions and focused on providing support for the smallest production units. Unlike the case of past crises, because of the unprecedented nature of this situation, a great deal of attention was given to the health sector, including enterprises and entities that provide health services and those that produce health supplies and technological solutions for the monitoring and control of COVID-19.

This crisis constituted a major challenge for economic policy implementors, particularly DFIs, as their countries' financial instruments. They showed themselves during these critical moments to be especially important by playing three significant roles: countercyclical action, resource decentralization and allocation, and underpinning of the production system and employment, without losing sight of a long-term panorama and an ongoing policy of income distribution.

In the immediate term, development banks had to help countries mitigate the financial crisis and, to that end, made larger amounts of resources and guarantee systems available to the production and social sectors in order to facilitate access to loans available from other sources. Drawing on their own resources and funds provided by the state, they allocated new credit lines to industry, agriculture, low-cost housing, SMEs, foreign trade and infrastructure, among other sectors.

They also took the following actions: reviewed and amended the interest payment method; granted capital extensions and made downward adjustments in interest rates; appraised new operations with more extended time periods, lower interest rates and grace periods; reviewed guarantees and credit histories in order to allocate working capital lines on more favorable terms; raised financial intermediary borrowing levels to endow them with more resources; granted guarantees for enterprise stock issues; established funds for infrastructure projects; offered preferential loans to specific segments, like small urban and rural enterprises, for the purchase of low-cost housing, and operated with new institutions like financial technology companies (fintechs).

These were some of the cross-cutting measures implemented by a large percentage of the region's development banks:



#### THESE WERE SOME OF THE CROSS-CUTTING MEASURES IMPLEMENTED BY A LARGE PERCENTAGE OF THE REGION'S DEVELOPMENT BANKS:



Provision of new loan lines of up to 3 years, with as much as one year of grace, to their customers. In these cases, the loan amounts were generally set in accordance with the payroll and with working capital needs.



Postponement and deferral of due dates of installment payments on personal loans made to independent and micro and small enterprise workers. The loan periods were up to three months and were granted at lower interest rates than usual. In some cases, the interest was partially subsidized by the state on a temporary basis<sup>2</sup>.



Temporary suspension of debt payments on housing loans, together with the lowering of interest rates on mortgage loans<sup>3</sup>.



Specific loans for the acquisition of new technologies with which to prepare personnel to use telework systems.

- 2 In March 2020, the BNCR planned to readjust payments for 107,305 credits. In Paraguay, AFD allocated resources of approximately US\$93 million for the renegotiation of loans with terms of up to seven years, including two grace years, to support around 50,000 MSMEs. Brazil's BNDES announced, in the same month, the suspension of principal and interest payments of up to US\$ 6 billion.
- 3 The CEF allowed the suspension of credit contract payments for construction companies and developers. In Ecuador, BIESS restructured and refinanced mortgage loans with up to 18 months of grace period and a term of 30 years. Mexico's SHF implemented a program of approximately US\$ 363 million to stabilize construction credit portfolios, with the aim of extending the terms of existing loans. Uruguay's BHU reduced the May installment to 50% for its customers with existing mortgage loans and outstanding sales commitments.



Loan guarantees for micro and small enterprises covering up to 100% of the loan amount (between 80 and 98% in Argentina's case; and depending on the size of the enterprise, in that of Peru)<sup>4</sup>.



Avals for SME stock market bond issues.



Loans for the tourism sector. Tourism being one of the most strongly affected sectors, governments, as a contingency measure, provided financial tools in an effort to safeguard jobs<sup>5</sup>.



Loan guarantees to support entrepreneurs working in the tourism, bars and restaurants sector, one of the hardest hit, with sales generally close to zero. Financings were supplied for working capital with maximum terms of up to three years and six months of grace.



Increase in credit available to micro, small and medium enterprises (MSMEs), through the use of banking and non-banking financial intermediaries.



Enlargement of the capital offer to cover everyday enterprise working needs by broadening the scope of existing loan lines<sup>6</sup>.

<sup>4</sup> In Peru, the Reactiva Perú guarantee program initially aimed to support 350,000 companies but ended up assinting 501,000 companies by March 2021. The FAE-Mype was also established and managed by Cofide, providing coverage of between 90% and 98% of the loan amount an supporting over 303,000 companies. In Costa Rica, Fonade's individual guarantees extended coverage to 90%.

<sup>5</sup> In Paraguay, BNF granted each applicant up to 10 times the total monthly payroll, with a single payment at the end of the period and a 12-month grace period.

<sup>6</sup> In Brazil, BNDES announced in March 2020 the total injection of resources of approximately US\$ 11 billion.





Freezing and opening of new finance lines for state, provincial or municipal governments, in order to endow them with liquidity<sup>7</sup>.



Raising of contract values without any obligation to provide real guarantees and permitting the use of personal guarantees, instead. At the same time, fees and commissions were reduced on loan operations and maximum limits were set, differentiated by enterprise or customer size.



Automatic extension of microloan payment periods. Only if the customer was not interested in availing itself of the extension was the bank informed.



Establishment of relations with national and international suppliers of funds, in order to permit the postponement of debt payments, as well as the immediate extension of outstanding loan line limits, so as to increase the resources already available for the financing of, and channeling to, bank borrowers.



Support programs and alternatives conducted jointly with the central, federal and subnational governments, in order to mitigate the effects of the pandemic on public health and its negative consequences for the national economy<sup>8</sup>.

<sup>7</sup> The BDE began restructuring sub-national government debts by suspending its credit obligations for up to 90 days. Similar measures were taken in Brazil and Colombia, where Findeter granted direct credits with a compensated rate to eligible territorial authorities and sectors, aimed at financing projects and activities to address the coronavirus and prevent its effects from spreading. The resources were for investment in transport, health, housing, education, energy development, drinking water and basic sanitation, among others.

<sup>8</sup> In Brazil, national and international development institutions and ABDE provided special credit lines for health sector companies. These resources were used for working capital, procurement of raw materials for manufacturing high-demand products and pandemic preparedness. In Chile, Corfo and the Ministry of Science, Technology, Knowledge and Innovation, with the support of the Government Laboratory, launched the « Reto de Innovación COVID-19», a competition aimed at accelerating innovative and scientific solutions for preventing infection among healthcare personnel. Bancóldex, from Colombia, offered direct loans with a compensated rate to finance projects for the same purpose.



**Establishment of task forces** with sector institutions in order to serve entrepreneurs directly and coordination of public policies for enterprise protection, with a view toward boosting more rapid economic recovery.



Financial support for professionals working in the creative economy, who were among those most strongly affected by the social distancing policy. The spaces where the creative industries took place were closed from the very beginning of the pandemic and those who worked in areas like the scenic and audiovisual arts, advertising, literature, and the national heritage, among others, were at risk of losing their main source of subsistence.



Credit lines at preferential rates for the undertakings of specific population groups, like the young, women, senior adults, native peoples, people of African descent, farmers, immigrants and the handicapped, among others.



Opening of savings accounts for all people requiring government vouchers granted to families without incomes, due either to poverty, because they had lost their jobs or because they had been left without any source of income due to the situation.



**Support** for export firms with the potential to survive the crisis despite the complications<sup>9</sup>.



**Gradual adjustment to the implementation of Basel III**, given its pro-cyclical nature, in order to reduce its negative impact on the delivery of short- and medium-term liquidity.

<sup>9</sup> In Costa Rica, the «Alivio» competition was implemented, an initiative that provided non-refundable funds of US\$ 53.34 million to mypes with export potential in the agricultural, food, industrial and service sectors. These resources were used for production inputs and rental of machinery to strengthen their operations and overcome the crisis. In Peru, a transfer of US\$ 294 million was authorized in favor of the Grow Fund, administered by Cofide, which provided cover in favor of loans for fixed assets or working capital of MSMEs and exporting companies.



Boosting of platform development and operation, in order to link up enterprises with the markets<sup>10</sup>.

\$

Financial intermediary funding. In Mexico, Nafin and Bancomext directed a roughly US\$ 2,523 million program through financial intermediaries to support enterprise liquidity. This made it possible to lengthen creditor loan and grace periods. New loans were considered to support working capital, as well as stock market guarantees and loans to improve creditor liquidity situations. The stock market guarantee allows for the guarantee of total or partial repayment of the capital or interest on the issue of commercial papers, stock market certificates or any other instrument used in the national or international stock market. This guarantee helped improve the ratings given by risk raters to stock market issues aimed at financing equipment operations, technological development projects, infrastructure creation and development, environmental improvement, liability restructuring and asset securitization (accounts collectible, promissory notes, remittances, mortgages, etc.).



Coronavirus Fund. In Uruguay, Banco República, as part of the allocation of its 2019 profit, committed to add US\$150 million to the Solidary COVID-19 Fund created for that purpose.



Fintech companies as new channels for intermediation of funds to micro and SMEs. With the authorization of the National Monetary Council, Banco Nacional de Desarrollo Social de Brasil (BNDES) began to transfer funds through financial services technology companies registered on the BNDES online loan application platform. The operation, which started off by drawing on the Bank's resources, heated up competition in this market and made it easier for the resources to reach those in need. According to BNDES, the benefits of this initiative included: the financial inclusion of enterprises with difficulty in acceding to loans,

<sup>10</sup> In Chile, Corfo and Sercotec, thinking of supporting entrepreneurs, created the web platform todoxlaspymes. cl as a direct communication channel between SMEs and consumers, that gave visibility and had a collaborative space for small businesses to promote and connect with all their potential customers, with the expectation of increasing their sales.

bank deconcentration, competitiveness in the financial sector, innovation, entrepreneurial empowerment and more efficient distribution of financial resources.

In short, these are just some of the actions taken by LAC DFIs, with which they were able to adjust to conditions in the environment. The tools with which they are equipped enable them to operate as powerful public policy instruments for taking effective action in the face of occasional crises, with a view toward ensuring the wellbeing of urban and rural enterprises and of Latin American society in general as their ultimate aim.

To note, the referred counter cyclical response to the COVID pandemic by the development banks complemented the unprecedented fiscal and monetary stimulus recorded almost around the world. Under the circumstances, the government authorities implemented policies almost unheard before in terms of the size and scope of monetary transfers to households and business to avoid a sharper contraction in consumption and employment than the one eventually recorded.

#### 2.4. Development Bank counter-cyclical efforts

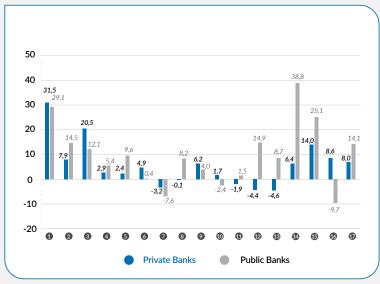
LAC national public and development banks, as we have seen, turned their efforts to the adoption of measures to mitigate the negative effects produced by the pandemic. In 2020, the loan portfolios of the various LAC public banks were increased in almost all of the countries except for the Dominican Republic, Ecuador, and Honduras (chart n.° 1), demonstrating the counter-cyclical effects produced by these institutions in periods of crisis. This trend could already be glimpsed in the initial estimates of mid-2020 (chart n.° 2).

According to information provided by ALIDE, LAC DFIs disbursed between US\$ 270,000 and US\$ 300,000 million, on average, every year. ECLAC estimates that these institutions, by expanding and strengthening their credit instruments to allocate the equivalent of US\$ 93,000 million in financial assistance to support anti-COVID measures alone, served as key actors during the pandemic. In 2020, this support, provided by national development banks to fight the effects of COVID-19, was distributed as follows: 1) US\$ 55,811 million for loans; 2) US\$ 25,227 million for the suspension of payments; 3) US\$ 10,089 million for guarantees, the most dynamic instrument in reviving SME loans; 4) US\$ 1,650 million for refinancings, and 5) US\$ 217 million for non-reimbursable financings<sup>11</sup>.

Alicia Bárcena, executive secretary, ECLAC. Presentation at the II Roundtable of Chief Economists of Latin American and Caribbean Development Finance Institutions «Desafíos de la Banca de Desarrollo para la reactivación económica y desarrollo regional frente a la pandemia de la COVID-19», 6 and 8 April 2021.



LAC public/private banking loan portfolios (% Variation December 2019 - December 2020)



2 Bolivia
3 Brazil
4 Chile
5 Colombia
6 Costa Rica
7 Ecuador
8 El Salvador
9 Guatemala
10 Honduras
11 Mexico
12 Nicaragua
13 Panama

Argentina

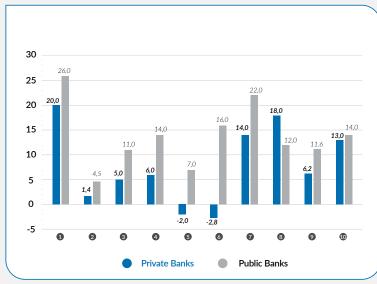
ParaguayPeruDom. Rep.

1 Uruguay

Source: ALIDE staff calculations based on data from Banking Superintendencies and Central Banks.

#### CHART N°. 2

LAC public/private banking loan portfolios (% Variation December 2019 - June 2020)

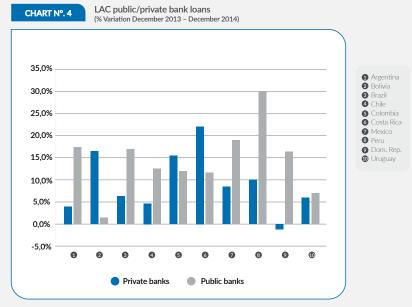


Argentina
 Brazil
 Bolivia
 Colombia
 Panama
 Paraguay
 Peru
 Uruguay
 Chile

O Dom.Rep.

Source: ALIDE staff calculations based on data from Banking Superintendencies and Central Banks.

Source: ECLAC



Source: ALIDE staff calculations based on data from Banking Superintendencies and Central Banks.

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An analysis of a sample of 66 of the region's DFIs revealed that that in 2020, 71.2% raised their portfolio balance an average of 21% and the remaining 28.8% reduced it by -7.4% on average. It should also de added that DFIs redirected their resources to favor the production sector. Banco Provincia de Buenos Aires, for example, doubled the balance of its loan portfolio targeting the production sector in 2020, by 22.5 percentage points more than the national financial system.

Unlike what could be seen in the crises of 2008 and 2014, in which there was a capital flight from the region, on this occasion the private financial system acted as a mitigating, --not an amplifying-- element of the crisis' impact. This behavior, in part, could be traced to the important emergency programs boosted by the governments (charts Nos. 3 and 4<sup>12</sup>).

There is evidence that during the pandemic the response of the financial system and public banks to the emergency was rapid and well-timed. The latter, in many cases, responded more forcefully and more counter-cyclically than the national economy. Heavy use of the resources raised by the banks could be noted, in line with the needs identified by the governments, permitting the use of an important instrument for raising funds that promoted investment in sectors contributing to economic expansion and recovery. Public banks played a significant role in the countries' growth in economic activity.







The intensive use, in recent years, of new technologies with the potential to transform the ways that enterprises operate, sell and compete, has changed customer behavior and needs. The COVID-19 pandemic not only interrupted and altered what was considered normal, but also propelled many enterprises, particularly financial institutions, towards a new reality, in which the need for intensive digitalization is no longer an optional strategy or an experiment. The technology has promoted not only greater efficiency in the financial sector, but also the emergence of new actors that provide alternative financial services and have the potential to alter the structure of the financial market, like the fintechs and big techs (technological giants like Amazon, Facebook, Google or Alibaba). The latter have the capacity to make an array of cheaper financial products easily available and adapted to the needs of a growing public.

As a result, the eruption of these business models based on the Internet channel and the mobile ecosystem<sup>13</sup> has compelled financial institutions to embark on a rapid course towards the adoption of innovative strategies of digital transformation, centering on their relationship with their customers, platforms, channels of service, organization and human capital. Banking institutions are likewise developing collaborative and open alliances with technological enterprises and startups, and have established venture capital funds for investment in fintech. This enables banks to speed up their technological innovation. Fintechs, for their part, consider these alliances a way to validate their business, receive investments and gain experience; the banks also offer them a broad, consolidated and growing clientelle, together with stability, confidence and experience for complying with the regulations of the financial systems. The fintechs, in turn, are able to have themselves seen as a minor threat to banking activity (Financial Stability Board, 2019)<sup>14</sup>.

<sup>13</sup> Services over the top (OTT).

<sup>14</sup> Financial Stability Board (FSB) is a technical institution that strategically tracks the global financial industry.



#### 3.1. Digital transformation and the future of banking

As is common in the case of all substantial change, regulation, conservativism and resistance to change frequently limit the potential for implementation of innovations in society and financial institutions are not free from these stumbling blocks. COVID-19, however, was instrumental in speeding up this digital transformation. By 2020, fully 71% of the world's consumers were already using digital banking channels weekly (with annual growth of 3%), while their daily use rose 6% over the same period (RFI Global, 2020).

Judging by global trends, digital banking should not be viewed as the final stage of a process, but, rather, as the first step towards a coming more holistic or integral transformation. Below, we point out some of the main trends that are changing the financial sector.



Financial institutions are experiencing a context of sweeping changes, marked by the demands of society and investors, together with growing regulation with a shared goal: the development and consolidation of a financial sector responsible to the planet, and even its inhabitants, with transparent management that will boost its compliance with the most important environmental, social and governance principles (ESG)<sup>15</sup>. Sustainability is a major trend in all areas and has become a subject for discussion, based on compliance, reinforced by measures like the introduction of regulations that empower the financial regulator to demand that financial enterprises reveal the climate-induced risks in their investment products.<sup>16</sup> In this sense, technology is a force for effecting a transformational change towards sustainability, an essential element for compliance with these regulations. Banks are already placing a strong emphasis on the environmental and climate risk element<sup>17</sup>.

<sup>15</sup> It refers to the factors that are considered when investing in a company.

<sup>16</sup> For instance, the European Union (EU) Action Plan on Sustainable Finance in 2018, the Disclosure Regulation in 2021 (Pfaff et al., 2021), and the US Climate Risk Disclosure Act in 2021.

<sup>17</sup> For example, some of the world's largest financial institutions, such as HSBC and Morgan Stanley, have committed to Net Zero by 2050. They will measure both the emissions from their own operations and supply chains, as well as their financed emissions (Innig, 2021).

# Greater development of artificial intelligence (AI) for digitalization purposes

Al has various possible applications in the financial area. In recent years, the focus of Al has been placed on optimizing customer banking experience through problem resolution chatbots and the collection of more precise data in real time to give the user a better experience. In 2022, 21% of the financial institutions in LAC were already using Al-based automated virtual assistants and chatbots. Its level of adoption there was greater than in the U.S., where it reached 13% (Febraban, 2022)<sup>18</sup>. The Accenture Consulting Firm estimated the banking sector to be the top U.S. user, employing Al in most of the tasks that can be automated or increased through its use. Some 66% of the hours worked in this sector have a large potential for transformation through Al use, compared with a 40% average in industry<sup>19</sup>.

## More digital competition



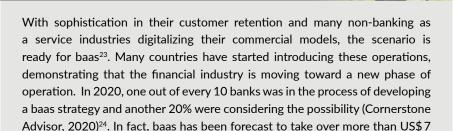
Challenger or defiant<sup>20</sup> banks and liberal neobanks are well-positioned to confront challenges and harvest the benefits of the new digital economy and are altering banking systems based on traditional branches and forcing the industry to become more expeditious and competitive<sup>21</sup>. The growing migration of banking customers from windows to online channels was undoubtedly spurred by the pandemic and these financial institutions are expected to continue experiencing heavy growth of their customer base. This is so true that 57 of the top institutions of this kind around the world are forecast to see their customer base rise from 155 million in 2020 to over 590 million in 2026 (ABI Research, 2021).

- 18 The study commissioned by Infovip, involved a survey of 195 banks and fintech companies located in the USA, 50 in Brazil, as well as in Argentina, Colombia, Mexico and Peru.
- 19 https://www.statista.com/chart/30160/impact-of-ai-on-work-in-selected-industries/
- 20 They are similar to traditional banks in terms of the products and services they offer, but they do so digitally. They differ from neobanks more precisely, financial startups founded on fintech technology, in that they do possess a banking license.
- 21 The impact of this banking evolution has been compared to digital disruption in other sectors, such as the transformation of the hotel sector by Airbnb or transportation with Uber.



Great potential for exploitation remains in this sector. Local banks and financial institutions channeled their energy into fighting big techs and fintechs, particularly PayPal or Alipay. Focusing on their known competitors, they failed to pay sufficient attention to the consumer brands that then became their competitors (Got, 2020)<sup>22</sup>. Integrating finance permits enterprises that are not financial institutions to include financial products or services in their online or digital offerings. This is a kind of banking as a service (BaaS) that makes it possible to offer financial services without any need to associate with individual suppliers or abide by normal regulatory and compliance processes. This market is expected to reach a value of over US\$ 138 billion at the global level in 2026, compared with the US\$ 43 billion that existed in 2020 (Juniper, 2021).

# Continuous growth of banking as a service and integrated finance.



- 22 Banorte from Mexico and Rappi have formed a strategic alliance to offer digital services to the millions of users of the delivery platform (Banorte, 2020).
- 23 The BaaS model relies on APIs, which allow a wide range of organizations to connect technology and incorporate banking services seamlessly.
- 24 Survey conducted in 2020 by Cornerstone Advisors to global banking executives.

trillion of the total market by the end of the decade<sup>25</sup>.

25 With BaaS, traditional banks have the opportunity to operate within a different economic structure, dealing with unit costs that allow them to charge for each component of the transaction, from account access to compliance. It is argued that the unitary economy could be better for providing their banking services to an intermediary such as a brand or a fintech, rather than attempting to capture all that revenue directly from consumers. Banks would be charging very low unit costs, but by volume of customers important figures would be reached (Cornerstone Advisors, 2022).



(defi) is one of the emerging trends in financial technology. Defi is an emerging disruptive technology that seeks to eliminate intermediaries from financial transactions. The blockchain technology used enables customers to carry out financial transactions without having to depend on a bank. These transactions are, instead, p2p, or person to person and use cryptocurrencies as their value unit. Defi promises a dynamic and disintermediating revolution in finance. They have been one of the fastest growing cryptocurrency sectors since 2019. Interest in cryptocurrencies and defis rose considerably during the pandemic and investment quickened. The value of defi rose from US\$15,000 million in 2020 to some US\$110,000 million in September of 2021, due for the most part to the rapid growth of decentralized exchanges that permitted users to buy and sell cryptoassets without an intermediary, and on loan platforms that bring lenders and borrowers together without any need for a credit risk assessment (IMF, 2021).

#### Super apps<sup>27</sup>



Most financial institutions have adopted a series of mobile applications in recent years. In 2019, more than 70% of the U.S. public claimed that they had used a mobile device to consult their bank accounts and this percentage rose to 87% during the compulsory and temporary closing due to COVID-19<sup>28</sup> (Lapera, 2021). Having a mobile application, however, is no longer sufficient. Given the increase in competition and the advances in mobile technology, banks are exploring new ways to improve their customers' experience. The result has

<sup>26</sup> Decentralized finance refers to platforms that enable consumers to engage in financial transactions with one another. The goal is to enhance the availability and efficiency of financial services through disintermediation.

<sup>27</sup> In other words, a super application is a sort of shopping center that provides space for various brands and stores from different businesses and sectors.

<sup>28</sup> Survey conducted by CreditKarma (Lapera, 2021).



been the advent of super apps, which have already become extremely popular in Asia<sup>29</sup>.

Super apps integrate financial services into their platforms to give customers free-flowing experiences. For the banks, this means that a growing number of users are able to bypass bank apps and simply use super apps, thereby producing disintermediation. Some banks, by providing unbranded banking as a service (baas), have already become part of the super app ecosystem, making all of this integration possible. Given the growth of their popularity, super apps could become a strong element of increased competition for the banks.

The use of customer data could pose another threat to financial institutions. Not only would super apps have access to an unprecedented amount of customer data, but they could use that data to give their customers better experiences. Examples can be found of using that data to upgrade operating processes, as in evaluating loan applicant risk by using social networks and cross-cutting data and being able to tailor financial products better to customers at just the right time (KPMG, 2019).

### Consumer preference for more personalization



This trend is boosted by AI and the various behavioral sciences involved in data collection from an individual about his/her history of transactions, customary buying habits, location, etc. AI draws on all of this information to create full and personalized consumer profiles that financial institutions are able to use later in elaborating offers of specific products. Hyper personalization offers financial institutions possessing a large amount of available data a window of opportunity for keeping ahead with a closer value proposal. It was estimated in

<sup>29</sup> For example, WeChat from China, which initially began as a messaging and social media app, expanded into payments, shopping, food delivery, and taxi services. Between 2010 and 2020, China invested nearly \$257 billion in super applications, compared to only \$43 billion from its Southeast Asian counterparts (Global Business Outlook, 2021). Furthermore, according to eMarketer, these super applications had an average market capitalization of US\$ 43 billion in 2021, compared to US\$ 11 billion in the USA (Expansion, 2021).

2019 that successful personalization to scale could produce a 10% increase in the annual income of a financial institution (Abraham et al., 2019)<sup>30</sup>.

Open banking is the entryway to hyper personalization, which provides banks with a very rich source of new information



This information can be analyzed using AI to provide data about customers' highly unique circumstances and their offer of a personalized proposal adjusted to their profiles in terms of costs, maturities, penalties and bonuses. In the case of costly financial services like mortgages, a relations manager could be brought in to talk about these offerings and to make suggestions for creating a hybid digital-human model.

#### **Human banking**



Banks, as they develop their digital services, must not forget to use a human touch. Although the period of confinement created a significant change in favor of the use of digital channels, with 50% of the consumers interacting with their banks through mobile applications or websites, compared with 32% prior to the pandemic<sup>31</sup>, customers are also being deprived of human contact (Kirschfink, 2022). While this system is efficient and has advanced the digital agendas of most banks, the lack of human connection poses the risk of weakening the already weak personal and emotional connection with customers.

<sup>30</sup> Boston Consulting Group estimates as referenced by Abraham, M.; Archacki, R.; González, J. E. & Fanfarillo, 2019.

<sup>31</sup> Accenture's global study on Consumer Banking (2021), which analyzed the behavior and preferences of financial consumers during the pandemic.

The increase in online and mobile banking activity has been the most obvious change in behavior of financial consumers. As branch offices closed with the imposition of confinement, mobile and online banking became the main channel of bank interaction (Accenture, 2021).

#### Present situation of digital transformation in 3.2. the financial sector

The new consumption technologies and trends have become one of the major challenges for the financial sector in the area of digital transformation. Despite offering an opportunity for profit, they can also constitute a threat to traditional financial institutions by having brought in new actors, like the financial technology service companies, fintechs, and big tech, which can serve as both allies and competitors.

The increase in online and mobile banking activity has been the most obvious change in behavior of financial consumers. As branch offices closed with the imposition of confinement, mobile and online banking became the main channel of bank interaction (Accenture, 2021). By 2022, fully 50% of the world's customers were already using a mobile app or website to link up with their banks at least weekly -in other words, 18% more than in 2018. Global digital penetration has settled at a level tending to exceed 60%. At the opening of 2022, Internet users reached a total of 4,950 million, after having achieved growth of 192 million (4%) during 2021, although the difficulty in collecting data would tend to suggest that real growth could have been stronger (Kemp, 2022).

Global use of contactless payments rose 40% during the first year of the pandemic (Mastercard, 2020). Even so, the value of online payments -in Europe, for example,-was expected to exceed the figure of one trillion euros by 2025. And worldwide cashless transactions are forecast to show growth of roughly 18% a year between 2020 and 2025. Asia Pacific will be the region to add the greatest value, followed by Europe in 2025 and then North America. In addition, the use of mobile wallets has become the principal way to make payments in several regions, inasmuch as government officials sought to reduce the use to cash in order to avoid contagion. By way example, the use of mobile wallets is expected to double between 2021 and 2025 in the Asia Pacific region, followed by LAC, with over 600 million in 2025 (Research and Markets, 2022).

) 46

As for financial inclusion, the number of consumers over the age of 15 without banking service in 47 markets investigated has dropped 137 million since the outbreak of the pandemic (Sands, 2021) and access to financial products and services rose with fuller adoption of mobile devices throughout the world.

More precise data for understanding the progress of digitalization in the financial sector can be gleaned from a report by Capgemini (2020), that discusses the positive impact of the pandemic on the transformation of the financial institutions. Although in 2018, the financial sector was seen to lag behind other sectors of the industry, two years later those organizations were in a much better position. On average, 66% of bank executives declared having the necessary digital capacity to undertake this process, an improvement of 29 percentage points over the level in 2018.

Capgemini's analysis (2020) concluded that large enterprises, with incomes of US\$10 billion or more, were one step ahead in both digital capacity and leadership, with 68% of those enterprises claiming that they had the necessary digital capacity, in comparison with 55% of those with less than US\$10 billion in income.

In this connection, most organizations have developed a new strategy for digital transformation and almost 50% are speeding up their plans. The panorama that emerged with the pandemic turned out to be both an accelerator for some swiftly acting enterprises and an obstacle for those with inflexible strategies<sup>32</sup>.

In fact, even banks that started implementing their digital transformation strategies several years ago with clearly defined strategies of modernization are now having to face the prospect of making significant changes in order to remain competitive in an environment characterized by the growing presence of fintechs (IBM Institute for Business Value, 2020).

## 3.3. Public and development banks confronted by the challenge of undertaking their digital transformation

The progress of new technologies, with digital products and services that are being rapidly and quite naturally adopted by consumers, is forcing all economic units to undergo digital transformation. This process, however, goes beyond merely providing users with digital services. It also involves the adoption, within the organization, of technological tools with which to make the most of and improve their operations. Owning internal digital platforms with which to speed up processes not only improves productivity, but also facilitates management of the institution's internal control, contributes to efficiency and brings down operating costs by limiting the number of branch offices and of staff.

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The opportunity to use new technologies, such as smart ATMs that integrate with mobile devices or offer video banking capabilities with call centers or channel services, provides the opportunity to blend channels for an enhanced customer experience.

Up until quite recently, customers' principal needs were satisfied by means of branch offices, automated teller machines, and online banking. While these three channels have traditionally worked well for customers, the growing use of mobile applications and online banking have changed the priorities. Furthermore, the opportunity to make use of new technologies, like intelligent automated teller machines integrated with mobile devices or offering video banking capacities with call centers or channel services, makes it possible to combine channels for better customer experience.

Processes can be optimized and operating expenses cut through use of the new technology and digital advances like AI and robotic process automation (rpa). That is one of the reasons why the banking industry strives to stay in the vanguard in the area of technological adoption. Banks are the largest private investors at the global level and accounted for 14% of the total investment in 2020 (Deloitte, 2021).

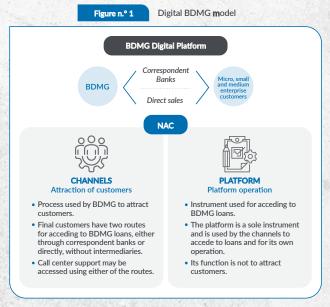
Digital transformation is rapidly changing the development financing business model to enable development program resources to reach their beneficiaries more efficiently. This means exploring opportunities that stem from digital transformation in the financial market in order to support decision making, enhance productivity and broaden access to financing. Financial institutions have reacted in the environment in which the enterprises operate by undertaking digital transformation processes of key importance for adjusting to, and managing, disruptive changes both among their customers and in the market. This process involves reviewing business models, operations and technological strategy in terms of an important change in organizational culture that should be led and boosted by high-level management (KPMG, 2017).

Below we present some of the advances that have been made in the digital transformation process undertaken in LAC national development banks and take a look at where their main efforts are headed. Institutions with different operating modalities, sizes and geographic locations have been selected, with a view toward obtaining a sample that is as representative as possible of LAC Development Banking.



## BANCO DE DESENVOLVIMENTO DE MINAS GERAIS (BDMG)

was one of Brazil's pioneers in setting up a digital platform (BDMG Web)<sup>33</sup> for granting SME loans some 10 years ago. BDMG Digital was launched later as a new loan and customer relations platform aimed at improving enterprise relations with the bank and banking experiences. The success of this initiative advanced loan digitalization processes that target medium and large enterprises, transforming the information collected and allowing for its more rapid and precise internal analysis. One of the loan lines that started operating on this platform was the Brazilian Government's Programa Nacional de Apoyo a las Microempresas y Pequeñas Empresas (Pronampe) (National Support Program for Micro and Small Enterprises), a line that was created during the pandemic to help SMEs.



Source: Taken from BDMG

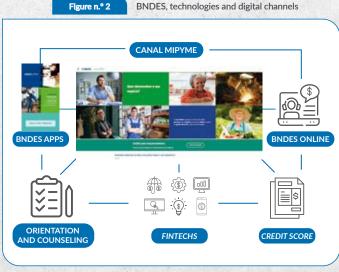
Pronampe was *Digital BDMG's* most prominent program in 2020, with disbursements of R\$ 650 million (73% of the platform's total disbursements), benefitting 9,187 customers. Subsequently, in 2022, it launched the *BDMG Efficiencia* platform to facilitate micro and SME access to resources for energy efficiency projects.

<sup>33</sup> In the year when the pandemic began, the disbursement of applications initiated by BDMG Digital amounted to R\$ 889 million (USD 177 million), with 96% of the total going to micro and small enterprises (MSEs), marking a 425% increase compared to 2019. The number of customers financed through the platform reached 12 830 (92%) out of a total of 13,915 transactions, representing an 182% growth compared to 2019. In 2020, BDMG Digital recorded nearly 703,000 accesses, setting a historic record and experiencing a 17% increase in platform accesses compared to the previous year.



#### **BANCO NACIONAL DE** BNDES DESENVOLVIMENTO **ECONÔMICO E SOCIAL (BNDES)**

For its part, seeks through digital transformation to improve customer banking experience and facilitate access to loans based on several pillars. These include credit debureaucratization, reduction of information asymmetry, streamlining through operational process digitalization and the launching of new digital products and services. In this connection, the process embarked upon over the past two decades proved possible thanks to the construction of systems that would underpin new business models. These ranged from the Bank's tarjeta BNDES (BNDES card) initiative in the early 2000s, which launched the first preapproved rotating credit line, through BNDES Online with its almost instantaneous approvals and disbursements, to the Canal MiPyme (Micro and SME Channel) that aims to become a service platform for micro and SMEs that is not limited to granting loans (Araujo et al., 2020).



Source: Taken from BDMG

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Insofar as digitalized processes are concerned, BNDES Online was developed to serve as a single platform where financial institutions accredited as resource channelers can send applications for financing. The platform permitted those applications to be made and approved in real time, thereby reducing transaction costs, improving regulatory compliance and decreasing the maintenance costs of the system by integrating processes and databases. Up until 2020, over 99% of the indirect operations were carried out through BNDES Online. Between July 2017 (its launch date) and August 2020 alone, over 437,000 operations totaling R\$59.5 thousand million (some US\$12,000 million) were conducted with 46 financial institutions.

The digital Front Office launched the Canal MiPyme in 2017, a platform for attracting potential new customers that was intended to strengthen BNDES' relations with its final customers and broaden their access to credit. Three years after it started operating, the platform proved capable of attracting potential customers for 8,600 new operations, with a total of over R\$1,200 million (US\$239 million) being contracted for. The Canal MiPyme offers other services, in addition to financial products, like fintech financial management companies and the partners, Servicio Brasileño de Apoyo a las Micro y Pequeñas Empresas (Sebrae) and Confederación Nacional de la Industria (CNI), which promote entrepreneur training and orientation.

The Canal MiPyme not only made improvements in the loan evaluation process, but in 2020 the portal also progressed towards the phase of effective finance application. During the pandemic, it created several emergency financing products, both direct and indirect. Between April and September 2020 alone, BNES, using its technology and digital channels, approved R\$82,000 million (US\$16.2 billion) in financing.



#### **BANCO DO BRASIL (BB)**

Atook a series of measures to enhance the institution's competitiveness and bring its capacity into line with the needs of each market, giving priority to customer experience, boosting its efficiency and increasing its productivity through process simplification and digital transformation. Among the actions taken are the inspection and resizing of the BB's organizational structure at the strategic (general management), tactical (superintendencies), support (regional bodies) and business (agencies) levels. These were the outcome of continuous process and product improvement and digitalization, checking and improvement of the service and relations model, and development of solutions for digital channels. By 2020, mobile devices and the Internet already accounted for 86.5% of all its transactions.

These measures involved openings, relocations, changes in type and closings of points of service, resulting in gains in efficiency and streamlining in 870 Brazilian towns. The executive teller performance model was also checked, a new relationship classification was established for office workers and the structures and activities of the strategic units were optimized by implementing specialized functions. Adjustments were also made in the staffs of the strategic units and in the support areas and business units.

In order to move ahead with this process, BB approved additional investments totaling R\$2,300 million (US\$458 million) during the 2021-2024 period, for technology, cybersecurity and data analysis. The purpose of these investments is to offer customers new banking experiences with more practical, secure and rapid options in the digital world<sup>34</sup>.

BB also leveled up its investments in cloud computing, big data, social platforms and cognitive computing. It supplied solutions capable of identifying customer feelings and interests though affective computing, an Al application. This tool makes it possible to identify the degree of customer satisfaction, as well.

<sup>34</sup> By the end of 2020, Banco do Brasil reached a total of 21.2 million active customers on its digital platforms. Its mobile app, the BB app, was the highest-rated in the financial sector, with a score of 4.6 on Google Play and 4.7 on the Apple Store. Furthermore, it achieved 6.8 million digital-native customers, marking a 78% growth in just one year. Digital platforms (both web and mobile) accounted for 43% of disbursements in personal loans, 13.3% in payroll loans, 38.3% in investments and reimbursements within investment funds, and 35.1% of the total number of transactions in services.

## OTHER BB INNOVATION INITIATIVES

#### **Acceleration - link with emerging technologies**

BB sponsored and participated in the startup acceleration program, Emerging Technologies League, that brought it closer to the innovation ecosystem and enabled it to perform concept tests (ct) using the solutions presented by the accelerated enterprises. As a result, it successfully implemented a check out solution in partnership with the startup SpinPay for offering BB Crediário at electronic commerce sites.

#### **BB Squads Program**

The Bank selected 12 strategic projects containing a high degree of innovation and scalability in order to put the «squads»<sup>35</sup> model to the test. Project teams using this model are given more autonomy and flexibility in developing new business products and models. The program, which enjoyed the support of the Recife Center for Advanced Studies and Systems (CESAR) had as its aim to reinforce the squads-based project management model in order to permit enterprises to react with greater agility to the demands of the financial market, compete under equal conditions in the open market and systematically satisfy customers' real needs.

#### **Open banking**

It has taken action to both fulfill regulations and advance its own initiatives in that area. Open banking regulation is defined by the Central Bank and has been applied in Brazil since 2021. Action taken in 2020 bore in mind both open banking regulation, with specified periods and delivery dates, and the evolution of the business with externally integrated customers. In this context, BB launched the new Portal del Desarrollador (Developers' Portal) (developers.bb.com.br), a platform for creating and managing APIs, open to everyone cost-free. Both APIs developed for the Sistema de Pagos Instantáneos (PIX) (Instant Payments System) and APIs developed to comply with Open Banking phase 1 – open data can be accessed at that portal. Over 350 new partner integrations were signed in 2020<sup>36</sup>.

<sup>35</sup> It is a small, autonomous and multidisciplinary team that carries out one or several projects using agile methodologies.

<sup>36</sup> Among the APIs already available for use are BB Crediário, Working Capital, Cards, Clients, Public Accounts, Financial Consultations, PIX, and Open Data.

### PIX

is a payments platform launched in 2020 and integrated with all BB entrepreneur applications that allows transfers to be made simply and rapidly. Customers can register their PIX passwords fully by digital means via the application and make transfers using the WhatsApp and even through a voice command using Google Assistant. Up until 2020, BB was the only bank to offer these last two services.

#### **Carteira BB (Digital Wallet)**

It integrates several functions that help with day-to-day activities, like cash in operations (through the input, transfer, payment security and receipt of benefits), cash out operations (payments under the QR code, payment security, automatic debits, mobile monetary replenishment, cardless withdrawals, transfers and purchases using the BB card), and invitations to pay, together with 100% digital service in the application itself. The wallet was made available in 2020 for receipt of public emergency assistance payments to fight the effects of COVID-19. At December 2020, the Wallet had over 2.5 million customers, a total of R\$13,000 million (US\$2,585 million) had been negotiated and more than R\$2,500 million (US\$499 million) had been paid out in emergency assistance.

Source: Banco do Brasil Annual Report for 2020

#### BANRESERVAS BANRESERVAS

Given the compulsory confinement decreed by the government to fight the pandemic, Banco de Reservas de la República Dominicana (Banreservas) made adjustments in its business model and incorporated information, cybersecurity and telecommunication technology to make its services more efficient and productive by reducing costs and response times for customers, thus bettering their experience.

Banreservas put three projects into effect for the purpose of achieving those goals: 1) The Escuela Lean (Lean School), a virtual teaching platform that aims to promote a culture of continuous improvement, based on Lean Manufacturing philosophy<sup>37</sup>; 2) The Proyecto Evolución (Evolution Project), which seeks to transform the institution's principal processes by enhancing their efficiency and making them more innovative, thereby reducing execution times and focusing efforts on improving customer service, and 3) Robótia de Procesos (RPA) (Robotic Process Automation), which consists of enhancing the institution's efficiency by making use of RPA technology as part of the implementation of best innovation practices in the financial sector.

The bank's general structure and that of its subsidiary enterprises were strengthened to back up its institutional strategy of integral management of risks, cybersecurity and information, internal control, corporate governance, technology, channels, pension fund and public and private trust management, as well as commercial management.

In the case of human capital, a diagnosis was started in 2020, together with an alignment for Banreservas' cultural transformation, with a view toward defining and taking action to enhance the organization's innovative profile, accelerate its digital transformation and boost a service excellence model.

With the backing of technology, the Bank developed a value proposal that transforms its customers' banking experience by promoting self-service and rapid, secure and uninterrupted management of its financial transactions<sup>38</sup>.

<sup>37</sup> It is a work organization system that focuses on improving the production system. To achieve this, it is based on the elimination of activities that do not add value to the process or the customer.

<sup>38</sup> In 2021 total transactions increased 34.9% compared to 2020. 75.7% of these transactions were conducted through alternate channels, contrasting with the 71.9% from the previous year, indicating a shift in customer preferences. Cash transactions represented 24,3 %, a decrease from the 28,1 % of the previous year (Banreservas, 2021). Additionally, it's worth noting that the Banreservas app experienced exponential growth, with over 3.6 million downloads and more than 33.9 million transactions by December 2021. The mobile technology channel 960 also continued to grow and develop, allowing customers to perform queries and operations for free without consuming internet data, thereby reaching lower-income groups and achieving more than 28 million gueries and 1.8 million transactions in 2021.

The Bank's digital strategy rests on a wide array of products and services. Foremost among these are initiatives like auto-assisted access to TuBanco (Your Bank) channel, the buying and selling of foreign currency through the Banreservas app, and card activation and blockage using the same app. These efforts seek to alleviate the operational burden on different internal areas and to promote customers' use of alternative channels. Banreservas' digital transformation process focuses not only on improving its customers' experience, but also on taking advantage of its technological capacities and incorporating tools that promote an efficient digital culture within the organization.

Banreservas also played a key role in the implementation of government programs by designing a digital product based on a single card number enabling customers to make payments at virtual terminals. More than 700,000 beneficiaries and almost 4,400 stores accepted this means of payment.

#### Principal initiatives furthered in 2020

#### **RPA**

Robotization of back office processes. Processes were robotically automated, based on specific rules designed to produce results speedily and precisely by seeking operational efficiency through saving and error reduction. In that way, repetitive tasks involving large volumes were optimized.

#### **Less Paper**

The institution uses digital processes for all documentation produced, used and stored. The Bank stopped its mass printing of statements of current accounts and cards in 2020.

#### **Remote work tools**

The Bank acquired licenses to use tools that permit continued remote work in its various forms. This initiative played a key role during the period of confinement.

Banco de Comercio Exterior de Colombia (Bancóldex), a wholesale bank, established an Innovation Office in 2020 that has taken charge of devising solutions to close market gaps and challenge traditional ways of doing things. In 2021, it worked on the design and implementation of diverse products, among them the following:

#### Products designed and implemented in 2021

#### Neocrédito

Administered digital platform that links up the supply and demand for microcredit. Using this platform, formal and/or informal microentrepreneurs can register, load standard documents and apply for loans, buy and choose the offer best suited to their needs from among those posted by financial allies (microcredit institutions, fintech companies and supervized banking institutions) that serve this business segment and have registered beforehand on the platform. Bancóldex receives a commission for each effective loan made through the platform. With total microentrepreneurs numbering 11,620 at July 2023, its target is to reach 20,000 and in 2026 to mobilize close to \$2 billion (US\$489 million) in loans.

#### Leasing digital

This platform enables SMEs to compare technical specifications and to choose, simulate and/or finance productive assets in a digital environment via leasing. This is an online digital solution that seeks to produce fuller regional coverage, bring suppliers and entrepreneurs into closer contact with each other, and finance assets in the long term.

#### **Finbi**

This is a unit through which investment banking services will be supplied, tailored to SME needs. The intention is to provide, together with this product, coaching in redefining SME debt and capital structures through the production of strategies for their growth plans and diversification of financial sources, and by obtaining resources, as needed.

#### Innovalía

A solution for raising funds from among those allocated by the General Royalties System (SGR) to Science, Technology and Innovation (sti), in order to enhance regional innovation by giving enterprises technical and financial assistance. This solution aims to boost intellectual property in the country, promote enterprise innovation in different regions, increase technological knowledge and processes, fuel competitiveness and produce benefits for society at large.

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#### BancoEstado BANCO DEL ESTADO

The current challenge facing Banco del Estado in Chile is to further the development of its ecosystem by focusing on individuals and SMEs through accessibility, digitalization, universal service and sustainability, in order to ease the lives of its customers and promote inclusive and sustainable development. This aim goes hand-in-hand with the necessary technological growth for providing security and stability, inasmuch as the Bank boasts the largest number of customers and transactions in Chile.

BancoEstado promotes inclusion by means of digitalization with its CuentaRUT<sup>39</sup> (RUTAccount). As an instrument for financial inclusion, it had roughly 14.2 million customers in 2022. Its massive introduction of the new mobile app and chip turned it into a means for digital payment. Customers are able to make purchases abroad, subscribe to digital apps or belong to a financial ecosystem.

The Bank launched its Plan Conecta<sup>40</sup> (Link-up Plan) in the most isolated areas of the country, where financial services are almost nonexistent, in order to provide banking services to 73 Chilean municipalities with difficult access to those services. By the close of 2022, Conecta was serving 55 municipalities with self-service modules and remote executive assistance, leveraged by Compraquí<sup>41</sup> (Buy Here) for their businesses and CajaVecina<sup>42</sup> (Neighboring Bank) for their everyday transactions. CajaVecina has also played an important part in public policy implementation, inasmuch as subsidies were paid through this network to vulnerable population segments.

In addition, it introduced the QR Pasaje (QR Ticket), which, in 2022, was employed by 1.1 million people in the country's capital city who use public transportation daily. It enables individuals to produce their transportation tickets by entering a QR code associated with their CuentaRUT in their mobile phones. Along this same line, the Bank launched its remittance service through its BancoEstado Móvil app (Mobile BancoEstado app), which allows people to send money abroad rapidly and safely, thereby contributing to the financial integration of approximately 1.2 million migrant customers. In addition to its technological advances, it made its Cuenta de Ahorro Premium UF (UF Premium Savings

<sup>39</sup> Cuenta Vista, which includes a debit card that allows customers to manage their money.

<sup>40</sup> A plan that aims to bring basic banking services to localities where customers currently have to travel to other locations to access them.

<sup>41</sup> It is a payment reader that enables transactions with debit and credit cards from any bank, both national and international.

<sup>42</sup> A non-bank correspondent service in which various banking services can be carried out, using either cash or with BancoEstado cards (CuentaRUT, electronic checkbook, current account, among others). These services include cash withdrawals, deposits, transfers, payment of consumer and mortgage loans, among others. Additionally, it is possible to make payments for utilities (electricity, water, etc.), contributions and purchase of Fonasa bonds.

Account) available through its app in November 2021, which a number approaching 400,000 customers applied for and opened in a few short months. It has also been supporting the development of thousands of SMEs with the MercadoAquí (MarketHere) initiative, in which over 23,000 microempreneurs offer their products for sale. This was complemented, in 2021, by its own purchasing network, which is more convenient and accessible to all: Compraquí (Buyhere), which, by the close of 2022, reached over 136,000 devices and had 44,000 affiliated and interlinked microentrepreneurs.

The above, together with the Emprende (Undertake) academies and the CreceMujer (Woman'sGrowth) network that support over 306,000 female entrepreneurs, constitute a supporting ecosystem that supplements lending activities and contributes to the business transactions of more than 900,000 micro and SME customers. These innovations would not have been possible, however, without the existence of appropriate systems for handling the 733.7 million average monthly transactions registered in 2022. For reference purposes alone, transactions via digital channels doubled in 2021, compared with 2019, reaching a monthly average of 470 million, while commercial sales increased 1.8 times to reach a monthly average of 112 million.

### Number of average monthly transactions, by channel (million)

	2018	2019	2020	2021
Customers using digital channels (Web and Mobile App)	6,6 million	7,7 million	9,8 million	11 million
Customers using the Mobile App	4,7 million	5,9 million	7,3 million	9,2 million
Transactions via the Web	804 million	798 million	691 million	521 million
Transactions via the Mobile App	757 million	1,137 million	3,148 million	4,771 million
Number of visits to the website	1,563 million	1,380 million	1,555 million	1,220 million

Source: Memoria Integrada 2021 (2021 Integrated Annual Report) BancoEstado



## BANCO NACIONAL DE PANAMÁ (BANCONAL)

Banco Nacional de Panamá (Banconal) started on the digital transformation of its virtual channels at the opening of 2020 by putting into effect a plan of technological innovations to benefit its customers. This included the launching of the new Billetera Electrónica Nacional (BEN) (National Electronic Wallet) and the Tarjeta Clave Transporte (Key Transportation Card), two electronic means of payment intended to reduce the use of cash and promote financial inclusion. BEN enables users to employ their mobile phones as a digital wallet: to make deposits, monetary replenishments, and withdrawals at automated teller machines; pay for services; and make transportation and mobile telephone replenishments, as well as to receive money within the network of users. The new Tarjeta Clave con Sistema Integrado de Transporte (Key Card with Integrated Transportation System), designed for local use, can be replenished through the Bank's virtual channels, like the automated tellers, Online Banking and Mobile Banking, or automatically via the customer's account<sup>43</sup>.

Along this same line, the Bank signed an agreement with the country's Public Registry Office to speed up processes in both institutions by implementing electronic signatures. This measure will permit Bank collaborators to carry out all their digital processes safely by arranging to sign a public document. Known as «Telemática», (Telematics), this project is a technological tool used by the Public Registry Office to provide access to a web portal. Users are able to transact their business online via this portal from any site offering Internet access (Banconal, 2021).

With a view to carrying out the digital transformation of its service channels and continuously upgrading its processes, the Bank launched a new technological service tool called «Ariel» (Online Interactive Response Assistant). Its purpose is to improve its customer service experience.

<sup>43</sup> Banconal was the first bank in the country to adopt Pure technology, enabling financial institutions to integrate their cards into other service networks, such as public transport payments.

## BANCO PROVINCIA DE BUENOS AIRES (BAPRO)

Banco Provincia de Buenos Aires (Bapro), Argentina, is focusing its efforts on providing its customers with a better banking experience and has given special attention to reinforcing its Cuenta DNI (National Identification Document Account) digital wallet. This has enabled it to take a great leap forward in its digital transformation (Carusso, 2021). Its Cuenta DNI is an app that operates like a digital wallet and is available to any individual, irrespective of whether he/she has a bank account. The application makes it possible to carry out operations over the 24 hours of the day from a mobile phone; these include making and receiving payments, sending money to and requesting money from other people, making transfers to other banks, replenishing the mobile phone and the transportation card, paying at affiliated stores, withdrawing money without having a debit card and charging government benefits.

In 2021, the Bank's Cuenta DNI was consolidated as the leading digital wallet in Buenos Aires province, with 4 million users<sup>44</sup>. During the second half of the year, thanks to a public policy boosted by the provincial government to promote consumption, over 28,000 businesses saw their sales rise with the discounts and benefits offered by the app. The Cuenta DNI Comercios (DNI Businesses Account) was launched in November of that year as a new means of digital collection for businesses, 100% interoperable with other wallets operating in the market. With this tool, which does not require the use of data collection terminals and makes collections possible using a mobile phone, Bapro became the first local financial institution to issue and accept payments. In addition, it issued and delivered over 600,000 Programa Alimentar (Feeding Program) cards in Buenos Aires province in collaboration with the national government,

The Bank also made two digital products available to enterprises: eCheq and Préstamos Web (Web Loans). The former is a payment order in digital form that is used as a physical check and has a legal value. And in order to grant loans through the BIP Platform, the Bank made a series of improvements in its process rating and digitalization system, which resulted in greater automation and efficiency in loan granting. In 2022, the Bank placed emphasis on the migration of credit products to the digital channel, with a view toward fostering enterprise self-management.

<sup>44</sup> From these, half began to operate with the bank after the application was lowered and 55% are between 18 and 35 years old, mostly not banked.

# BANCO NACIONAL DE COMERCIO EXTERIOR (BANCOMEXT)

In the case of Banco Nacional de Comercio Exterior (Bancomext) de México, technological evolution is a priority and is a part of its positioning strategy as a development bank. The Bank accordingly made a platform known as Suppliers Pay Cash (SPC) available to SME suppliers of large enterprises. The incorporation of suppliers is digitalized through this platform, thereby eliminating the use of paper and physical visits for purposes of identification and the signing of contracts. It also offers factoring service via its website and app.

The bank designed a service through a specific website, in which it takes advantage of the preexisting relationship between large enterprises and small suppliers, together with their credit history. SMEs can immediately discount bank drafts preloaded on the platform. The program started operating in February 2020 during the pandemic.

Fideicomisos Instituidos en Relación con la Agricultura (FIRA), of Mexico, on the other hand, supports the agro-food, forestry, fishery and rural sectors with financing, guarantees and the transfer of technology, giving priority to SMEs, which in Mexico account for 70% of the employment. Even so, only 28% of them receive financing from commercial banks and other financial intermediaries. Access to credit can be facilitated and boosted, however, with guarantee programs like those offered by FIRA (FIRA, 2021).







In recent years, we have witnessed the reemergence of Development Banking at the global level. This can be traced to the recognition of the role it plays, not only in promoting economic development (which today must be sustainable, inclusive and resilient), but also as a stabilizer of economic activity during periods of crisis, such as the global financial crisis of 2007-2008 or the one created by COVID-19.

The role played by banking during those periods highlighted its usefulness, putting the lie to old theories about the possible distortions that its activities could produce in financial markets.

DFIs have shown themselves to be resilient in confronting recent challenges by adjusting their support instruments to the complex environment in which our economic production system operates. By way of example, we can draw attention to the counter-cyclical role they played during the latest crises, when the financing of private financial intermediaries dried up, leading many governments to rely more heavily on their development banks.

In this context, their function as a public policy instrument is being revalued in a large number of countries, incentivizing the creation or strengthening of new banks and development finance institutions at different levels. Cases in point are the Asian Infrastructure Investment Bank [AIIB]) founded in 2016 as a multilateral bank with a membership of a little over 100 countries, and the New Development Bank [NDB] created by the BRICS<sup>46</sup> bloc in 2014, as well as some others of a regional or local nature that were the outcome of different processes<sup>47</sup>.

<sup>46</sup> BRICS is the acronym for an economic-commercial association of the five emerging national economies that were the most promising in the world during the 2000s: Brazil, Russia, India, China and South Africa, although the latter only joined in 2011.

<sup>47</sup> The Banco Português de Fomento (BPF) was established in November 2020 through the merger, by incorporation, of three financial institutions with specific purposes. BPF was created to support both national and international projects, with a focus on promoting sustainability and economic development. Its objective is to serve as a bank that promotes development and that foster synergies by facilitating greater coordination and integration in supporting investment, innovation and the internationalization of the national economy.

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By the same token, the United States Government is considering the possibility of establishing a green development bank to finance the energy transition.

The common thread uniting all of these efforts, together with the over 500 development banks and finance institutions that exist around the world (figure estimated by the Finance in Common Global Network of all Public Development Banks) is not only their intention to correct market failures or contribute to development in the traditional way, but also to facilitate structural transformation processes that would position the countries they represent favorably within the new economy. This vision is oriented towards covering the existing and future needs of the world in which we live.

Given the foregoing, we are in a position to affirm that the existence of DFIs is justified not only by the need to correct market failures, but also to create markets where they are lacking and to efficiently develop those that exist in key areas for structural economic transformation. This includes sectors like agriculture, infrastructure, energy, education, health and small and medium enterprise, while, at the same time, confronting the foremost global challenges and priorities of a world in constant change.

There can be no doubt that COVID-19 has served as a watershed moment in history and that it, together with the climate crisis, technological advances like artificial intelligence (AI) and geopolitical matters, have created a very different scenario to which institutions like public development banks must adjust. That adjustment represents a historical responsibility for harnessing their potential for raising the resources needed to finance the production system of the future. In order to do so, they must be equipped with the necessary expertise and have the appropriate strategic vision. They must transmit their own experience to investors and borrowers in order to help close gaps in knowledge and financial flows.

In comparison with past periods, far more elements exist today to give us clear understanding of the role that DFIs must play in the coming years. Different associations, like ALIDE, banking clubs, multilateral organizations and other initiatives and specific groups with different development banks among their membership, have played a catalytic role in this regard. For it is through them that global development financing agendas and future challenges are disseminated and analyzed, information is produced, best practices are shared, and contacts are established among the different actors of the DFI ecosystem, at both the global and regional levels.

As a significant item on the global agenda, we can highlight the United Nations initiative that establishes 17 Sustainable Development Goals (SDGs), proposed in 2015 as a worldwide call to put an end to poverty and safeguard the planet. Also worthy of note is the Paris Agreement on climate change, which aims to limit global warming to far below 2% -- preferably 1.5%-- in comparison with pre-industrial levels; and specific agendas for the banking sector, like the United Nations Environment Program Finance Initiative.

Considering all of the above, we are able to declare that the frame of reference has been established. Each country and each DFI can determine its priorities in accordance with its

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own situation. Even so, there is a consensus as to the areas and trends that are common to all and that will redefine future DFI efforts. If they are addressed properly and on a well-timed basis, they will become competitive advantages for the economies of their respective countries.

DFIs occupy a privileged position for acting as agents of change by identifying sectors in the lead that will enable LAC to compete in the future, influence the adoption of an environmentally-friendly development model and develop the potentials of entrepreneurs, thereby making it possible for their ideas and projects to be turned into businesses. We open the way where others see only risks and difficulties, by supporting projects in new sectors or products about which market information is incomplete or nonexistent. We empower and offer financial and non-financial tools to entrepreneurs who are creating the economy and enterprises of the future. We identify new areas or sectors for development. What better than a DFI to serve as an antenna for learning where opportunities for business and markets exist? It is our institutions to which entrepreneurs turn when they have an innovative project or product. We are pioneers in financing environmental projects.

These are just some of the key elements —non limiting— that are redefining the future of the global economy and in which DFIs can play a decisive role. Below, we present some proposals focusing on LAC public development banks.



### Economic development must be sustainable and inclusive.

The effects of the climate crisis and the existing gap in financing make it necessary to delve more deeply into actions to facilitate energy transition processes, thereby developing markets and ecosystems for the finance of green technologies and sustainability practices. This transition has implications for the development of new industries and in the energy systems and the specific public policy contexts of each country.

DFIs have the capacity to raise funds for low carbon (decarbonization) activities and projects resilient to climate change, such as those involving renewable energy, energy efficiency and sustainable transportation, among others. The use of ticketed instruments like thematic bonds will become increasingly important in efforts to mobilize resources, thereby making it possible to develop markets of this kind in the countries' financial systems.

By the same token, and gradually, PDBs should begin to incorporate scenarios for the management of climate risks (physical and transitional) and policies of environmental and biodiversity, as well as social, protection within their decision-making processes. By

way of example, we can mention the Environmental and Social Risk Management Systems (SARAS) and ESG (environmental, social and governance) criteria. It is important to point out that climate risks could affect the banks' portfolios themselves, making their appropriate management a challenge for the future. Bank regulation and supervisory institutions, together with stock rating agencies, will start to evaluate criteria of this kind within the operations of the DFIs themselves.

DFIs, in order to encourage potential customers to consider the benefits of investments with sustainable criteria, could supply them with different training and technical assistance plans, together with tools for calculating the savings in energy consumption for interested economic agents. From the internal viewpoint, however, this also represents a major risk, inasmuch as these are new industries or ones in which many DFIs have not participated actively, or for which all of the necessary historical information or specific databases with which to assess the behavior or risks of operations of this kind, whether financial, physical or transitional, are not available. Furthermore, in many cases, DFIs are not equipped with the necessary internal capacities for dealing with these challenges. LAC DFIs could seek the assistance of multilateral development institutions that have strategies and instruments for addressing these matters, in order to cope with this problem.



## Favoring social and financial inclusion is a key goal that Development Banks can achieve using different strategies:

- By playing a counter-cyclical role during crises in order to keep those that have been able to position themselves in the financial system from losing that possibility, and those that operate outside it from seeing their risk grow and continuing to be excluded;
- 2. By designing specific financial policies and instruments to serve the needs of vulnerable groups and marginalized sectors;
- By developing financial intermediaries that are more willing to incorporate new customers into the banking system and to serve sectors that have been traditionally excluded and
- 4. Financial markets in areas where they are lacking, eparticularly to facilitate the access of groups earning less income, small enterprises and subnational governments.



# Technological progress and digital transformation, including tools like artificial intelligence, will accelerate changes in the production sector and offer opportunities for improving financial inclusion.

In regard to this point, we can address DFI participation from two perspectives. The first is the digitalization of the institutions' internal processes in order to make their operations more efficient, improve their economies of scope and broaden their financial inclusion by providing customers with new solutions and platforms. The second is the external, which means financing the technological development of enterprises and entrepreneurs to enable them to enhance their productivity and create new business models. Rapid advances in technology, like automation and artificial intelligence, are transforming industries and altering the nature of their work. These aspects must be considered within DFI strategies for adjusting to changes and harnessing opportunities offered by technology for the benefit of financial inclusion and economic development.



# Innovation finance and support for knowledge production and dissemination practices are promoting the creation and development of ecosystems and clusters in new industries.

DFIs can incentivize the creation and development of new industries and enterprises. They can do this by designing supporting instruments for startups and entrepreneurs, with innovative systems of shared venture capital, incubators or accelerators in industries that could join value chains in sectors that are rapidly changing or require the use of new materials and where financial support systems don't normally exist. By way of example, the technology needed for the transition to clean energies depends upon the use of new metals and minerals that are key inputs for the production of items like lithium batteries and other products for electrification and electric mobility. LAC DFIs have a basic role to play in this context of transition, not only in the supply of key minerals given their abundant resources, but also in their transformation into products with a greater value added. This is achieved by financing innovation, creating ecosystems and communities of entrepreneurs where ideas can be exchanged and investors can be put into contact with entrepreneurs.





## The accelerated demographic changes will have a significant impact on the production model and on the fiscal systems.

Demographic growth, the evolution of its composition —like the aging of the population— and the changes in labor force dynamics, will produce increasingly and in greater measure, significant changes in the economy. This can be manifested in different ways, as in the labor supply, consumer behavior, health systems, and the countries' fiscal situation.

Toward the year 2050, for example, demographic growth and changes in diet will trigger a greater demand for food products at the global level; the expectation is that the larger supply (87%) will come from improvements in productivity. The natural wealth of Latin America and the Caribbean underpins its potential as a supplier of food products, which would be boosted through investment in technologies and genetic improvements. The region possesses a large forestry biomass covering 50% of its land area and almost 25% of the world's forests; it also owns 30% of the global supply of fresh water and 40% of the renewable water resources. Despite accounting for only 9% of the world's population and 4% of its rural dwellers, LAC possesses 16% of the farmland and 33% of the arable land. Furthermore, the region produces 24% of the global food products and 28% of the agricultural exports. In that context, the region's Development Banking system, particularly that serving the agricultural sector, has the opportunity to benefit from these advantages by developing instruments to improve field productivity. Among possible actions to be taken are the digitalization of cultivation processes, creation of online markets among agricultural associations and dissemination of information among them.



## Cooperation with the private sector and other economic agents with similar aims maximizes the impact on development.

It is obvious that financing, whether public or private, is, of itself, insufficient to finance the structural transformation of our economies. Faced by this challenge, in countries with a network of development institutions and other public and private agents that pursue similar objectives, PDBs are able to produce shared solutions for leveraging resources and creating synergetic relationships that may make it possible to maximize the use of their capital and the impact of their

efforts. That collaboration can include models with a financing blend, public-private partnerships and innovative financial instruments like guarantees, for developing new investments.



# Trade nearshoring and regional integration will continue to offer opportunities for attracting new investments and bettering our economic positioning.

PDBs, particularly those with mandates to promote foreign trade, can be integrated into the major trends in regional integration and nearshoring of production processes that we will continue to observe in the coming years. Proposals on the subject range from ensuring that connectivity infrastructure needs are served and that it is sustainable and resilient, including modernizing customs formalities, transportation and communication, to developing solutions for incorporating small enterprises into global value chains, developing e-commerce platforms, cooperating with international organizations and holding commercial events and missions to attract investments.

Action must also be taken among our countries to facilitate trade, raise funds and attract technology, in order to boost intraregional trade and investment. In order to do so, we must take advantage of the regional market as a platform for cooperation and joint business that would contribute to enterprise integration into value chains.

SMEs should assume greater importance in this context of value chains. In an era of advancing digitalization, as commented upon at ALIDE's 50th General Assembly in 2020, although SMEs account for 67% of the region's employment, 28% of its GDP and over 75% of the export companies, barely 1% of them participate in electronic commerce on platforms like Amazon, E-bay, and Free Market, etc. Furthermore, a mere 2% of their sales are of a B2C type, with 70% of these being concentrated in only three countries: Argentina, Brazil and Mexico<sup>48</sup>. This situation does not favor their access to new markets or their integration into value chains; nor does it facilitate an increase in their productivity, formalization and access to credit and other financial services. While the roots of a large part of these limitations can be found in SME shortcomings, they can also be



<sup>48</sup> Juan Antonio Ketterer, Chief of the Connectivity Markets and Finance Division of the Inter-American Development Bank. Presentation at the 50th Assembly of ALIDE «Construyendo respuestas sostenibles y resilientes a la crisis de la COVID-19 - América Latina y el Caribe», on 7, 9, 13, 15 October 2020 (virtual modality).

traced to structural barriers, like deficient connectivity and limited penetration of the Internet, among many other things.

The situation described above is borne out by the results of the survey carried out in the first half of this year, 2023, of the region's community of development banks, in which the principal challenges confronting the institutions and their future strategic lines of action are identified as being the following:

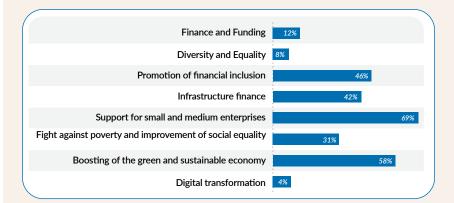
## **DEVELOPMENT BANKS**

## Principal threats and challenges

The institutions identified the following as being the principal challenges:

- Support for small and medium enterprises. In order to promote their development and contribute to creating jobs and economic growth, it is necessary to bolster the financial and technical assistance that targets small and medium enterprises.
- Fight against poverty and improvement of social equality. DBs need to
  play an active role in implementing programs and projects that promote
  social inclusion, reduce poverty and enhance equality in the distribution of
  resources and opportunities.
- Digital transformation. DFIs face the challenge of having to adapt to, and make use of, digital technologies if they are to improve their internal processes, provide services and interact with their customers.
- Promotion of financial inclusion. Access to formal financial services must be expanded, especially among population segments that are excluded, like rural communities, the young, and women.
- Boosting of the green and sustainable economy. DFIs need to promote
  the transition to a more sustainable economy by supporting projects and
  undertakings that promote environmental conservation, energy efficiency
  and the use of renewable energy.

- Infrastructure finance. In order to boost economic development and improve the people's quality of life, funding must be increased for infrastructure, like highway, energy, telecommunication and sanitation projects.
- Low-interest credit. Loan options at favorable interest rates need to be
  offered, especially for social and production projects that would have a
  positive impact on the region.
- Gender, diversity and equality. It is essential to promote gender equality
  and diversity in all institutional areas of action, as much in internal decisionmaking as in policy implementation and external programs.



Source: Survey «Perspectivas y panorama actual de la Banca de Desarrollo en América Latina y el Caribe», conducted during the 53rd ALIDE General Assembly, San Pedro Sula, Honduras, May 30 – June 2, 2023.

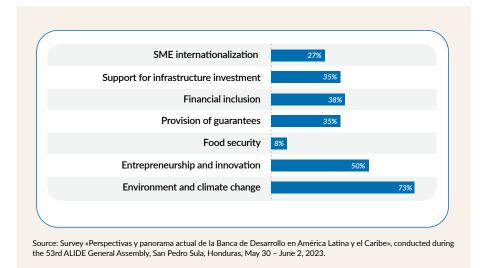
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## **DEVELOPMENT BANKS**

## Strategic lines of action for the future

The institutions have identified several strategic lines of action for the future in order to strengthen their role and contribute to the region's development. These include:

- Environment and climate change. Address challenges created by the environment and climate change by supporting projects and programs that promote environmental conservation, boost the adoption of renewable energy, encourage energy efficiency and promote sustainable practices in different sectors.
- 2. Financial inclusion. Promote financial inclusion by broadening access to formal services by population segments that are excluded through an alliance with different actors in order to provide innovative and accessible financial solutions, especially for rural communities, young entrepreneurs and women.
- Support for infrastructure investment. Provide financing and technical assistance for sustainable infrastructure, including transportation, energy, communication and basic sanitation projects.
- **4. Entrepreneurship and innovation.** Promote an enterprising spirit and innovation as driving forces for economic development.
- Provision of guarantees. Provide guarantees to facilitate access to financing for development projects.
- 6. SME internationalization. Promote the internationalization of LAC small and medium enterprises (SMEs) by means of financial support and technical assistance so that they are able to expand their markets, accede to global value chains and harness international commercial opportunities.
- 7. Food security. Support initiatives that would promote food security in the region, bolster sustainable agricultural production, upgrade the food supply chain and boost the adoption of climate change-resilient agricultural practices.



Although other country-specific trends and scenarios do exist, in the scenario described, PDBs can be said to be able to turn the challenges presented into opportunities for development. The extraordinary global events of recent years, like the COVID-19 pandemic, the disruption of global supply chains, geopolitical conflicts and generalized worldwide inflation, are scenarios beyond any prospective scenario, but which we should not overlook in future planning processes.

An appropriate answer on the part of the region's PDBs would be to take a more agile and proactive approach than in the past. Today, as few times in the history of Development Banking, a global development agenda does exist that gives us a frame of reference for strategically linking up our institutions with the major world trends in development finance. This, together with the advances made in banking regulation and supervision, together with its internal governance and principles of sustainability and responsible banking, make these development institutions a powerful public policy instrument. Without fear of error, we can confidently state that this moment marks the beginning of a new era for LAC Development Banking.

In this context, the DB system should consolidate a vision that would enable it to reach a balanced design for reconciling its promotional efforts with the maintenance of its economic and financial stability. Certain basic principles should be borne in mind when taking public action in general, and particularly by the Development Banking system when effectively acting. Among these, it should be stressed that: 1) its management of public resources, which by definition are scarce, must be efficient; 2) it should clearly understand that the road to recovery must be inclusive and that steps that would invalidate progress already made should be avoided; 3) it should adopt a mediumand long-term strategic approach, inasmuch as what is done today may have an important impact on the economy of the future; and 4) its efforts should be sustainable;

sustainability is, has been, and will continue to be, one of the most important challenges of this century.

To conclude, it should be stressed that finance is not an «end in itself» but, rather, a conduit towards the broader goal of sustainable development. In order to bring about a true transformation of LAC, as stated by the President of the Caribbean Development Bank, Hyginus «Gene» Leon, at the 52th General Assembly of ALIDE in May 2022, in order to recover from the losses produced during the health crisis and move ahead towards a higher and more sustainable road to wellbeing in the future, efforts must be made to build resilient ecosystems. What is needed, then, is an agenda for a sustainable regional transformation that would center on the construction of:



**Social resilience**, in order to maintain social progress by creating health and learning networks and harnessing digital technology;



Resilience of productive capacities, in order to broaden and deepen economic diversification by advancing digitalization and taking advantage of the creation of knowledge and attribution of its true value:



Environmental resilience that would help to mitigate and adjust to climate change, and promote sustainable energy and living conditions, and



**Institutional resilience**, that would seek to improve governance and its capacity for implementation, as well as to strengthen public policy.

These are just some ideas that reflect the importance and role of the Development Banking system at a moment when LAC has the opportunity to alter the course of its development to favor a more inclusive growth model with more sustainable patterns of investment and consumption. This is taking place in the framework of a stage of history characterized by rapid technological change, known as the fourth industrial revolution, in which new business models are producing a disruption in almost all industries, involving challenges and opportunities that the region's countries should harness in order to advance development.







The need for innovative financing mechanisms cannot be denied, given the challenges our countries are facing, both to reach the SDGs, and to harness the opportunities offered by the fourth industrial revolution. Sustainable development finance is one of the greatest challenges of our era and requires raising and redistributing a large quantity of funds, mainly from private sources. It has been estimated that if only 3% of global GDP were to be invested in sustainable development, the world could close the gap in SDG financing. Today, however, very little capital is available for that purpose (WEF, 2020).

In that connection, digital finance, which includes a wide range of new digital technologies (NDTs) offers innovative solutions for increasing sustainable finance and building a more efficient, accessible and less vulnerable financial system. These also have the potential to enhance the capacity of actors in the financial system value chain, at a reduced cost, considering the environmental risks, opportunities, incentives and options.

Calls for action are emerging in this context, which have motivated initiatives like the following:

• The creation of a Task Force on Digital Financing (DFTF) of the Sustainable Development Goals by the United Nations<sup>49</sup>.

The Task Force offers guidance at the global level in helping to place sustainable development at the center of disruptive financial evolution towards digital technology. The leading role played by digital tools gained force rapidly during the pandemic

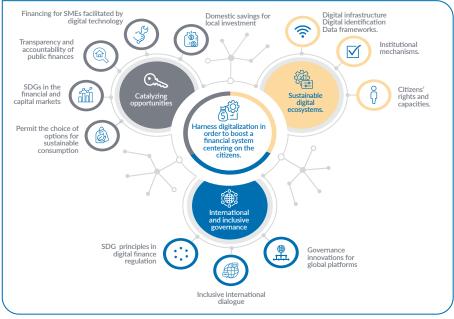
<sup>49</sup> Comprising of 17 leaders from the financial, technological, political, regulatory and international development communities, the Task Force organized meetings worldwide over the course of a year and a half, engaging dozens of countries with hundreds of financial institutions, governments, regulators, civil society organizations, think tanks, and expert groups.

and demonstrated the potential of digital finance to provide relief to millions of people across the world, support enterprises and safeguard jobs and means of subsistence (UNDP, 2020).

For that reason, an evaluation by DFTF experts proposed the preparation of an agenda aimed at bringing the large cash flows present in global financial markets into line with the targets proposed in the SDGs. The intention is to harness digitalization in order to boost the creation of a financial system in which citizens would be the key element in the Task Force call to action to accelerate SDG financing. Digital finance can be instrumental because it offers citizens a greater capacity for deciding what to do with their savings.

The call is backed by an Agenda for Action consisting of three sets of interlinked recommendations formulated by market actors, regulatory and policy-making authorities, international organizations and other interested parties.

- Promote catalyzing opportunities to secure the finance of specific sustainable development goals.
- Lay the groundwork for sustainable digital financing ecosystems that would include: a) Infrastructure: promoting connectivity, digital identification and accessible and attainable data markets; b) Planning, institutions and learning: developing national and, in some cases regional, ecosystems to guide the evolution of digital finance in line with the SDGs, and c) Capacities: development of the capacities of people so that they could benefit from Internet connectivity and digital finance, thereby guaranteeing rights and protection.
- Strengthen international and inclusive governance in order to implement policies, regulations and norms, as well as international corporate governance arrangements favorable towards establishing global platforms and digital financing markets in line with SDGs.



Source: Taken from «El dinero de las personas. Aprovechar la digitalización para financiar un futuro sostenible», by TFDF, 2020

The TFDF has identified five catalyzing opportunities that will make it possible to harness digitalization in order align the financing with the SDGs.

FIGURA N.º 4

Task Force on digital financing: catalyzing opportunities

SCALE OPPORTUNITIES	Over the past two decades, the global mass of savings has		Improve financing for small and medium enterprises (SMEs).  Potential for satisfying the need for 5,2 billion USD a year for SME finance in the developing countries.		Digitalize public financing and make budgets and public contracts transparent.  The governments of the developing countries could earn between 220 000 and 320 000 million USD a year by digitalizing their payments.		Incorporate the SDGs into financial and capital market decisions.  The value payable by global markets for stocks and bonds is 185 billion USD.	Report consumption decisions, thereby improving the information and offering an architecture of decisions  Annual spending on global consumption amounts to  47 billion USD.
	SDG(#) 6,7		,9,11	2,11 1,5,8,10		1,3,4,16	7,9,11,13	11,12,14,15
	susta infras		avers and Borrowers alinable entrepreneu tructure employee eficiaries		urs,	Taxpayers, voters, public utility users	Savers, investors	Consumers, asset owners

Source: Taken from «El dinero de las personas. Aprovechar la digitalización para financiar un futuro sostenible», by TFDF, 2020



• Finance in Common (FiC): a global coalition of public development banks to redirect the financial system. Launched in 2019, it is an initiative of the International Development Finance Club (IDFC)<sup>50</sup> and of the World Federation of Development Finance Institutions (WFDFI). The FiC's aim is to build a new and powerful coalition of 522 public development banks (PDBs),<sup>51</sup> promote cooperation among them and gather together the world financial community, both public and private, propose the media and take collective action to confront the COVID-19 crisis, fight climate change and the loss of biodiversity, and reach the SDGs.

The importance of the DBs in directing efforts to recover from COVID-19 was significant. A review of the progress report for the first year of the FiC's activities (2021) reveals that growing collaboration among these institutions not only helps to reorient financial flows, but also to resolve the principal problems of development. The report describes concrete measures taken at the global, regional and sectoral levels, including: assistance to the SMEs during the crisis, establishment of the Development Financing Center of the Taskforce on Nature-Related Financial Disclosures (TNFD), startup of a new PDB Platform for Green and Inclusive Food Systems, record levels of green financing (like IDFC climate finance, which has reached a level of one trillion dollars since the COP21 of 2015) and important steps taken toward achieving gender equality and in the social sectors.

Investment in sustainable agri-food systems was the key topic of the second FiC summit<sup>52</sup>, where the role of the DBs in reducing the risk in agribusiness and promoting private sector investments in the food value chain were underscored. The summit in particular offered a vehicle with which the international financial institutions could reach a general consensus on the coordination, centralization and institutionalization of efforts to improve the inclusion of agribusinesses in the name of food security. Attention to biodiversity, likewise depends upon the involvement of the private sector through innovative mechanisms, as proposed in initiatives like the IDFC biodiversity commitment.

<sup>50</sup> An organization that gathers the 26 leading national and regional public development banks worldwide, chaired by the French Development Agency (AFD), with a combined total of US\$4 trillion in assets and over US\$600 billion of commitments, including US\$150 billion per year in climate financing.

<sup>51</sup> These institutions are spread across all regions of the world and operate at various levels, including local, national, regional, international or multilateral. They encompass a wide range of activities, from multi-sectoral to specialized banking, providing support to SMEs, agricultural and food systems, housing, trade, and private sector-focused development financial institutions DFIs.

<sup>52</sup> Held on October 19 and 20, 2021 in Rome, Italy.

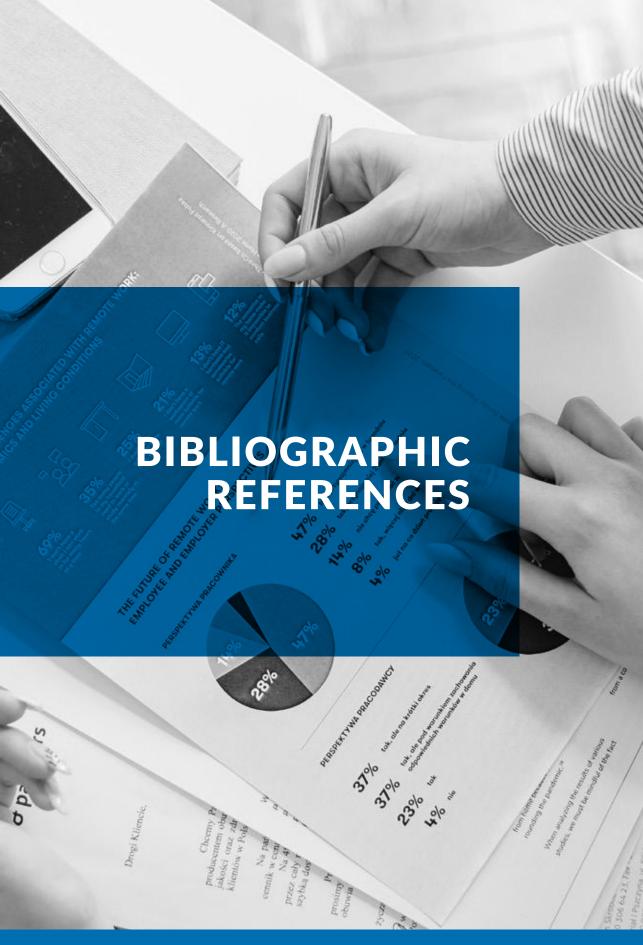
Insofar as climate change goals are concerned, foremost among which are the elimination of all new financing for coal and fossil fuels by 2030, reaching zero net greenhouse gas emissions by 2050 at the latest and limitation of other fossil fuel finance to projects in line with the Paris Agreement for 2030, the IDFC, European development finance institutions and the taskforce of multilateral development banks moved ahead in the elaboration of their respective operational tools to bring them into line with that Agreement by preparing methodologies and designing analytical tables. In compliance with the operational framework (May 2021), several IDFC members began to apply the alignment principles.

The FiC Initiative, through the Generation Equality Forum (FGE, according to the French initials) has taken the following actions in order to upgrade responsibility for gender equality and/or redirect financing towards actions favoring equality, integrating a gender perspective into climate commitments and in favor of biodiversity, as well as increasing the dialogue with the actors involved in combating gender inequalities: launch of the Gender-Lens Investing of 2XCollaborative Initiative, disbursement of funds for gender and climate change issues, integration of good practices through the principles of women's empowerment and proposal of improvements in roadmaps and action plans (AFD, 2021).

Continuing with the account of actions taken prepared by the French Development Agency (2021), in the area of water and sanitation financing, the Water Finance Coalition taskforce has created a network and organized regular and specific discussions, as well as a channel for sharing experiences and good practices on the challenge presented in the financing of this sector. Lastly, in regard to the prospect of future sustainable finance, the OECD's Development Co-operation Directorate (DCD) and the CAD Friends of Foresight group set up an Action Group in March 2021. Its aim is also to emphasize the inherent need for development banks to give more consideration to the future, to anticipate and incorporate the uncertainties, bearing in mind their long-term mandates and the complex questions of sustainability they address.

PDB can serve as an important source of recovery engineering and resilience in countries throughout the world, especially following periods of crisis, if they reinforce public financing systems and promote the regeneration of essential public utilities. The goals of achieving food security, preventing the loss of biodiversity and climate change, strengthening of the national private sector and supplying public goods can be tackled more effectively by designing and implementing projects and policies in collaboration with national and subregional public banks. These institutions have a key role to play in promoting sustainable economic recovery and long-term resilience.





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