

TC ABSTRACT

I. Basic project data

▪ Country/Region:	Regional
▪ TC Name:	Support to the Development of Alternative Finance in LAC countries: ICT and Regulatory Approach
▪ TC Number:	RG-T2631
▪ Team Leader/Members:	Diego Herrera (IFD/CMF), Team Leader; Lorena Cano, Gloria Lugo, y Stephanie Suber (IFD/CMF)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Research & Dissemination
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	N/A
▪ Reference to Request¹: (IDB docs #)	In progress
▪ Date of TC Abstract:	February, 2015
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Public sector entities, private sector alternative finance platforms, and citizens of the countries impacted by efforts
▪ Executing Agency and contact name	Inter-American Development Bank, Capital Markets and Financial Institutions Division (IFD/CMF)
▪ IDB Funding Requested:	US\$300,000
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period	12 months
▪ Required start date:	May, 2015
▪ Types of consultants	Firms and Individuals
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	IFD/CMF
▪ Included in Country Strategy (y/n);	N
▪ TC included in CPD (y/n):	N
▪ GCI-9 Sector Priority:	Institutions for growth and social equity: The current Sector Strategy: “Institutions for Growth and Social Welfare” identifies improving innovation and productivity as a major area where the Bank can help the Region overcome the challenges that hinder growth and social welfare. To this end, the IDB will work towards strengthening institutions, and has specifically recognized the need to improve policies and governmental action in the ICT sector (¶5.21 of the referred Sector Strategy).

II. Objective and Justification:

2.1 **Objective.** The objective of this TC is to provide support to Governments across Latin America and the Caribbean (LAC), with an emphasis on the Caribbean countries, for the creation and implementation of an Alternative Finance (AF) regulatory framework, including Information and Communication Technologies (ICT) and financial components. This TC² will

¹ A copy of the Letter of Request, Programming/Portfolio Review Mission Aide Memoire or Report requesting the TC should be submitted with the Abstract.

² This TC is complementary to the Broadband Index efforts (RG-T2083), and also RG-T2550 and RG-T2463.

also foster the development of the adequate public policies and governance mandates for AF sustainable growth and development. In this order, the TC will create sufficient institutional capacities, in both regulatory and supervisory and policy-related government agencies, to properly develop and oversee integration of both topics.

- 2.2 This support translates, initially, into an assessment of the current AF ecosystems, namely, financial return crowdfunding ecosystems in every selected country of the Latin America and the Caribbean (LAC) region, having an emphasis in the Caribbean countries. Secondly, the TC aims for an assessment of the best practices applicable to the ecosystem, including its ICT framework, relating mainly to broadband size, access and use, infrastructure, among others. Also, TC will support Governments in creating a regulatory framework, systemic and idiosyncratic risks and investor protection concerns associated to AF. Finally, the TC will help Governments with support both in technological and regulatory grounds to reach for the best suitable ecosystem for each selected country.
- 2.3 Alternative finance³ or just Crowdfunding⁴ is an umbrella term which describes the use of small amounts of money coming from several investors to fund projects or existing businesses of all sizes in the form of equity (equity-based) or personal and corporate loans (lending-based)⁵ using an open call placed by issuers and borrowers through internet-based platforms. Rapid growth of AF could be explained by two factors: (i) Technological advance, through the expansion of Web 2.0 and the so-called “wisdom of the crowds”⁶ and (ii) the Financial Crisis, since after-crisis regulation created liquidity constraints to banks affecting resources available for lending, mainly to Small and Medium Enterprises -SMEs⁷.
- 2.4 For the AF ecosystem to be developed, proper access and performance of broadband are required, since these are technological platforms offering services for investments and lending through the internet or mobile applications. Also, as it is non-existent in most of the countries, an institutional framework and dedicated regulation covering both ITC and financial services are required. Services offered through the AF ecosystem include not only credit and equity origination but also credit scoring, custody and administration, marketing, data analysis, among others.
- 2.5 Alternative finance is a growing business⁸, accounting for almost US\$6.5 billion worldwide as of the end of 2013⁹, financing 1 cent per every US\$100 financed through traditional

³ Peter Baeck, Liam Collins and Bryan Zhang. (2014) “UNDERSTANDING ALTERNATIVE FINANCE: The UK Alternative Finance industry Report 2014”. University of Cambridge.

⁴ Eleanor Kirby and Shane Worner (2014): “Crowd-Funding: An Infant Industry Growing Fast”. IOSCO, Madrid.

⁵ For simplicity purposes, this category includes the denominated “client segregated account (Peer-to-Peer””, “notary” and “guaranteed return”, models, among others, of internet-platform based lending. Although there is rewards-based and donation Crowdfunding, they are no included in the scope of this TC.

⁶ This theory proposes that a large group of diverse individuals can make better decisions and display more intelligence than a small group of experts when averaged. For a reference: James Surowiecki (2005) The Wisdom of Crowds, Anchor Books.

⁷ <http://www.forbes.com/sites/billfrezza/2013/08/13/caveat-emptor-banking-peer-to-peer-lending-challenges-too-big-to-fail-status-quo/> retrieved February 11, 2015.

⁸ Agrawal, Catalini & Goldfarb (2011). The Geography of Crowdfunding. NBER Working Paper Nº 16820.

⁹ Kirby and Worner (2014).

channels¹⁰. Although its size is not systemic yet, at the current size of growth, industry could reach more than ten times its current size by 2020¹¹. Latin America is part of the phenomenon: In Chile, *Cumplo* funds US\$44 million in 1,111 credit operations from 1,784 investors¹². *Afluenta* in Argentina currently holds US\$27 million in loans in 1,342 operations funded by 96,134 investors¹³. *Prestadero*¹⁴ and *Ku-bo Financiero* in Mexico are among other internet based and mobile app platforms from the region. It is important to remark that many of these platforms lend to SMEs in LAC.

- 2.6 This TC will create the proper ground for these initiatives to bloom, with a balance of growth, sustainability and regulation. Countries with relatively advanced AF ecosystems or those with previous regulatory advances will have priority. Cluster analysis is not performed since every ecosystem varies in every jurisdiction.
- 2.7 This TC is aligned with the BBD prioritizing criteria of promoting dialogues about strategic regulation in Broad-Band related topics regionally and at country level and to suffice the demand of applications which foster the use and adoption of Broad Band.

III. Description of activities and outputs

- 3.1 **Component 1 - Assessment of size, number, typology of existing AF platforms and ecosystems.**
- 3.2 **Activity 1.1: Study of AF ecosystems.** This comprehensive study will include: (i) the description of the project approach and a clear definition of the methodology to identify current AF ecosystems. This includes a technological and financial comprehensive perspective; (ii) detailed findings of the analysis for each country and the identification of possible opportunities and risks; and (iii) policy recommendations for the ICT and financial sectors and regulatory agencies.
- 3.3 **Activity 1.2: Undertake good practices study.** Taking the best experiences in the international ground to find the proper ICT and regulatory frameworks.
- 3.4 **Component 2 - Elaboration of comprehensive guidelines for governments and AF sectors to address issues in the identified ecosystems**
- 3.5 **Activity 2.1: ICT and Broadband solution.** This activity will have as a result guidelines for governments to undertake the best feasible and sustainable solutions in terms of ICT and broadband policies to help fostering AF ecosystems. This includes a dissemination and information plan for the country. Also, this activity will focus in the development of a sustainable AF ecosystem for each eligible country.
- 3.6 **Activity 2.2: Regulations.** This activity will have as a result regulatory guidelines for AF in each eligible country, including ICT and financial components, extensive to financial risks, consumer protection and systemic risks. This component includes a dissemination and information plan.

¹⁰ Carmen Cuesta, Santiago Fernández de Lis, Irene Roibas, Ana Rubio, Macarena Ruesta, David Tuesta, Pablo Urbiola (2014): "Crowdfunding en 360º: alternativa de financiación en la era digital. BBVA Research, Observatorio de Economía Digital.

¹¹ <http://www.entrepreneur.com/article/230912> . Retrieved February 11, 2015.

¹² <http://cumplo.cl/> retrieved February 11, 2015.

¹³ <https://www.afluenta.com/> retrieved February 11, 2015.

¹⁴ www.prestadero.com retrieved February 11, 2015.

This activity also relates to the development of a tailor-made and principles-based proposal for regulations with the intention of creating a sustainable framework.

- 3.7 **Component 3 – Dissemination and Results Communication Plan.** This component refers to the creation of a communication plan for the whole TC which is intended for the general public.

Table 3.1: Indicative Results Matrix

Suggested indicator	Measurement Unit ¹⁵	Base-line	Target at end of TC
Output indicators:			
Component 1: Assessment of size, number, typology of existing AF platforms and ecosystems	No. of documents	0	1
- Study of AF ecosystems	No. of documents	0	1
- Good practices study			
Component 2: Elaboration of comprehensive guide of recommendations for governments and AF sectors to address the challenges related to the proper ICT and regulatory solutions	No. of documents	0	1
- ICT and Broadband solution Report	No. of documents	0	1
- Report on regulatory recommendations			
Component 3: Dissemination and Results Communication Plan	No. of documents	0	1

Budget Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Activity 1.1	Study of AF ecosystems	50,000	0	50,000
Activity 1.2	Good practices study	50,000	0	50,000
Activity 2.1	ICT and Broadband solution Report	100,000	0	100,000
Activity 2.2	Report on regulatory recommendations	90,000	0	90,000
Component 3	Dissemination and Results Communication Plan	10,000	0	10,000

IV. Executing agency and execution structure

- 4.1 Executing agency will be the Inter-American Development Bank, Capital Market and Financial Institutions Division (IFD/CMF).
- 4.2 An action plan will be developed for each eligible country, including every component.

V. Project Risks and issues

- 5.1 **Opportunity:** Since both technological and financial innovations in terms of AF are evolving very fast, it is a risk to run long studies that can get out-of-date really fast. So, Activities 1.1 and 1.2 must be run in a short span of time and the other two activities must have the most comprehensive results in terms of technology and regulations.

VI. Environmental and Social Classification

- 6.1 No social or environmental risks associated with the TC. This operation is classified as a Category “C”. See [Safeguard Policy Filter Report \(SPF\)](#), and [Safeguard Screening Form \(SSF\)](#).

¹⁵ For appropriateness reasons, the different documents will be consolidated into a single one.