

SUMMARY OF THE PROJECT IN DESIGN * (*)

Phase 1: A regional prototype for accelerating the deployment of CBDCs in LAC

PITCH ELIGIBILITY DATE		COUNTRY(IES)
06/14/2024		Brazil; Colombia; Costa Rica; México; Peru
ALIGNED WITH COUNTRY STRATEGY?		
Yes		
PARTNER(S)		
LACNet		
PRELIMINARY CLASSIFICATION ENVIRONMENTAL AND SOCIAL IMPACT		
C (**)		
TOTAL BUDGET	IDB Lab	LOCAL COUNTERPART AND COFINANCING
US 750,000	US 750,000	US 0
DESCRIPTION		

The problem: In the Latin America and Caribbean region, there are several problems with financial inclusion, including:

- **Unbanked Population:** Approximately 26% of adults in LAC did not have a bank account in 2021. This significant unbanked population faces challenges in accessing formal financial services.
- **Cash Dominance:** Cash transactions remain dominant in the region, leading to funding gaps and increased financial vulnerabilities.
- **Socio-Economic Inequalities:** LAC experiences socio-economic inequalities, and the prevalence of cash transactions contributes to corruption, tax evasion, and anonymity in criminal activities.

The solution: CBDCs could address financial inclusion challenges in LAC by providing access to banking services for underserved populations and mitigating the high costs and inefficiencies associated with cross-border remittances, facilitating faster and cheaper transactions. Additionally, implementing CBDCs could enhance transparency and reduce corruption by providing a more secure and traceable method for government disbursements and transactions.

This project aims to enable a regional test network with CBDCs and tokenization of financial assets to facilitate cross-region interoperability among Central Banks, financial institutions, and people in at least two countries of the region to guarantee the feasibility and impact of the functional business scenario. This prototype innovation involves designing and deploying a complete functional architecture to model and experiment with CBDCs, executed in several phases and in a collaborative manner through a CBDC Testnet.

The beneficiaries: The beneficiaries of this project will be Central Banks, Banks, and other Financial Institutions. For Central Banks, the main goal is to achieve that these entities start testing interoperability with CBDC transactions or CBDC-denominated settlements. For financial institutions, they will benefit from this project by participating in CBDCs transactions and testing retail deployment with end-users.

*The information mentioned in this document is indicative and may be altered throughout the project cycle prior to approval. This document does not guarantee approval of the project.

**The IDB categorizes all projects into one of six E/S impact categories. Category A projects are those with the most significant and mostly permanent E/S impacts, category B those that cause mostly local and short-term impacts, and category C those with minimal or no negative impacts. A fourth category, FI-1 (high risk) Financial Intermediary (FI)'s portfolio includes exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, mostly irreversible or unprecedented, FI-2 (medium risk) FI's portfolio consists of business activities that have potential limited adverse environmental or social risks or impacts, FI-3 (low risk) FI's portfolio consists of financial exposure to business activities that predominantly have minimal or no adverse environmental and social impacts.

The partner: The designated executing agency responsible for formalizing the agreement is LACNet, an international non-profit association and neutral blockchain infrastructure orchestrator for Latin America and the Caribbean. It was founded by RedCLARA and LACNIC in collaboration with IDB Lab. Established with the primary purpose of orchestrating the LACChain Blockchain Networks, LACNet ensures both neutrality and sustainability of blockchain projects.

The IDB Lab's contribution: Over the last few years, IDB has been globally recognized for fostering innovation including emerging technologies such as blockchain technology. Within the framework of LACChain, IDB Lab's flagship initiative has impacted millions of vulnerable people's lives by making Web3 a reality for real life from Latin America and the Caribbean. For this project, IDB Lab contributes to LACChain's digital, intellectual, and capacity. This project will be financed with core mobilization of a Non-Reimbursable Technical Cooperation from the Korean Government through its Private Sector Development and Innovation Fund (KPS) for USD 750,000.

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