ALIDE

Latin American Association
of Development Financing
Institutions

50 years

Past, Present &
FUTURE

ALIDE 50 YEARS

ALIDE'S 50 YEARS

Past, present and future

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Past, Present &
FUTURE

50 years

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Expressions of appreciation

This book commemorating 50 years of existence of the Latin American Association of Development Financing Institutions (ALIDE) has been made possible thanks to the intellectual contributions of its former Presidents, whose accounts of their experiences illustrated the historical legacy of these years.

The offerings of representatives and high-level executives of international organizations, financial institutions and the Association's General Secretariat were valuable, as well. The combination of these testimonies allows for an in-depth understanding of the history of ALIDE and of the Development Banking system as key players in the economic and social growth of Latin America and the Caribbean.

Also, a special recognition to Nacional Financiera (Nafin) of Mexico, sponsoring institution of this publication.

Presentation

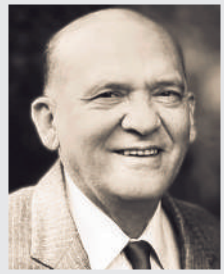
This book commemorating the 50th anniversary of the Latin American Association of Development Financing Institutions (ALIDE) is intended to serve as a source of reference for understanding the world of Latin American and Caribbean development banking. It is organized around three levels of analysis: the past, the present, and the future, and on that basis, a full picture is given of ALIDE and its member institutions in the context of the economic and social growth of the region's countries.

To that end, the book contains, in addition to the sections dealing with ALIDE's historical evolution, paragraphs describing the Association's positions on strategic issues of financial institution activities and sections setting out the viewpoints of international financial organizations. Complementing those paragraphs are testimonies of people involved in ALIDE's efforts, who, by describing their experiences at the head of their institutions and in partnership with ALIDE, contribute to an understanding of the Association.

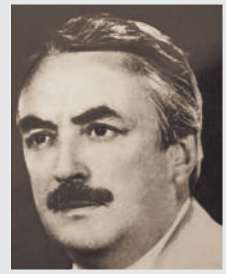
Former president and secretary general of ALIDE

Rubens Vaz da Costa
President
Banco do Nordeste do Brasil
1968 – 1969

Ignacio Copete-Lizarralde
President
Corporación Financiera Colombiana
1969 – 1973



Eduardo Gómez Tamayo
President
Corporación Venezolana de Fomento
1973 – 1974



Ernesto Rohrmoser García
President
Corporación Costarricense de Financiamiento Industrial
1974 – 1977

Karlos Rischbieter
President
Banco do Brasil
1977 – 1978

Tomás A. Pastoriza
President
Banco de Desarrollo Dominicano
1978 – 1980

Egidio Iannella
President
Banco Nacional de Desarrollo, Argentina
1980 – 1981

Adolfo Nass
President
Sociedad Financiera Mercantil y Agrícola, Venezuela
1981 – 1983

Camillo Calazans de Magalhaes
President
Banco do Nordeste do Brasil
Banco do Brasil
1983 – 1986

Gustavo Petricioli
Director General
Nacional Financiera, México
1986 – 1987

José Salaverry Llosa
President
Corporación Financiera de Desarrollo, Perú
1987 - 1988

Ricardo Avellaneda
President
Banco Nacional de Desarrollo, Argentina
1988 – 1989

Frederich Bergés
President
Banco de Desarrollo Nacional, República Dominicana
1989 – 1990

Jesús Villamizar Angulo
President
Banco Ganadero, Colombia
1990 – 1992

Óscar Espinosa Villarreal
Director General
Nacional Financiera, México
1992 – 1994

Hindemburgo Pereira-Diniz
President
Banco de Desenvolvimento de Minas Gerais, Brasil
1994 – 1995

Rodolfo Aníbal Frigeri
President
Banco de la Provincia de Buenos Aires, Argentina
1995 – 1996

Marcos Raymundo Pessoa Duarte
President
Banco de Desenvolvimento de Minas Gerais, Brasil
1996 – 1997

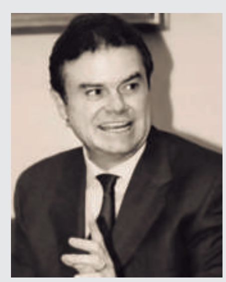
Noel Lezama Martínez
President
Fondo de Crédito Agropecuario, Venezuela
1997 – 1999

César Rodríguez Batlle
President
Banco de la República Oriental del Uruguay
1999 – 2000

Carlos Sales Gutiérrez
Director General
Nacional Financiera, México
2000

Gonzalo Rivas Gómez
Executive Vice-President
Corporación de Fomento de la Producción, Chile
2000 – 2003

William Hayden Quintero
General Manager
Banco Nacional de Costa Rica
2003 - 2004



Mario Laborín Gómez
General Manager
Nacional Financiera, México
2004 – 2006

Nicola Angelucci Silva
President
Banco Multisectorial de Inversiones, El Salvador
2006 – 2008

Luis Rebolledo Soberón
President
Corporación Financiera de Desarrollo, Perú
2008 – 2009

Roberto Smith
President
Banco do Nordeste do Brasil
2009 – 2011

Rodrigo Sánchez Mújica
Director General
FIRA – Banco de México
2011 - 2013

Fernando Calloia Raffo
President
Banco de la República Oriental del Uruguay (BROU)
2013-2014

Mauro Alem
Banco de Inversión y Comercio Exterior, S. A. (BICE), Argentina
2014

María Soledad Barrera Altamirano
Chairman of the Board
Corporación Financiera Nacional (CFN), Ecuador
2014-2017

Luis Fernando Arboleda
President
Financiera del Desarrollo (Findeter), Colombia
2017

Ricardo Palma
Secretary General
ALIDE
1968-1978

Jose Bellido
Secretary General
ALIDE
1978-1979

Carlos Garatea
Secretary General
ALIDE
1979-1999

Rommel Acevedo
Secretary General
ALIDE
2000-2015

1968

2018

ALIDE
LATIN AMERICAN ASSOCIATION OF DEVELOPMENT FINANCING INSTITUTIONS

ALIDE

Latin American Association
of Development Financing
Institutions

Jacques Rogozinski Schtulman

President of ALIDE
c/o Director General of
Nacional Financiera, S.N.C.
(Nafin), Mexico

The Latin American Association of Development Financing Institutions (ALIDE) reaches its 50th year of operation this year, in 2018. Over these decades, ALIDE has become firmly consolidated as a venue for the discussion of policies and solutions for financing Latin American and Caribbean development by promoting the sharing of best practices, formation of partnerships and provision of training and technical assistance.

ALIDE's 50th anniversary gives us the opportunity to distinguish those who have contributed to making the Association an international point of reference for development banking. At the same time, it finds us at a favorable juncture for reflecting on the opportunities open to ALIDE and to the sector for advancing the region's growth.

In strengthening ties among the region's countries, ALIDE's priority should be to keep itself in the vanguard by addressing demanding and innovative issues. The development banking system should continue to produce instruments and programs that are able to resolve the needs of individuals, projects and territories, due, above all, to the appearance on the scene of new economic models and enterprises and drastic changes in people's patterns of consumption stemming from the acceleration of technological applications.

A priority in keeping with this era of continuous change is to design mechanisms that will enable members to participate more actively; reinforce course offerings, in-service trainings and technical assistance; take advantage of the new technologies to bring those who are distant closer; and establish far more free-flowing, flexible and continuous dialogue, as we help to identify better business opportunities and build partnerships and collaborative efforts.

Today knowledge has power.

It controls access to opportunity and advancement.

Peter Drucker (Vienna, 1909-U.S.2005).

Message from the President

We must also gauge the impact of the programs, products and services offered by all of the members. We know very little about the specific and direct global effects of the development banking system on access to financing, job creation or environmental impact, among other things. Knowing them will enable the institutions to design more efficient and effective strategies for achieving their aims. Other areas of effort? Risk management, financial sustainability, improving corporate governance and transparency, making recruitment of human resources more flexible and retaining a larger number of highly qualified personnel.

The development banking system should take the leadership in designing ecosystems that spur innovation and productivity. It should promote new business ventures, the formation of state-of-the-art technology clusters, and support high-impact projects. Of key importance here is the development of alternative instruments for incentivizing financing, like crowdfunding or blockchain platforms.

At the same time, we must work toward the preparation of regulations for the use of those new mechanisms by promoting their transparency and formalization and the protection of user data. The technological finance institution (fintech) sector offers an opportunity for promoting new forms of business and the development banking system must make sure not to be left on the sidelines.

Another major challenge facing the Latin American and Caribbean development banking system is its coordination with various national government structures, in order to increase the impact of national strategies. Greater technical and financial collaboration are essential for mobilizing national and international resources for development. Market failures must be dealt with and private banking supplemented in sectors where it does not and will not participate. Coordination with foreign counterparts, associations and multilateral organizations is also essential for enabling development banks to reach the Sustainable Development Goals (SDGs), among other objectives.

I firmly believe that it is the responsibility of all ALIDE members to contribute our knowledge and experiences and work together toward sustainable, fair and environmentally responsible development. Our Association should maintain its role as an actor, spokesman and facilitator of the Latin American development banking system.

A priority in keeping with this era of continuous change is to design mechanisms that will enable members to participate more actively; reinforce course offerings, in-service trainings and technical assistance; take advantage of the new technologies to bring those who are distant closer; and establish far more free-flowing, flexible and continuous dialogue, as we help to identify better business opportunities and build partnerships and collaborative efforts.

All that remains for me is to congratulate ALIDE and each and every person who has been a part of the Association over those 50 years of existence. The road has not been free from major obstacles, but we have been able to overcome them through teamwork. I am convinced that we will continue to collaborate with all pertinent actors in bringing creativity to development financing. I also know that we will find solutions with added value for our members.

I invite all ALIDE members --and those who read this book-- to join in the discussion, be proactive and continue contributing to the design of the best model for the Latin American and Caribbean development banking system as a whole and in each of the region's countries.

Edgardo Alvarez

Secretary General
Peru

Progress lies not in enhancing what is, but in advancing toward what will be.

Khalil Gibran (Lebanon, 1883-1931)

Message from the Secretary General

ALIDE's main objective, as the community of financial institutions that produces solutions for the Latin American and Caribbean development banking system, is to contribute to the region's economic and social development by promoting good financial practices among its members so that the projects they finance will be inclusive, responsible and sustainable.

Conceived from its very creation as a venue for the discussion and proposal of policies and concrete solutions to the problems of Latin American and Caribbean development financing, ALIDE's activities include providing information through a unique Latin American Documentation Center specialized in banking and development financing issues; preparing studies and research; organizing on-site and distance e-learning courses and training seminars for senior and middle management; providing technical assistance and consultancy of Latin American origin; organizing international and regional meetings; promoting business and investments and, particularly, initiatives that constitute a response to the greater economic and financial integration that is considered necessary among our countries and institutions, all of which transcend the regional context and are projected globally by means of the World Federation of Development Financing Institutions (WFDFI), in which ALIDE is an active participant.

There were many who felt that the nascent association would constitute merely a formal experience, similar to those of other regional trade organizations. It is precisely the great and acknowledged merit of the leaders of the development banks who, in endowing the Association with a strong content and constructive action program that the ALIDE General Secretariat coordinates and seeks to implement effectively, have made it possible for our Latin American Association to constitute a true and suitable vehicle for coordinating, cooperating and harmonizing efforts in support of Latin American development financing.

Today, ALIDE has 88 Member institutions in 22 Latin American and Caribbean countries and non-regional countries like Canada, China, France, Germany, India, Portugal, Russia and Spain.

The efforts and initiatives that have been put underway over its 50 years of existence have made it possible to position and project an ALIDE that is better equipped to meet the changing needs of the development financing institutions so that they will be consistent with the services offered by the Association. Internally, the organic teamwork of the ALIDE Executive Committee and its General Secretariat aims to underscore the excellence of its services, bearing in mind the Association's vision and mission, all of which made it possible for ALIDE to obtain ISO: 9001 certification in 2006, making it the first international organization to certify all of its processes.

Furthermore, it has responded faithfully to all of the intentions enunciated in its By-laws, one of which is to develop increasing cooperation among its membership by strengthening the individual and collective efforts of its members through a variety of means and mechanisms.

Today there is a more balanced view of the roles the operation of the market can assume and those that call for the presence of a state with a modern structure that takes effective action. The degree of complementarity achievable between the two is considered a key element for confronting internal and external challenges and needs. The role of development banks and of ALIDE will doubtlessly be important for responding to those challenges and facilitating our countries' economic and social progress.

It is for that reason that ALIDE is being modernized through the implementation of the Strategic Plan for 2017-2021. That plan aims to ensure its continued existence and consolidation as a mechanism and regional forum for the analysis and discussion of issues concerning Latin American development financing. This, together with the assurance of its operational and financial self-sufficiency, would enable the Association to fulfill its function and responsibility to the region's development financing institutions and speak directly and with its own voice to all national and international institutions of decisive importance in the formulation of our countries' development financing policies.

Today, ALIDE has 88 Member institutions in 22 Latin American and Caribbean countries and non-regional countries like Canada, China, France, Germany, India, Portugal, Russia and Spain.

Along this same line, it was deemed advisable to adopt a new institutional image in order to consolidate ALIDE's positioning before its members, the media, government and academic circles and digital platforms. As part of these advances, its Internet platforms

--institutional website and distance E-learning training portal-- have been modernized and ALIDE's logo has been redesigned.

Maintaining itself in the vanguard by addressing challenging and innovative issues must always be a priority for ALIDE. In order to be able to accomplish this, it is important for the Association to design new mechanisms to allow for more active participation by all of its members and not merely those serving on the Executive Committee, for it is precisely the existing diversity that enriches us. In that connection, we are going to augment our offering of courses, in-service trainings and technical assistance so that the needs of all members can be met. We will also take advantage of the new technology to make it easier for our members to accede to knowledge by facilitating their online, and not merely their on-site, participation. Similarly, the venue offered by ALIDE for exchanges of opinion should likewise contribute more fully to identifying opportunities for business and establishing concrete efforts at collaboration. We are going to continue seeking new alliances with institutions of other regions with which we can share experiences and learning, as in the case of Asia, which has shown significant growth in recent years, for this is another of our Association's added values, and the ties we already have with collaborators from other regions bear this out.

In this connection, we have defined the main areas of strategic development banking action by consulting with our members and through other activities identified in our Strategic Plan. The resulting areas include, first and foremost, intelligent infrastructure; financial and social inclusion in the areas of housing, agriculture, foreign trade and micro, small and medium enterprise; innovation and technological development; and the environment and strengthening of development bank efforts.

It is important to express our appreciation to the Republic of Peru for its initial support in allowing the Association to establish its institutional headquarters and its executive body, the ALIDE General Secretariat, and permitting them to operate in that country. To the members that made the construction of its institutional headquarters, the home of Latin American and Caribbean development banking, a reality. To all former Presidents of ALIDE and its former Secretary Generals, who made important contributions to the cause of Latin American development financing.

We sincerely hope that this publication commemorating ALIDE's 50th anniversary, which illustrates part of its rich history and driving force and the future role of the Association and of the development banking system, will become a valuable source of reference for development bankers, for those just now entering the field of development financing, and, in general, for all who in one way or another are involved in the area of financing. It is our intention to keep this publication current in the media through periodic updatings that will make it a living history of development banking.

PAST

Origin and role of ALIDE

Don't belittle the road covered.

It does not delay your race, but guides it; he who loses sight of the starting point easily loses sight of his goal.

Papa Pablo VI. (Italy, 1897-1978).

Hindemburgo Pereira-Diniz

Former President of ALIDE in 1994-1995

Former President of Banco de Desenvolvimento de Minas Gerais (BDMG), Brazil

All financial institutions in the region's countries created to promote their respective economies and dedicated to disseminating harmonious coexistence --in the sense of taking identical action,-- share a feeling of pride in the importance achieved by the Latin American Association of Development Financing Institutions (ALIDE).

For that reason, it is proud to be an "organization representing the region's development banks," despite not being an organization directly involved in the financing process. But even though it is not a banking institution, it is an institution oriented, very successfully, toward promoting cooperation and exchanges among most of the NDBs of Latin America and the Caribbean, which is the purpose for the existence of most of its members, among them large and medium-sized banks of varying nature and also smaller banks.

The idea of what ALIDE was to become was conceived by the Peruvian delegation during the first meeting of development financing institutions, held in Washington, D.C., U.S., from November 30 to December 2, 1964, promoted by the Inter-American Development Bank (IDB), only a few days prior to the fifth anniversary of its creation on December 30, 1959.

This was followed, under the IDB's technical guidance, by missions of executives of development banks interested in forming the suggested organization who visited the Latin American countries to learn the opinions of the various development financing institutions in existence at the time.

In the light of the favorable opinions collected by the missions, the Peruvian development banks promoted a meeting in Lima in December 1966 to draft the By-laws of the Association that was to bring together the development financing institutions of Latin America and the Caribbean.

ALIDE was finally established at a meeting promoted by the IDB for that exclusive purpose on January 24, 1968 at its headquarters in Washington D.C., United States. So it was that the first institution of its kind in the world was born.

Properly and in full justice to those responsible for the original idea, Lima, the capital city of Peru, was chosen as the Association's headquarters by the representatives of the 36 development financing institutions of 16 Latin American and Caribbean countries.

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The new association was comprised of a General Assembly, the highest-level body, made up of delegates of the active, voting members; an Executive Committee responsible for managing its activities, in line with the Assembly's orientation, consisting of a president, two vice-presidents and two directors with mandates in effect up until the following regular meeting of the Assembly, but open to renewal; and a General Secretariat operating under an incumbent who was not only responsible for the administration of the new organization, but was also to become its legal representative.

During ALIDE's initial stage of existence, Banco Industrial del Perú was appointed to assume the functions of General Secretariat, which were attributed to one of its assistant managers.

Subsequently, an effort was made to organize ALIDE's operational structure and to put into practice the measures that were needed to comply with its By-laws. In April 1970, as a result of essential measures that were taken with great effort and correctly, the General Secretariat entered into operation as a permanent body under the direction of Ricardo Palma Valderrama, appointed by the Executive Committee. Actually, Mr. Ricardo Palma had already been temporarily exercising the functions of Secretary General and thus became ALIDE's first permanent Secretary General.

On December 18, 1974, the Association, represented by Executive Committee Chairman Ernesto Rohrmoser García, at that time President of Corporación Costarricense de Financiamiento Industrial, signed an important agreement with the Peruvian government granting the Association broad immunities and privileges within the country "for the exercise of its functions and accomplishment of its purposes as an international organization" and guaranteeing the Secretary General the enjoyment of the necessary conditions for executing all acts necessary for the Association's operation.

During ALIDE's initial stage of existence, Banco Industrial del Perú was appointed to assume the functions of General Secretariat, which were attributed to one of its assistant managers.

In the light of the favorable opinions collected by the missions, the Peruvian development banks promoted a meeting in Lima in December 1966 to draft the By-laws of the Association.
Photo: ALIDE.

By that time, ALIDE has already been recognized as an entity committed to the association that encompassed the development financing institutions of Latin America by the following organizations: the Latin American Free Trade Organization (LAFTA), the Organization of American States (OAS), the United Nations Industrial Development Organization (UNIDO), and the United Nations Conference on Trade and Development (UNCTAD), with which it established cooperative relations.

With the incorporation of the Caribbean banks, ALIDE completed its first five years of existence with a roster of 73 active members and 4 associate members.

It should be clearly established that ALIDE's aim, in establishing close relations with the region's development banks, is basically to encourage them to improve their actions and keep them informed about how to organize themselves better by concerning itself with the competent training and development of their respective technical teams so that they can acquire the necessary skills to give their borrowers the best possible guidance and thus achieve their economic aims as defined in their mandates.

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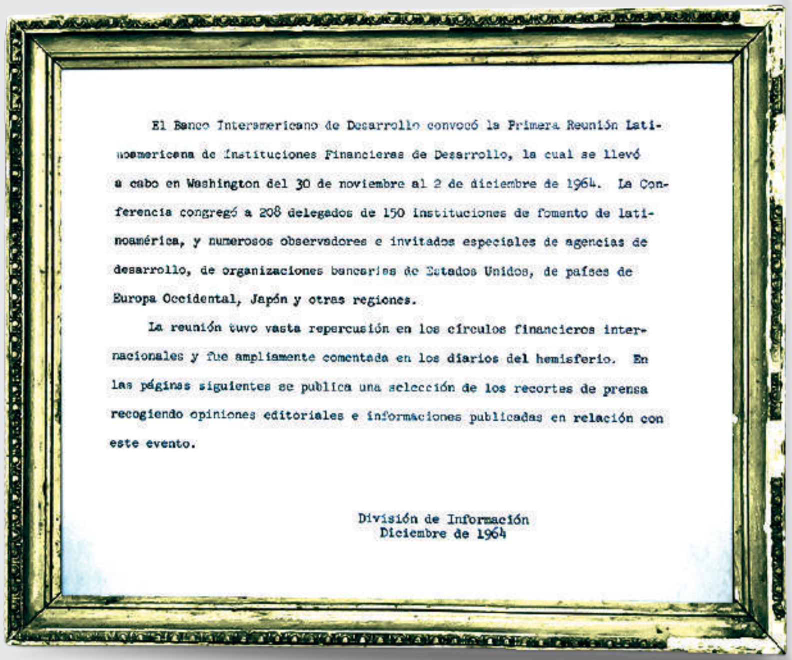


El Banco Interamericano de Desarrollo convocó la Primera Reunión Latinoamericana de Instituciones Financieras de Desarrollo, la cual se llevó a cabo en Washington del 30 de noviembre al 2 de diciembre de 1964. La Conferencia congregó a 208 delegados de 150 instituciones de fomento de latinoamérica, y numerosos observadores e invitados especiales de agencias de desarrollo, de organizaciones bancarias de Estados Unidos, de países de Europa Occidental, Japón y otras regiones.

La reunión tuvo vasta repercusión en los círculos financieros internacionales y fue ampliamente comentada en los diarios del hemisferio. En las páginas siguientes se publica una selección de los recortes de prensa recogiendo opiniones editoriales e informaciones publicadas en relación con este evento.

División de Información
Diciembre de 1964

the best possible guidance and thus achieve their economic aims as defined in their mandates.

It has never sought the means to become a maker of banks. Its aim is to bring them together to take joint action for advancing the progress of the economies of all of the states in which they operate. It is also becoming successful in incorporating among its membership the large and important lending institutions of Latin America and the Caribbean oriented toward national or regional development, despite the fact that they did not need ALIDE's guidance because they are even older than the Association and have competent technical personnel with vast experience on their staffs.

Cases in point are the two Latin American countries with the largest GDPs, Brazil and Mexico, both of which have development banking institutions as described above: Banco Nacional de Desenvolvimiento Econômico y Social (Bndes), of Brazil, and Nacional Financiera S.N.C. (Nafinsa), of Mexico. They belong to the group of development financing institutions that comprise ALIDE, which serves as a forum for discussing and incentivizing the sharing of good practices and knowledge, from which they take advantage of experiences that are very beneficial to them, in that they are instructive and useful in practice.

I frequently tell people that Brazilian national industry would not have advanced so much in terms of physical expansion and the mastery of special sophisticated production processes had it not been for Bndes. I can now affirm, after having served as Chairman of its Executive Board and now as a member of its Advisory Council, always on the alert for the written manifestations it distributes and the impact of its activities, that ALIDE is, undoubtedly, the strongest spur to the financing of economic growth in Latin America and the Caribbean, particularly in the industrial sector.

The Association played an unparalleled role in guiding the relatively less advanced regional development banking system, which was able to organize itself and operate satisfactorily in promoting the production structures of the respective countries, even while ensuring the provision of technical assistance to its borrowers.

By means of continuous visits, multiple meetings, roundtables for clarification and guidance, ALIDE, through its executives and technical committees, has discussed and continues ceaselessly to do so with all of its members the best way to provision them with the greatest efficiency, while focusing on the socioeconomic development of the countries of its Member institutions. It has always been careful to ensure that all countries in the region, from Canada and Mexico in the north, to Argentina and Chile in the south, passing through the Caribbean subregion, share in the benefits stemming from its efforts within its sphere of operation.

ALIDE's annual Assemblies, which are held in different countries of the region, can even be organized on other continents. I recall that in 1992, it took place in Madrid, Spain on June 2 to 5. In fact, it was at that --Special-- Meeting, by virtue of the number and prestige of the participants, that I had my first direct contact with Association executives.

These are the most formal and important meetings that ALIDE holds every year and are always attended by almost all of the regional and international banking institutions, among them CAF – Development Bank of Latin America, the Central American Bank for Economic Integration (CABEI), the Financial Fund for the Development of the River Plate Basin (Fonplata), the Latin American Export Bank (Bladex), the European Investment Bank (EIB), the World Bank (IBRD), the Inter-American Development Bank (IDB), and the International Monetary Fund (IMF), in addition to the ministerial authorities of the host country who, as a general rule, guide the course of the deliberations, at least while they are present. In actual fact, ALIDE's annual assemblies, in addition to activities determined by the guidelines regarding their internal order and in pursuit of their current objectives, are always useful for broadening contacts, learning about possible new forms of action, and disseminating the results of research and studies carried out by the Association or any of its members --in short, for strengthening the Association's image as an element that assumes, fully and competently, the task of revealing the importance of development banks, particularly in the least known economic areas and in those where financing for promotion of development initiatives is sorely lacking.

Before concluding, I consider it my duty to take advantage of this occasion to add some personal remarks that I feel are necessary or run the risk of some unforgivable omissions.

It was at the Assembly in Madrid in 1992 that I first met with executives and members of ALIDE's already valuable technical team, particularly Carlos Garatea Yori, then heading the General Secretariat, which was responsible for the organization of the event.

After a first generic analysis, I sensed the weight and influence that ALIDE was to acquire with its unceasing and pioneering efforts. It was no longer the only organization of its kind on the international scene. The Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) and the African Association of Development Finance Institutions (AADFI) had already made an appearance and, together with ALIDE, established the World Federation of Development Financing Institutions (WFDFI) where a Council of Governors meets, which I was later to have the honor of chairing. Garatea's intention was to strengthen ALIDE's links with the two, ADFIAP y AADFI, in order to share experiences in dealing with issues common to them all, above all in joint activities, services and programs with their respective affiliated institutions, as the annals of that twenty-second meeting of the Association's General Assembly bore witness to.

ALIDE indisputably does well to honor the memory of a leader who served it admirably during the years he headed its administration. Garatea worked tirelessly to disseminate the theses defended by ALIDE, with which he boosted the organization and work of many development financing institutions across our continent that are now important banks in their countries. Truth to tell, he has left nostalgic friends and admirers scattered across the Latin American region. I was one of the beneficiaries of his heartfelt gestures, which I sought to courteously repay in kind.

I feel that it is also my duty to underscore the fact that Garatea's efforts to further the Association and its members have remained uninterrupted. Rommel Acevedo, who headed the Association's Technical Department, was able to advance ALIDE's efforts in the international arena even more forcefully.

I was never able to enjoy the same intimacy with him as with Carlos Garatea, but we were good friends and worked together several times. On those occasions, as a member of the so-called Advisory Council, to which past Presidents of the Association belong, I was able to study his behavior and the positions he had taken at the head of the General Secretariat and both were worthy of the respect of one who seeks to laud value and seriousness.

1964 The idea of what ALIDE was to become was conceived by the Peruvian delegation during the first meeting of development financing institutions, held in Washington, D.C.

1968 ALIDE was finally established at a meeting promoted by the IDB for that exclusive purpose on January 24. So it was that the first institution of its kind in the world was born.

1970 The General Secretariat entered into operation as a permanent body under the direction of Ricardo Palma Valderrama.

1974 The Association, represented by Executive Committee Chairman Ernesto Rohrmoser García, at that time President of Corporación Costarricense de Financiamiento Industrial, signed an important agreement with the Peruvian government.

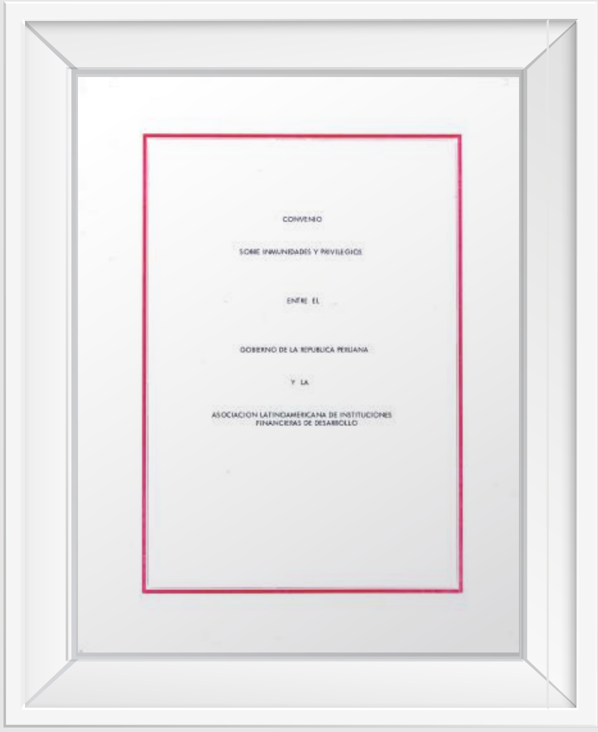
ALIDE and the associations of development financing institutions of the world established the World Federation of Development Financing Institutions (WFDFI).
Photo: ALIDE.

Actually, Rommel Acevedo surprised me. It is not so much that I had underestimated him earlier, but the way he rose to direct the institution went far beyond my expectations. Always present, uninhibited as a veteran, acting in favor of the aims that justify ALIDE. Even from afar, through publications that came to my attention, I was able to observe that ALIDE has maintained a growing presence in the discussions and works of common interest to our development financing institutions and even those on other continents.

Now that I am no longer a part of it, I can gladly see that the excellent team responsible for leading the various areas of the General Secretariat ensures that the new Secretary General, Edgardo Alvarez, elected at the 46th General Assembly in May 2016, will enjoy the necessary support to guarantee that the Association will continue along the proper route under his guidance. From what I have seen in recent months, everything would tend to indicate that the positive events have continued without interruption.

I have cited names that I consider important because I understand that the preservation and future of social organizations depends essentially on the dedication and efficiency of those who guide them.

ALIDE is an institution oriented to promote cooperation and exchange between the most of the existing NDBs in Latin America and the Caribbean.
Photo: ALIDE.



CONVENIO

SOBRE INMUNIDADES Y PRIVILEGIOS

ENTRE EL

GOBIERNO DE LA REPUBLICA PERUANA

Y LA

ASOCIACION LATINOAMERICANA DE INSTITUCIONES
FINANCIERAS DE DESARROLLO

- 8 -

EN FE DE LO CUAL suscriben el presente Acuerdo, en dos ejemplares, en la ciudad de Lima, a los dieciocho días del mes de Diciembre de mil novecientos setenta y cuatro.

POR EL GOBIERNO DE LA REPUBLICA PERUANA	POR LA ASOCIACION LATINOAMERICANA DE INSTITUCIONES FINANCIERAS DE DESARROLLO
General de Brigada EP Miguel Angel de la Flor Valle Ministro de Relaciones Exteriores	Ernesto Rohmoser García Presidente del Comité Directivo

ALIDE signed an important agreement with the Peruvian government granting the Association broad immunities and privileges within the country. *Photo: ALIDE.*

ALIDE and the search for Latin American development financing solutions

Confronting,
always confronting,
that is the way to solve
the problem.

By confronting it!

Joseph Conrad (Ukraine,
1857-England, 1924).

ALIDE has addressed the various issues that marked the discussion and analysis of the region's major concerns regarding financing and development. It is, therefore, worthwhile to take a look at the subjects of importance to Latin America and the Caribbean over the course of its 50-year life.

From 1969 to 1972, the issues focused on institutional matters, with a view to consolidating an infant institution, in a wise decision on the part of those who preceded us, who should feel proud of this valuable Latin American initiative. Some of them are no longer with us today, but our greatest respect, recognition and sincere homage go to them all on the part of us who are here in this pre-eminent development banking forum.

Between 1973 and 1976, ALIDE's activities targeted sector issues, with emphasis on industry and agribusiness --which together accounted for an average of 50% to 65% of the financings-- and the need to channel more resources into sector development. This was still a period of import substitution and industrialization policies in the region's countries. It was also a period when the major problems of regional indebtedness began to take shape.

Later, from 1977 to 1983, the discussion centered more on development banking as a policy instrument and on the redefinition of its role and approach for the purpose of supporting the region's development, particularly that of the private sector.

In the period from 1984 to 1989, the matters that most concerned us were indebtedness and structural adjustment and how to attract more savings in order to channel them into investments and boost economic recovery in a context of restricted international financing flows to the region and crises accompanied by recession and high inflation levels, problems that today appear alien to us, but that thwarted the future of entire generations of Latin Americans who must today be made a part of the countries' social and productive life.

Following a highly difficult decade in economic and social terms, of economic opening and important advances toward the stabilization of the region's economies, in the period between 1990 and 2000, the emphasis was on the insertion of Latin America and the Caribbean into a changing international economy and regional integration in the framework of globalization, as well as on the analysis and spurring of national capital market development and the implications for the region's economies of liberalized financial markets.

In the period of 2001-2006, attention centered on development bank sustainability and financial innovation. The end purpose was to find and define the basic and fundamental conditions, either managerial or institutional, so that development banks might manage

In the period of 2001-2006, attention centered on development bank sustainability and financial innovation.

themselves independently, using sound financial practices and a long-term vision, under public policy guidelines.

When everything appeared to be running relatively smoothly in the international economy and talk was beginning to be heard about the consolidation of economic growth with social inclusion and the challenges this would create for development banks, the great international financial crisis broke out in 2007 and 2008. It now appears in 2017 to have been successfully weathered, with favorable prospects ahead. This means the growing importance of the presence and action of the development banking system in its role of public financial policy agent, which had assumed greater importance in the fulfillment of its countercyclical function. It also offered an opportunity to reconsider national development bank models, given the need for urgent and rapid action in adverse contexts of tightening credit, by operating as public policy executors.

From 2010 to 2012, the view was fairly optimistic and went beyond the short term. The focus was on Latin American development financing above and beyond the crisis: new areas of development banking operation in order to provide answers to questions like: What is the next step for the development banking system? What should its relationship with the state be like and where should it target in its action? What environmentally compatible strategic production sectors should it boost in order to ensure the region's countries of better positioning in the international economy? How will infrastructure development, human capital training, technological innovation and other priority areas be financed in order to boost the competitiveness of the region's countries, while also favoring greater regional integration? and What new opportunities have arisen for the development banking system? What role is it responsible for playing in the process of productive decentralization with social inclusion? What will the profile and regulation of the post-crisis financial systems be like?.

What was sought in this vision was to contribute to the analysis of policies and measures boosted by the governments and development banks in our region's countries, in order to gradually move toward economies with less poverty and reduce inequality gaps by, above all, taking advantage of the fact that existing circumstances gave public policy a certain margin of action for advancing toward the accomplishment of this objective.

At the heart of the proposal was that all of this be accomplished by means of productive inclusion, in order to ensure its sustainability, rather than through assistance-type or handout programs whose strength and currency was subordinated to the availability of government resources and existence of a good economic situation. The major challenge was not only to grow, but also to consolidate sustained and sustainable growth, and for developing industries to make a great leap to transform our raw materials, with the incorporation and development of technology and the deepening of regional integration. Also by promoting larger trade flows and intraregional investment, a natural market for our small and medium enterprises, particularly producers of manufactured goods.

In the following years of 2013 to 2016, it became undeniable that development banks also needed to move ahead with new actions in order to fuel that growth.

Since 2009, concern has targeted how to confront the international financial crisis, overcome our weaknesses as a region dependent on raw material exports, improve our competitiveness and resume social inclusion through a broadening of financial inclusion.

Some of these actions needed to be oriented toward greater intraregional trade and investment, diversification of production, innovation and technological development, infrastructure, promotion of entrepreneurship, and improvement of human capital, among other things, in the degree to which they constitute basic elements of any sustainable development strategy seeking to diversify production and new production sectors with added value.

Unlike the case in the past decade, however, the margins for action by the LAC countries to inject economic resources in order to boost domestic demand, were limited; in fact, some countries could be seen to be making adjustments in public spending in order to balance their fiscal accounts and close trade deficits to keep their macroeconomic aggregates stable.

Inasmuch as the end purpose of public policy is to improve people's wellbeing by providing the conditions and opportunities they need to give form to their ideas,

The view was fairly optimistic and went beyond the short term. The focus was on Latin American development financing above and beyond the crisis.

engage in business ventures, live in safe cities or territories, enjoy infrastructure and basic services, and have access to quality education and jobs, among other vitally important things for the development of society in an era of major technological changes, in 2017 and 2018, the focus of attention is on technological disruption and its impact on financial intermediation and development financing and the challenges of the future from the outlook of development banks.

Latin America and the Caribbean have the tendency to pass thorough periods of irregular growth, determined largely by external circumstances and by the very nature of the production structure of the Latin American economies themselves, which are heavily dependent upon raw materials. Even so, the region has the opportunity to alter the course of its development to favor a more inclusive growth model, with more sustainable investment and consumption patterns, by taking advantage of the new technologies -- known as the fourth industrial revolution--, and which are causing the disruption of almost all industries and countries by modifying the business models and creating a series of challenges and opportunities that the region's countries should take advantage of for the good of their development.

As a matter of fact, all of those elements constitute challenges for the states and their institutions, among them the development banks, whose very justification for existing is to finance projects that are slow to mature or are higher risk, for small enterprises, new activities or products of which little is known in the financial market; distant localities or territories that have no financial offering; and, in general, to meet the demand for the financing of activities, sectors or territories that are potentially profitable both economically and socially, as well as to identify business opportunities and orient state development financing policies.

As a result, ALIDE will focus today on three aspects relating to the above: artificial intelligence and the leap in technological innovation to spur Latin American business and economic transformation by promoting the incorporation of new disruptive technologies; strengthening the resilience of the cities and rural areas to extreme events of nature; and financial inclusion and integration involving individuals, but also sectors, projects, new products and territories.

As we can see, ALIDE has not remained immune to the analysis of Latin American problems and concerns or to the search for solutions and proposals for confronting them. It is in this regard that we continue, with an eye to the future and prospects of finding solutions to those problems, insofar as the role of the development banking system is concerned, to promote Latin American and Caribbean progress by sharing knowledge and promoting cooperation and business among the very banks of the region and their peers in other regions of the world.

Later, from 1977 to 1983, the discussion centered more on development banking as a policy instrument and on the redefinition of its role.

Photo: Inter-American Development Bank (IDB).

ALIDE has addressed the various issues that marked the discussion and analysis of the region's major concerns regarding financing and development.

Photo: ALIDE.

Testimonies of former presidents and eminent persons

Everything looks impossible
until someone does it.

Nelson Mandela (South Africa 1918-2013).

Special status with broad
immunities and privileges

During the VI Meeting Ordinary of the Assembly General of ALIDE, the Saturday, July 3, 1976, the first stone was laid of the building.
Photo: ALIDE.

Ernesto Rohrmoser García

Former President of ALIDE in 1974-1977
Costa Rica

I had the honor to serve as President of ALIDE only six years after its founding by Latin American development banks. All of us founders, members, officials and Executive Board members lived moments of enthusiastic cooperation in an effort to strengthen our beloved association's region-wide scope of influence in the area of development finance.

During my mandate as ALIDE's fourth president, two events of importance come to mind that I consider had a great impact on ALIDE's consolidation. The first was the signing on December 18, 1974 of an important agreement with the government of Peru, granting the Association broad-based immunities and privileges within the country "for the exercise of its functions and accomplishment of its objectives as an international organization," thereby guaranteeing its Secretary General suitable conditions for the accomplishment of all acts needed for its appropriate operation.

And the second was the approval of the initiative to build the Association's own premises and the laying of the cornerstone of the headquarters building where the ALIDE General Secretariat operates today.

This second event is highly significant. The institutional headquarters were conceived as the home of the development banking system, which was to serve as a forum for the analysis and discussion of issues of importance concerning its member institutions and their significant objectives and functions; a center of knowledge about development finance and a place without parallel for the training and development of the executives of its member banks and of any institution involved in development finance.

Dreaming of integration and collaboration, ALIDE was able to remain on the sidelines of those battles thanks, above all, in favor of a common objective prevailed, which we pursued by exercising the banking profession.
Photo: ALIDE.

Latin american **mystique**

Frederich E. Bergés

Former President of ALIDE in 1989-1990

Dominican Republic

I can remember the first ALIDE Assembly I attended, in 1978 in Buenos Aires, together with engineer Jimmy Pastoriza, at that time President of the young institution that was barely one decade old. It was a time of enormous socio-political change prompted by the Cold War and of ideological, social and economic confrontations between the first and third worlds. Latin America and the Caribbean were not untouched by the consequences of those processes.

ALIDE, which had emerged with the Latin American mystique, dreaming of integration and collaboration, was able to remain on the sidelines of those battles thanks, above all, to the fact that in its early years, each entity's institutional roles in favor of a common objective prevailed, which we pursued by exercising the banking profession, as development bankers with a long-term outlook, very different from that of the commercial bankers who favored the short term.

Both during my presidency, when we mediated between Cuba and Puerto Rico, which represent diametrically opposed philosophical viewpoints, and during all of the years when we were able to collaborate as Directors, we harmonized interests between large and small banks. I found the collaboration of an Executive Committee inspired by the best interests, and a committed General Secretariat.

Despite the efforts made over those first 50 years, we are still far from reaching the goals of living together in fairer and more egalitarian societies and for that reason I urge the new generations not to flag in their efforts to not only enable us to belong to a healthier planet, but to continue giving the best of themselves to ensure a balanced and just sustainability for several thousands of years to come.

50 years of ALIDE:
challenges for the future

Jesús Villamizar Angulo

Former President of ALIDE in 1990-1992
Colombia

Celebrating its 50th anniversary is a special occasion for any organization, but doing so in the Latin American development banking trade is even more important, because it is there that the policies for performing the most important activities of society come together, like agriculture, stockbreeding, industry, housing, public works, education, health, environment, tourism, etc.

Being part of a process encompassing all nuances of our countries, which, over these years, have covered different and varied trends relating to the socio-political and economic cycles of the world, the region and the nations, has permitted us to accumulate invaluable experience for continuing to confront the evolution of the near future.

Since 1968, with a membership of 16 countries and 36 development institutions in its early years, ALIDE has managed to maintain an evolving group of banks with different characteristics, but shared objectives, that have responded over time to the needs of modern living, because we have lived through important changes over these periods and the demands at different moments of time have differed.

The challenge our Association faces today is no different from the one it has always confronted, considering the differences in proportion with the modern, globalized and technological world to which we must accommodate ourselves and we must help our present members cope with those new dimensions. We must also broaden the scope of our own structure, in order to allow many other similar institutions to join in our efforts by reinforcing our institutional services and modernizing their provision by means of competitive products that meet the demands of increasingly demanding capital markets. At the same time, the need for regional integration still exists and offers a growing opportunity.

I would like to especially congratulate ALIDE on this occasion for its efforts over these long years, during which we have seen many outstanding individuals from different countries pass through our institution, contributing individually and collectively to the formation of this important regional heritage.

By way of example, I recall with great affection and appreciation Carlos Garatea, Rommel Acevedo, Ricardo Palma and Felipe Tami, as a small but representative example of the human capital to which our institution has had access. I wish its Secretary General, Edgardo Alvarez, the greatest success in this new and decisive stage in the consolidation of all these development projects and efforts.

Nafin is created in 1934 as an instrument executor of important transformations that would change the direction of country.

Photo: Nafin.

ALIDE and nacional financiera
in the face of trade opening

Óscar Espinosa Villarreal

Former President of ALIDE in 1992-1994

Mexico

I would like to start off by commenting that my performance as Director of Nacional Financiera coincided with an important stage of Mexico's modernization during the government administration of Carlos Salinas de Gortari. Unprecedented and transcendental structural reforms took place, particularly (for purposes of what I would like to communicate on this occasion) the trade opening that led us to sign the world's most important free trade agreement of that period with the governments of Canada and the United States.

A trade opening that would permit us to accede to that region's market, so important in economic terms and that at the same time would position Mexican enterprises within an environment of heated competition with competitors that were considerably better equipped in terms of technology and productivity. Although transition periods had been agreed, time was pressing and a speedy modernization of production facilities was imperative, particularly in micro, small and medium enterprises.

It was for that reason that a decision was made for Nafin to launch the most ambitious program of its entire history in support of those small enterprises. A program that envisioned everything from training and technological innovation to integration and association among those companies in order to achieve economies of scale that would make them competitive. In order to implement that program, new and more friendly forms of financial intermediation with enterprises of that size had to be created, for the banking system had been paying little attention to that sector.

I would also like to point up the fact that all of this occurred in the midst of a heated debate over whether or not to adopt an industrial policy in an environment in which, due to the Washington Consensus, there was talk that "the best industrial policy was no policy."

By chance, at that time I had the honor of presiding over ALIDE and of producing a heavy flow of opinion regarding the role of development banks, especially during that period of transition. The enormous prestige of that organization, combined with strong arguments brought to bear by many talented development bankers, helped to keep that trend from having a negative impact on our programs. In Mexico, it was understood that liberalization processes and structural reforms could produce a more desirable influence if the State were to make use of that powerful branch of economic policy that is the development banking system.

Accordingly, and in many ways with Nafin's support, the competitiveness of our production system was able to be enhanced, making us potential winners. Today, our exports have multiplied several times over and our companies are playing in the big leagues.

ALIDE's 50 years linked to the course of **development of the development banking system**

César Rodríguez Batlle

Former President of ALIDE in 1999-2000

Uruguay

ALIDE's 50 years are necessarily associated with the evolution of the Latin American and Caribbean economies and, therefore, with the course of development of their development banks. The evaluation of the importance of its efforts should be reflected in significant progress in the performance and action of the cited financial institutions.

ALIDE is valued in the work because it promote and support the transformations that have given meaning to and continuously updated the efforts of the Latin American and Caribbean development banking system.
Photo: ALIDE.

It is no longer open to question, and as asserted by ALIDE, that development financing institutions should, in order to properly fulfill their role, achieve a balanced design that would enable them to conciliate their promotional work with the conservation of their economic and financial soundness. That is a basic point in a globalized world with open and liberalized financial systems. It is given fact that a financial system that manages its risks with market criteria and that is also subject to supervision aimed at minimizing those risks, requires professional management of the various different aspects of its banking activity.

Today we value ALIDE's presence in the work it does to promote and support the transformations that have given meaning to and continuously updated the efforts of the Latin American and Caribbean development banking system. It has sustained its commitment to change and has served as the driving force and support for those institutions through the actions of its personnel, who today constitute a high-level technical team.

We were aware of and were participants in stages when a climate hostile to development banks was produced and many of them were forced to convert, enter into merger with others or close their doors. Scenarios in the nineties changed substantially with economic opening and the heavy inflow of capital into the region, particularly during the second half of that period; the distinctive keynote was financing through direct access to the capital markets. That hostile environment was even experienced by ALIDE itself at that time. In my role as President toward the end of the cited decade, it proved necessary for me to promote changes that included reducing operating expenses and unessential investments to ensure the institution's continued health.

ALIDE's own transformation enabled it to continue guiding the development of the institutions by adding new chapters to its agenda: by assuming the significant technological change in finances, to continue supporting the best banking practices while, at the same time, delving into the subject matter of an inclusive banking system that supports sustainable economies.

I have followed ALIDE's activities for over twenty-five of its fifty-year life and feel deeply satisfied at confirming its vital presence and the beneficial results of its performance.

Gonzalo Rivas highlights the enormous contribution what Rommel Acevedo meant for ALIDE in the institutional and personal aspect. He indicates: «without his vision, enthusiasm and sympathy not we could have raffled those difficult moments to which I referred to at the beginning».

Photo: ALIDE.

ALIDE's value

Gonzalo Rivas

Former President of ALIDE in 2000-2003

Chile

When I had the honor of assuming the Presidency of ALIDE, the institution was experiencing difficulties, particularly as to its financing. Even so, there were no doubts on the parts of both the Executive Committee and those working in the General Secretariat about the valuable role ALIDE could play in support of Latin American and Caribbean development.

It is, in effect, a unique venue for sharing experiences, learning about successes and mistakes and even promoting joint business. In its 50 years of life, ALIDE has served as a channel for the integration of and communication among the region's development financing institutions that has never been interrupted and in which all of the countries have been able to come together, notwithstanding their differences on other levels. For those of us who have exercised positions of leadership in the development banking system, ALIDE has been a source of invaluable assistance. As someone pointed out in one of the Assembly meetings: had ALIDE not existed, it would have been necessary to create it! I cannot fail to mention in these short lines, the enormous support Rommel Acevedo provided to ALIDE institution-wise and to me personally. Without his vision, enthusiasm and congeniality we would not have been able to successfully weather those difficult moments I referred to in the beginning. Words will never be enough to render true homage to our dear and late friend, Rommel.

Organization of enormous importance for the development of latin america and the caribbean

Rodrigo Sánchez Mújica

Former President of ALIDE in 2011-2013

Mexico

I congratulate our Association on its first 50 years of existence.

I was in contact with ALIDE on several occasions during my professional career in various Mexican development banks, but it was above all from 2009 to 2013, when I was a member of its Executive Committee, which I headed during the final two years of that period, that I witnessed the capacity of that institution to promote the timely analysis of the most significant issues and the sharing of best administrative, financial and management control practices.

Efficient, effective and identifier of best practices

Another of his contributions as President of ALIDE was to create the Prize for Excellence, known as the ALIDE Prizes.

Photo: ALIDE.

William Hayden Quintero

Former President of ALIDE in 2003-2004

Costa Rica

In 1988, I was Managing Director (CEO) of Corporación Privada de Inversiones (CPI) operating out of Costa Rica and Panama. That institution was a sort of wholesale development and investment bank that financed projects for producing non-traditional exports targeting third markets through loans and capital contributions. The seed capital was supplied by the United States Agency for International Development (USAID) and the contributions of seven of the country's private banks, amounting to an overall total of US$ 30 million, together with funding in a like amount provided by some multilateral development banks, among them DEG, CEO, HBC of Germany, England and Holland.

I received the visit of the ALIDE Secretary General, at that time Carlos Galatea Yori, who was extremely interested in learning about our institution because of its functions, which were not usual in the development banking system. He concluded by inviting CPI to become a member of the Association. We did so and in 1989 started participating

Rodrigo Sánchez, then president of ALIDE, during the inauguration of the Presidential Hall in the institutional headquarters in Lima, Peru.
Photo: ALIDE.

Among the important issues dealt with during my Presidency, I would like to point up the role played by our institutions in confronting climate change, financial inclusion and the permanent controversy over first and second floor banking.

I also consider that it is important to mention the continuous striving for balance, with institutions of all economic sectors, bank sizes and countries in ALIDE's Executive Committee, which has doubtlessly helped to keep it an open, inclusive and broad-based forum.

I am certain that with this vanguard vision, ALIDE will remain at the forefront as a highly significant organization for Latin America's development for many years to come.

May you all receive a warm hug.

in that organization, in its annual assemblies, in the in-service trainings of our senior staff, and in the talks I made at the Lima headquarters on our experience and results as a private way of carrying out development and investment banking. Over a five-year period, I built up a strong friendship with Carlos Garatea, a friendly, affectionate person with a great store of knowledge and a strong vocation for his General Secretariat and the functions of his institution. I left CPI in 1994 and for a short period of time was disconnected with ALIDE.

In 1997, I was appointed General Manager of the Costa Rican National Bank, a commercial state bank with development functions, as well, which operated as a retail bank by attracting resources from the general public in deposits of all kinds. During my 12-year term of office, the bank came in first in the Costa Rican and Central American rankings of the principal banking variables. In 1998, I received the visit of the new Secretary General, Rommel Acevedo, who was seeking to get our bank to join ALIDE, which we did in 1999. Rommel, another exceptional person with multiple personal and professional attributes, lent his youth to the Association. With the new airs, ALIDE broadened its horizons to cover almost the entire world and was able to incorporate almost all of the world's development banks.

I served on ALIDE's Executive Committee over the period 2001-2008, as Vice-President for several years and President in 2003-2004. One of my contributions to the Association was my concern that it operate efficiently, effectively and profitably --in other words, that it produce profits in the performance of its functions, as this was not a deeply-rooted aspiration. The thinking was that as a non-profit organization, profitability was not important and this aspect was neglected to such an extent that it operated at a loss, which became very pronounced. We did our utmost to secure ALIDE's financial rehabilitation and to transmit the importance of always operating at a profit.

Another of my contributions as President of ALIDE was to create the Prize for Excellence, known as the ALIDE Prizes. Every year the most outstanding development banks in the exercise of their functions were awarded prizes in four major areas: innovation, creation of new financial products, execution of environmentally-friendly activities and application of best technological and computer practices. The Prize for Excellence became a reality and today I serve on the examining jury of the studies that banks submit to compete for a prize in those categories.

I salute your health, ALIDE, on your fiftieth anniversary.

ALIDE, in promoting and carrying out actions combining and strengthening the participation of financial institutions working toward economic, has been responsible for promoting business management procedures, technical and financial cooperation.
Photo: ALIDE.

Best wishes on ALIDE's 50 years of existence

Roberto Smith

Former President of ALIDE in 2009-2011

Brazil

I would like to start off by addressing all of those friends who have accompanied me and lived ALIDE's half century of existence, acting, sharing knowledge and aware of their importance in the permanent task of building development through the member institutions represented in ALIDE.

Our institution's permanence and operational vigor over the years is something that should be treated by all of us with great attention and respect, for it constitutes an anchor of sorts grounded in the force of tradition and of the gradual construction of strong bases on which the values of the Latin American, Caribbean and global societies in which our members are present rest.

The building of permanent institutions should not be construed or asserted to mean that those are structures impermeable to change or innovation. On the contrary, the latter are necessary demands for ensuring the evolution and improvement of those institutions, a requirement for their survival and principally for their social recognition, as in the case of ALIDE, and above all for bringing together among its members a formidable array of financial institutions devoted to development. And development, as we all know, occurs within a perspective that does not overlook long-term vision, underpinned by a trinomial array of actions aimed at innovation, sustainability and democratic and representative management.

ALIDE, in promoting and carrying out actions combining and strengthening the participation of financial institutions working toward economic and social development within its sphere of operation, has been responsible for promoting business management procedures, technical and financial cooperation, and disseminating best practices with a view to creating opportunities and mobilizing resources involving financing for the sustainable development of Latin America and the Caribbean.

We agree, I believe, with everyone that at the threshold of our 50 years of prolific existence we had assumed the challenges that arose in an age of changes. And the changes were never more intense than those we are living and seeing today. It must be recognized that public policy is having huge problems adapting to the strong changes that are taking place, particularly those relating to the world of communication, which affect the working world and that of production and, strongly, all that surrounds us. Referring to the crisis at this stage seems redundant. In the end, crisis is part of the operation of the capitalistic system, whose cyclical movement historically reproduces and recreates itself, producing innovation, technological development and new horizons.

In that way, we know and are aware that our Association operates permanently under the impetus of new challenges.

At this point, I wish to express my deep appreciation to ALIDE, the institution I learned to admire and work with side-by-side for almost the entire nine years I headed Banco del Nordeste de Brasil and another three in the Development Agency of Ceará, Brazil, and in my present position as Chairman of ALIDE's Advisory Council.

Long life to an always renewed ALIDE.

Favorable environment for sharing ideas and solutions for the region's financing

María Soledad Barrera

Former President of ALIDE in 2014-2017

Ecuador

The Latin American Association of Development Financing Institutions (ALIDE) was born in 1968 in Washington, D. C., within the regional framework of incipient industrial development grounded in the import substitution model and economic growth underpinned by foreign borrowing and the proceeds of commodity sales. It was, therefore, necessary to propose a new development model for Latin America and the Caribbean and that was the thinking of the representatives of 36 of the region's development institutions gathered at an Inter-American Development Bank (IDB) meeting. Fifty years have passed since then and today ALIDE has 63 active members, 15 associate members and nine collaborating members, from both the region and outside it.

«During my period as President of ALIDE, I was able to see evidence of the impact that different local development banks have had on their countries, in the framework of what Robert Solow theoretically conceived as technological innovation, to bring about a convergence toward an economic growth model», Barrera says.

Over its 50-year history as an institution, ALIDE has concentrated its efforts on meeting the momentary and structural needs of its active members, sharing experiences in regional development, promoting good practices through technical assistance, preparing studies and research concerning development banks and, in general, proposing a favorable environment for sharing ideas and solutions for the region's financing.

During my period as President of ALIDE, I was able to see evidence of the impact that different local development banks have had on their countries, in the framework of what Robert Solow theoretically conceived as technological innovation, to bring about a convergence toward an economic growth model. The development banking system has effectively become a pillar in processes of inclusive growth, redistribution, and accessibility, changes in patterns of investment, financing of economically viable projects, and sustainable consumption in a scenario of constant technological change. ALIDE, for its part, has positioned itself as the moving force for the discussion, technical debate, presentation of innovative programs and products, and one of the important generators of thinking in the context of the new institutional challenges to the public banks, as follows: financial innovation (fintech), digital banking, gender equality, economic and social infrastructure, climate change, innovation ecosystems, entrepreneurship, fair housing, soil management tools, access to basic services, green programs, energy efficiency, agricultural promotion and technical assistance. We cannot fail to mention the ALIDE Prize, which has constituted a tool for identifying new technologies, and innovative financial and non-financial products created by Latin American development banks.

Today, ALIDE enjoys a well-earned prestige, built up from the fruitful activities of its various Executive Committees throughout its history, the cooperation of all of its members (active, associate, and collaborating) and the vocation for service of its General Secretariat staff.

Congratulations and keep up the good work of confronting the existing and new challenges.

Cooperation within the development banking system in pursuit of the fulfillment of its institutional mission

Felipe Tami

Member of ALIDE's Advisory Council

Argentina

I have had the privilege of accompanying ALIDE during the greater part of its history. For that reason, my testimony is largely my memory of an institutional family to which I am linked by ties of affection that defy the passage of time.

Those accomplishments can be traced to highly intense cooperation between the institutions and their General Secretariat.

Photo: ALIDE.

Its persevering efforts over half a century have allowed ALIDE to consolidate an identity that today enjoys international recognition. While its founding was linked to times when hopes were placed in Latin America's development, ALIDE was later forced to pass through a stage in which ideas connected with development banking were strongly questioned, under the impetus of thinking that radically altered that initially favorable vision. At the same time, the economic and political ups and downs of the countries affected --in differing degrees, as the case may be-- the possibilities for performance of its member institutions. Nonetheless, a continuing effort to modernize structures and the incorporation of new fields of action were able to carry the development banking system through to its vigorous present.

ALIDE is a unique case in the concert of international organizations. With a General Secretariat of modest size, but endowed with a high level of efficiency, its sphere of action has not only been enlarged through the number of its member institutions, now amounting to close to 90, but has gone beyond the regional sphere to project itself into other parts of the world.

Those accomplishments can be traced to highly intense cooperation between the institutions and their General Secretariat, spurred by continuous striving for the improvement of capacities for action with a view to fulfilling the institutional mission.

The experience attained and lessons learned over those 50 years, as well as the growing need for development financing, give promise of a bountiful institutional life for the Association in the future. This will be the mature fruit of a modest seed whose growth encourages the sustained effort and faith in the mission that brought about its sowing.

In this highly dynamic context, ALIDE has played a key role as a strategic partner in coordinating among the institutions of different countries.

ALIDE:
half a century to celebrate

Pablo García

Vice-President of ALIDE
c/o the President
Banco de Inversión y Comercio Exterior (BICE)
Argentina

As in the case of every anniversary, these first 50 years of ALIDE invite us to make an assessment of the role the development banking system and ALIDE itself have played in the region. These have not been peaceful years, but, rather, ones marked by strong economic, financial and political changes. In fact, over these decades, the consensus and the social demand regarding the development banking system itself have also altered drastically.

The more paternalistic model of the fifties and sixties, favorable to strong state intervention in loan allocation, gave way in the eighties and nineties to the demands of a financial market revolving around private banking. Fortunately, things have settled down since the late nineties, prompting the appearance of the healthy model that prevails today in most of our countries: a socially-oriented development banking system, but one that is self-sustaining, efficient, market-friendly and open to innovation.

Far from being self-complacent, we are convinced that, although much has been done, more still remains to be done. The private financial market continues to exclude many micro, small and medium enterprises with production projects of high private and social profitability, opening a fertile terrain for the work of our development banks. The increase in volume of financing, improvement of terms as to maturities, rates and guarantees, speediness of the disbursements and introduction of products that satisfy the financial needs of the firms continue to be matters of priority on our working agendas.

In this highly dynamic context, ALIDE has played a key role as a strategic partner in coordinating among the institutions of different countries. It is undeniable that our banks cannot fulfill their aims by turning their backs on the world and, above all, on their Latin American and Caribbean peers. The challenges enumerated above demand a continuous effort at updating and the sharing of data and ideas to put them on a level with the best international practices. Bilateral contacts between our institutions are always welcome but, any way you look at it, insufficient for attaining standards of international excellence. Periodic meetings, on-site and distance e-learning trainings and the production of reports and databases are some of the public goods that ALIDE has provided and continues to produce for the benefit of each and every one of the member banks. For all of those reasons, we can do no more than celebrate ALIDE's half century of existence. Although the challenges are unceasing, we can look back today and affirm in all confidence: «Mission accomplished.»

Continuing commitment of orientation
towards the needs of its member institutions

André Ahlert

Director
Latin America and the Caribbean
KfW Development Bank
Germany

The KfW Development Bank is pleased to celebrate the 50th anniversary of its foundation with ALIDE. That occasion offers us a great opportunity to commemorate over 40 years of successful cooperation between our institutions.

ALIDE has been known, from its very foundation, for its continuing commitment of orientation towards the needs of its member institutions. In the face of constant changes in the financial markets, ALIDE has assumed the role of catalyst in the transfer of innovation, knowledge and good practices for the progress of the development banking system and, therefore, of Latin America's economic and social situation. The development banks have the possibility of not only sharing experiences, but also of establishing business relations through the different events and activities promoted by ALIDE, like its General Assemblies, seminars, forums and in-service training opportunities.

ALIDE and the KfW started cooperating in 1975. That relationship was deepened through activities organized jointly by ALIDE and KfW in Germany, like the latest Mission of High-Level Executives of ALIDE member Development Banks, carried out in 2017. Through the various different activities promoted by ALIDE, we have been able to enhance our cooperation with the Latin American development banks, which account for roughly 60% of KfW Development Bank's new operations in Latin America. In that way, both the development banks and the institution representing them, ALIDE, have become strategic partners of KfW Development Bank.

We congratulate ALIDE on its hard work of strengthening the development banking system and the economic and social situation of the Latin American region over its 50-year life. We are pleased to be members of ALIDE and to continue reinforcing the cooperation links between our two institutions.

ALIDE and the KfW started cooperating in 1975. That relationship was deepened through activities organized jointly by ALIDE and KfW in Germany, like the latest Mission of High-Level Executives of ALIDE member Development Banks, carried out in 2017.

In recognition of this effort and as a way to share successful experiences, ALIDE granted the 2017 Agrobanco Prize to Banco do Nordeste.
Photo: Banco do Nordeste.

Cooperation for sharing knowledge and experiences

Romildo Carneiro Rolim

President
Banco do Nordeste do Brasil (BNB)

Banco do Nordeste do Brasil is the largest development bank in the Latin American and Caribbean region and celebrated its 65th anniversary in 2017. Throughout its history, we have systematically striven to improve our performance by training our team of collaborators, optimizing processes, adopting new technologies and launching new products and solutions for our customers.

Our business strategy is based on a culture of institutional cooperation, the practice of benchmarking, adoption of the best practices existing in the markets, monitoring of the execution of activities and programs, and evaluation of the results and impacts of our efforts. As a result, a sophisticated network of institutional alliances is needed, that could serve as a platform for sharing and disseminating know-how, technical and tacit knowledge, successful organizational innovations and experiences that could contribute greater value to our customers, as well as better levels of wellbeing for society as a whole.

Building such cooperation networks is not a trivial undertaking, for it demands the firm commitment of the associated institutions under the coordination of a highly trained executive team. In that connection, the role that ALIDE has played over these 50 years has been invaluable. Without question the environment of technical cooperation provided by ALIDE has contributed decisively to enabling its members to optimize their efforts at learning and at sharing their knowledge.

In recognition of this effort and as a way to share successful experiences, ALIDE granted the 2017 Agrobanco Prize to Banco do Nordeste for the product «Agroamigo Móvil, Herramienta para la Inclusion e Integracion Financiera,"(Mobile Agricultural Friend, Tool for Financial Inclusion and Integration), an application that makes it possible to digitalize loan granting processes, promote productivity gains, increase the number of farmers served, cut down the time needed to disburse a loan and reduce mistakes in registration.

Findeter, Colombia's leading development bank, as a member of ALIDE has advanced the implementation of sustainable development projects that create wellbeing and improve the quality of life of Colombians living in the country's various regions.
Photo: ALIDE.

Expediting the financing of inclusive, responsible and sustainable projects

Rodolfo Zea Navarro

ALIDE Director
c/o president
Financiera del Desarrollo (Findeter)
Colombia

From the moment it was established, the Latin American Association of Development Financing Institutions (ALIDE) has contributed to the region's economic and social development by furthering the use of good financial practices among its member institutions, like the financing of inclusive, responsible and sustainable projects.

Thanks to those policies, ALIDE has become a leading organization in creating venues for discussion and the search for solutions to the common problems and challenges facing the financing of projects that boost development in the region. Keeping those venues active has been of key importance for strengthening cooperation within the development banking system. The Association has served as a major ally of development banks in Latin America and the Caribbean by promoting financial and technical cooperation with international organizations and with extra-regional development financing institutions.

It has also been able to establish strategic alliances for incorporating technology, training human resources and preparing joint studies, among other things, all aimed at strengthening and bringing its members together in a closer union and improving their individual and collective efforts.

From ALIDE's vantage point, the importance of the development banking system for contributing to the countries' progress by producing solutions to enable its members to confront the challenges that arise in national or regional environments has been underscored.

Findeter, Colombia's leading development bank, as a member of ALIDE has advanced the implementation of sustainable development projects that create wellbeing and improve the quality of life of Colombians living in the country's various regions.

Ever since it joined ALIDE in 2012, Findeter has been deeply committed to the Association's values and objectives. An example of this is to be found in the fact that it has been a member of the Executive Committee, ALIDE's highest-level decision-making and governing body, since 2014 and served as its Chairman from May to August 2017.

In addition, Findeter has participated actively in the training programs organized by ALIDE, not only to give its collaborators access to different sources of knowledge, but also to strengthen inter-institutional links in the region.

Since 2010, the finance institution has disbursed over US$ 5.3 billion for more than 3,700 initiatives in 414 municipalities in essential sectors like infrastructure, housing, water and basic sanitation, health, education and energy, among others.

The Association recognized the importance of Findeter's efforts in vital sectors for the country's development in 2016 when the Water for Prosperity Program won the ALIDE prize in the Information, Technical Assistance and Social Responsibility category.

Findeter congratulates ALIDE on its active efforts and commitment in favor of the Latin American and Caribbean development banking system over these 50 years and expresses its intention to continue helping to consolidate and define the Association's strategy, as an active member.

Here, it is worth mentioning ALIDE's key role as a venue for the meeting and reflection of its member institutions.

Photo: ALIDE.

A place for development banks to meet and reflect

Jessica Lopez Saffie

Vice-President of ALIDEGerente Executive General Manager

BancoEstado de Chile

Over the past decade, the development banking system has effected important changes, both in the development functions it performs and in the way it carries them out; from the most traditional, like bankarization and the expansion of financial markets --housing, education and tourism-- to those oriented toward promoting new activities --non-renewable energy sources, energy efficiency, entrepreneurship and digital technologies.

In the case of financing, the promotional function in our countries today no longer consists only of providing liquid resources to sectors with little access to banks or projects of economic and social interest that require large amounts of resources and are slow to mature, such as infrastructure, for example.

Such is the case of small-scale enterprise (SSE) financing, in which different modalities have been progressively favored that facilitate and broaden access to either public or private financing through the commercial banking system, subject to risk assessment standards. In that connection, the guarantee system mechanism, reciprocal guarantee companies and specialized guarantees all represent successful cases that have made it possible to broaden the access of this business segment to the financial system, facilitated by greater leveraging of resources and less effective capital use.

In that context, development banks have had to implement new forms of customer financing and, at the same time, introduce best management practices in order to comply with their more stringent mandates --in particular, to operate more efficiently and profitably. This point is important, given that today there are international agreements accepted by local regulators that require balanced risk, asset and liability management in making an offer of products and services, both financial and non-financial, that ensure integral service to those requiring it.

In that way, development banks have moved away from being merely allocators of resources to sectors not served by the private banking system, to being active participants in the financial market, no longer so much by placing resources directly, but by managing instruments that facilitate customer access to the commercial banking system.

Here, it is worth mentioning ALIDE's key role as a venue for the meeting and reflection of its member institutions. Serving as a bridge between the public and private sectors, making best practices available, opening up spaces for the transfer of know-how and coordinating and representing a common viewpoint in different forums are all essential tasks for advancing toward the accomplishment of the objectives of the development financing institutions. In the words of Rommel Acevedo, «they have a social development or institutional function, but also a business one.» In order for our institutions to rise to this major challenge, we must be able to balance our economic management with the expected social impact.

ALIDE: endless source of inspiration and knowledge

Chesron Isidora

Executive Director
Korpodeko
Curaçao

Korpodeko Curaçao has been a member of this illustrious organization, which celebrates its 50th anniversary in 2018, for over a decade.

For Curaçao, an island associated with Europe and America lying sixty kilometers off South America and linked to both shores by indivisible historical ties, its relations with ALIDE have always been respectful, strong and grounded in the conviction that ALIDE contributes to the growth of the island's development financing sector by providing for contacts with both its own and external experts and with support networks in the region. Numerous working meetings and in-service trainings with ALIDE members, combined with experience acquired in the local market, have served as inspiration for the design and preparation of Korpodeko's Incentive Programs. Those incentive programs, based on providing support to small and medium enterprises by increasing the sector's presence in Internet, expanding online sales options, providing advisory assistance in compliance with fiscal and other regulations, offering options for financing green

FIRA has taken part in sharing technical and financial information by offering in-service trainings, participating in conferences in different member countries, and taking advantage of business collaboration and financial cooperation.

Sharing a common mission

Rafael Gamboa

Director general
Fideicomisos Instituidos en Relación con la Agricultura (FIRA)-
Banco de México

ALIDE's 50th anniversary is reason for FIRA to celebrate the construction of an international organization for sharing successful experiences among development financing institutions. With ALIDE's support, we have learned about financial programs and services and have benefitted from the cooperation of and collaboration among its members, with which we share the common mission of promoting financial inclusion with sustainable projects.

Numerous working meetings and in-service trainings with ALIDE members, combined with experience acquired in the local market, have served as inspiration for the design and preparation of Korpodeko's Incentive Programs.

products and services, providing support for financing international certification processes and proposals for sharing knowledge between companies and universities were awarded ALIDE 2017 Prizes. This recognition of the work of Korpodeko Curaçao serves as a stimulus, but at the same time creates the responsibility for complying with the objectives set at both the local level and within the context of regional development efforts coordinated by ALIDE, an organization that has demonstrated its ability to create synergistic relationships and boost cooperation, sharing and understanding among the development financing organizations of the south.

FIRA has been an active member of ALIDE since 1986 and has taken part in sharing technical and financial information by offering in-service trainings, participating in conferences in different member countries, and taking advantage of business collaboration and financial cooperation with sister institutions to further the region's economic and social development. Studies have also been conducted on problems of common interest, including those carried out jointly with other international organizations like the World Bank, FAO and the IDB. FIRA has won ALIDE Prizes from 2008 until this year of 2017 in recognition of its best practices and innovation.

These first 50 years show promise of a great future for ALIDE, given its accumulated knowledge and the many challenges facing us member institutions. We need to incorporate the everyday practice of evaluating our role as public policy instruments by developing additional precise methodologies; incorporating in our operations recent technological developments like artificial intelligence, fintech and BIG DATA; make our participation more effective in regard to financial education and the reduction of financial operation transaction costs, particularly in the rural area; and, of course, play our role in promoting investments that will help improve the environment by underscoring mitigation and adaptation to climate change.

Promotes financial integration and resolves the **challenges confronting the region**

Alfredo Vara Alonso

Director general

Banco Nacional de Obras y Servicios Públicos, S.N.C. (Banobras)

México

The Latin American and Caribbean countries share geographic, social and cultural characteristics, as well as strong ties of economic integration. They also, however, have major challenges in common that stem from continuous efforts to achieve sustainable and inclusive economic development.

Statistics published by the World Economic Forum reveal that Latin America and the Caribbean experienced real economic growth of 2.5% between 2008 and 2015, far below the 7.5% reached by the Asian economies over the same period.

It is clear that in any of the world's economies, investment is a basic element for reaching higher levels of growth and promoting sustained increases in the productivity of the factors available to them.

According to the Inter-American Development Bank, there is a wide gap in one of the most important components of investment --namely, infrastructure-- in Latin America and the Caribbean. Between 2008 and 2015, LAC invested 3.5% of the region's GDP, on average, in infrastructure, a level far below that invested by other countries like China, amounting to 8.6%, or India, at 4.9%. Those figures help to explain why the investment gap existing in the region needs to be closed.

Throughout history and across the world, development finance institutions have constituted a basic economic policy instrument for promoting the growth of strategic sectors. By providing financing, guarantees and technical assistance programs, development banks, like Banobras

According to the Inter-American Development Bank, there is a wide gap in one of the most important components of investment --namely, infrastructure-- in Latin America and the Caribbean.

Photo: ALIDE.

in Mexico's case, run risks that commercial banks are unwilling to assume, as the markets they serve move toward attaining the necessary maturity to attract another type of investment capital. Furthermore, the development banking system also serves sectors that are not served by private financial intermediaries, thereby promoting financial inclusion. In that way, strategic sectors like infrastructure, small and medium enterprises, housing, and access to saving are provided with the necessary financial resources to enable them to contribute to economic growth and employment.

Although their various governments have confronted the challenges that Latin America and the Caribbean have in common in different ways, the presence of the development banks has similarly contributed to the growth of their economies. In that connection, the role played by ALIDE, which has constituted itself since 1968 as a regional forum for sharing ideas and adopting the region's best financial practices, is of basic importance.

For Banobras, ALIDE represents a fundamental strategic ally. Thanks to its relationship with the Association and the sharing of best practices, Banobras was able to produce its Green Bank Strategy, whose aim is to firmly establish a sustainable financing chain that will make it possible to channel even more resources to projects that will help safeguard the environment and improve the people's quality of life.

Today, the region's development banks, including Banobras, celebrate the first 50 years of the valuable course of development of a great Association that promotes financial integration and helps resolve the challenges shared by the region's countries.

Orientation and sharing of experiences

Carlos Segura Foster

General Manager

Banco Agrícola de República Dominicana (Bagricola)

The progress made by the development banking system in Latin America is unquestionable, and we owe a large part of those advances to the role the Latin American Association of Development Financing Institutions (ALIDE) has been playing by making the results of important research studies, as well as the most highly qualified professionals and continuing exchanges among the members to share experiences available to us.

It is a true reason for pride on our part to have been a founding member of ALIDE, not only because of the guidance the Association has provided us with continuously over these 50 years and which it will continue to offer, but also because of the prestige it entails.

Possibility of broadening our horizons

Carlos A. Pereira Olmedo

ALIDE Director
c/o president
Banco Nacional de Fomento

Paraguay

Paraguay's Banco Nacional de Fomento has experienced continuous growth over the past five years, both financially and in volume of business, credit cards and infrastructure, placing it in the top ranks of the country's financial market and making it a point of reference in regard to Paraguay's economic stability.

We in BNF feel certain that the growth we are experiencing is the result of not only the efforts of our direct collaborators, but also of the support we have received in specific trainings, experiences in other Latin American and Caribbean development finance institutions and the open collaboration of those institutions in guiding our bank along the correct path.

We have ALIDE to thank for the results we are obtaining, for the Association made it possible for us to expand our horizons by sharing experiences with other development banks, in addition to having the honor of serving on the Executive Committee, which we have done with great responsibility and pride.

From the vantage point of BNF, we can testify to the fact that the Latin American Association of Development Financing Institutions (ALIDE) is a reality that is changing the course of development banking in Latin America and the Caribbean today.

Board of Directors of ALIDE meeting at the headquarters of the BNF in March 2017 in the city of Asunción, Paraguay, sharing the main topics of institutional interest and shares of the Banca de Development.

Photo: ALIDE.

Banco Hipotecario del Uruguay, with its active participation in various sectors on many occasions, has been a part of these first 50 years of ALIDE.
Photo: ALIDE.

Learning from the knowledge **and experience of the rest**

Ana Salveraglio

President
Banco Hipotecario del Uruguay (BHU)

Financial institutions in general and the development banking system in particular have a significant part to play in their countries' economic and social development. Therein lies the importance of the role played by ALIDE.

One of the specific missions of the region's development banking system is to help reduce the Latin American and Caribbean housing and infrastructure deficit.

The implementation of programs aiming to bring down the housing shortage by means of efficient and sustainable solutions plays an important part in the advances being made today. These have proven possible thanks to the support provided by the governments with new and innovative systems and practices that facilitate access to housing by middle and low-income families.

The region's economic and political stability over these years has been essential, as have the restructuring and modernizing of both the housing development programs and the participating institutions, among them the development banks and specialized finance, mortgage and housing institutions.

Despite the important institutional changes that have taken place in many countries, the housing deficit among the neediest sectors of the population is far from being resolved; what is needed is to build up the systems for financing the region's housing, in order to expand the supply of real estate and improve access to mortgage credit by the most vulnerable social sectors.

Banco Hipotecario del Uruguay, with its active participation in various sectors on many occasions, has been a part of these first 50 years of ALIDE.

We directors and executives have attended general assembly and committee meetings. We have presented works and published papers on subjects relating to housing, credit and savings.

We have also participated in ALIDE trainings, particularly in recent years, by taking advantage of the opportunities offered by the virtual platform. All of the courses proved to be of utmost value to the institution.

The element I consider most important at each meeting attended by representatives of development banks of the different Latin American and Caribbean countries are the exchanges among institutions. We all have similar histories and, in these venues, learn from the knowledge and experience of the rest what we can apply to our own particular cases.

Supporting economically sound projects in latin america

European Investment Bank (EIB)

The European Investment Bank (EIB) is the bank of the European Union. Created in 1958 by the Treaty of Rome, it operates in the EU Member States and another 150 countries.

In its activities in Latin America, EIB supports projects that contribute to economic development and acts in harmony with European Union foreign policy objectives and mandates, like the EU Global Strategy and the External Lending Mandate (ELM), as well as the Sustainable Agenda for 2030. The EIB started investing in Latin America in 1993 and since then has supported over 100 projects with total financing of 7,000 million Euros in 14 of the region's countries.

The European Union is the principal partner in Latin America's development, its foremost investor and its second most important trading partner. The European Investment Bank, as the bank of the EU, underpins EU relations with Latin America by financing projects that contribute to the accomplishment of European foreign policy objectives: economic, environmental and social infrastructure development, private sector development, and the mitigation of climate change and adaptation to its effects. The EIB supports projects in Latin America that are economically sound by facilitating long-term financings granted on attractive terms and providing support with its technical know-how for projects that center on helping guarantee positive environmental, social and economic impacts.

Most financing operations in Latin America are carried out within the context of the External Lending Mandate that supports the above-cited European policy objectives. At present, the External Lending Mandate provides for up to 2,700 million euros in EIB financing over the 2014-2020 period. The EIB can also expand its financing in the framework of the Instrument for Environment and Climate Action or of the Instrument for Strategic Projects.

The EIB started investing in Latin America in 1993 and since then has supported over 100 projects with total financing of 7,000 million Euros in 14 of the region's countries.

The EIB collaborates with the region's development banks to implement projects via co-financing agreements and also facilitates financing through direct loans, the so-called 'framework loans.' In that way, the EU facilitates access by the region's development banks to the liquidity they need to carry out strategic projects in advantageous financial terms.

Our key objective in Latin America has traditionally been to support private sector projects in the areas of telecommunications, transportation and energy. But our strategy has evolved with a view to covering both the public and private sectors. At the same time, the EU bank devotes a significant portion of its activities in Latin America to supporting investment projects that would help mitigate climate change and adjust to its effects, particularly in the transportation and energy sectors.

Throughout this course of development and in the organization of all of the Forums of the Ibero-American Guarantee Systems over its almost 20 year, ALIDE was always present with its unconditional support.

50th anniversary of alide:
ALIDE and Regar

Pablo Pombo

Secretary General
Ibero-American Guarantee Network (Regar)

A financial institution is said to be consolidated when 25 years have elapsed since its founding. In that sense, it should be said that ALIDE has gone far beyond this vital institutional paradigm.

To reach that point, it is necessary to have firmly-grounded institutional values of effort, work well done and commitment and loyalty to the institution. That is the legacy, among others, that Rommel Acevedo left the institution in the past 20 years.

The Ibero-American Guarantee Network (Regar) is one of the institutions that have enjoyed and felt the impact of ALIDE's institutional support in its development and that, like others, have been able to progress thanks to it.

Regar, in the course of the Valladolid and Burgos (Spain) International Seminars, assumed the collective commitment, together with other Latin American, Spanish and Portuguese institutions, to boost an initiative toward mutual knowledge, identification of best practices and sharing of experiences and information about the Ibero-American guarantee systems and institutions starting in 1998.

That was the origin of the Ibero-American Guarantee Network, which from the very beginning enjoyed ALIDE's warmth and support that it has continued to enjoy in its successive stages of institutional strengthening up until its entry in the Registry of Ibero-American Networks of the Ibero-American General Secretariat (Segib) in 2011 and subsequent establishment as a non-profit association in 2017.

Throughout this course of development and in the organization of all of the Forums of the Ibero-American Guarantee Systems over its almost 20 year, ALIDE was always present with its unconditional support.

But not only in the Ibero-American Forum; it has also served as an example of the close cooperation between the two as reflected in the joint publication in 2008 of The Ibero-American Guarantee Systems: Experiences and recent developments. That collective work, with a prologue written by Dr. Enrique Iglesias, collects the institutional experiences of the various Ibero-American guarantee systems, as perceived by the very actors themselves, some of them being particularly important from the perspective of the individual guarantee institution. The publication reflects the noteworthy growth of the Latin American guarantee systems.

Those isolated details confirm the impossibility, in this common course, of imagining a Regar without ALIDE. For that reason, our appreciation and gratitude go to the Association.

It is now fitting to celebrate this fiftieth anniversary and to wish ALIDE an excellent showing, which gives promise of being highly successful in this new and important stage, with new directors and new aims.

Sequence of events in the life of the association

Traveler, your footprints and nothing more are the path;
Traveler, there is no path, it is made by walking.
By walking, the path is made, and in looking back,
one can see the path that will never be trod again.
Traveler, there is no path, just trails in the sea.

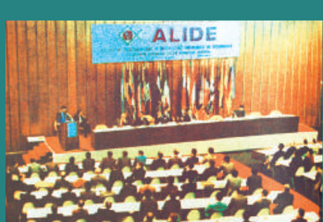
Fragment taken from Proverbios y cantares (XXIX)
Antonio Machado (Spain, 1875-1939)

1964

- The First Latin American meeting of development financing institutions is convened by the IDB in Washington, D.C. from November 30 to December 2. The Peruvian delegation proposes the creation of an organization that would unite the public and private development institutions of the Bank's Latin American member countries.

1968

- ALIDE is established on January 24 in Washington, D.C. The Founding Act is signed definitively or «ad referendum» by the representatives of 36 finance institutions of 16 Latin American countries.



1969

- ALIDE holds its First Regular Meeting of the General Assembly in Guatemala.

1970

- ALIDE's first Secretary General, Dr. Ricardo Palma-Valderrama, is appointed at the Eighth Meeting of the Executive Committee.

1971

- Cooperation with the Organization of American States (OAS) is formalized.
- ALIDE's first Latin American Contest is convened.

1972

- Cooperative consultancy relations are established with the United Nations Conference on Trade and Development (UNCTAD).

1974

- The Immunities and Privileges Agreement is signed between the Peruvian government and ALIDE.
- Consultative relations are formalized between ALIDE and UNIDO.

1975

- The African Association of Development Finance Institutions (Aadfi) is created with ALIDE's support.
- ALIDE acquires consultative status in the United Nations through the Economic and Social Council.

1976

- Visit of the first Financial Mission of Arab countries at the invitation of ALIDE with the support of the Spanish Instituto de Crédito Oficial (ICO) and Aresbank, the Arab-Spanish Bank.
- The Studies and Technical Cooperation Service is set up.
- The Network of National Coordinators is institutionalized.
- The organizational structure of the General Secretariat is established.
- A cooperation agreement is signed with the government of the Federal Republic of Germany in connection with the training system for technical personnel of development financing institutions.

1977

- The first steps are taken to secure ALIDE's collaboration in creating the Association of Development Finance Institutions of the Arab Countries.
- The Arab Latin American Bank (Arlabank) is established with ALIDE's active participation, and its headquarters are set up in Lima, Peru.

1978

- The Advisory Council is created, made up of former ALIDE presidents and a small number of eminent persons.
- A Technical – Economic Cooperation Agreement is signed with the Organization of American States (OAS) for the main purpose of upgrading loan services.

1979

- The World Federation of Development Financing Institutions (WFDFI) is established by international organizations representing the development finance institutions of Africa, Latin America, and Asia and European institutions involved in development.
- The ALIDE Information Network, Rialide, is created to serve as a mechanism for the collection, location and exchange of information.
- ALIDE's institutional headquarters are inaugurated in the financial center of Lima, Peru.

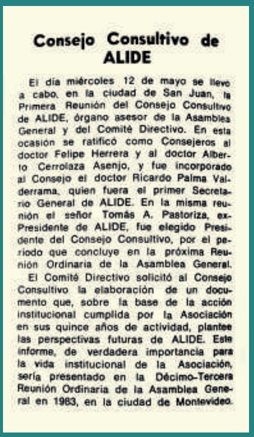
- ALIDE signs a Cooperation Agreement with the United Nations Conference on Trade and Development (UNCTAD).

1981

- A feasibility study is prepared for the creation of the Latin American Bank of the Construction Industry (BLIC).

1982

- The PAS/ALIDE Fund is created to serve as a financial support mechanism for the In-Service Training Program by permitting greater use of the training opportunities offered by ALIDE.
- ALIDE's Advisory Council --the advisory body to the General Assembly and the Executive Committee-- holds its First Meeting in Puerto Rico.



Consejo Consultivo de ALIDE

El día miércoles 12 de mayo se llevo a cabo, en la ciudad de San Juan, la Primera Reunión del Consejo Consultivo de ALIDE, órgano asesor de la Asamblea General y del Comité Directivo. En esta ocasión se ratificó como Consejeros al doctor Felipe Herrera y al doctor Alberto Cerrolaza Asenjo, y fue incorporado al Consejo el doctor Ricardo Palma Valderrama, quien fuera el primer Secretario General de ALIDE. En la misma reunión el señor Tomás A. Pastoriza, ex-Presidente de ALIDE, fue elegido Presidente del Consejo Consultivo, por el período que concluye en la próxima Reunión Ordinaria de la Asamblea General.

El Comité Directivo solicitó al Consejo Consultivo la elaboración de un documento que, sobre la base de la acción institucional cumplida por la Asociación en sus quince años de actividad, plantee las perspectivas futuras de ALIDE. Este informe, de verdadera importancia para la vida institucional de la Asociación, sería presentado en la Décimo-Tercera Reunión Ordinaria de la Asamblea General en 1983, en la ciudad de Montevideo.

1986

- The Heads of the Economics Studies Departments of the ALIDE Member institutions hold their First Meeting.

1989

- ALIDE signs a cooperation and coordination agreement with the Latin American Integration Association (Aladi) for the purpose of supporting the regional integration process.

1995

- The Banco Nacional de Desarrollo Agrícola (Bandesa) Restructuring Project is launched to enable the bank to work on market terms, but with a social orientation.

1998

- ALIDE's official website is launched.

1999

- The Strategic Plan document containing the collected results of a study of the needs and critical areas for self-evaluation is presented, proposing the updating of ALIDE's purpose and agreeing.

- ALIDE's General Secretariat is reorganized.

2003

- The First issue of ALIDE's online Electronic Bulletin, designed to promote the dissemination of and participation in the principal activities and initiatives of ALIDE and its Member institutions, is published.

2006

- In its seminar «Latin American Financing and the Role of the Development Banks,» held in Belo Horizonte, Brazil, ALIDE convenes Nobel prizewinners for Economics, Joseph Stiglitz and Douglass North and prestigious economist John Williamson, who inspired the «Washington Consensus».

- ALIDE becomes the first international organization to obtain ISO 9001 Quality Certification.

2007

- ALIDE's E-Learning distance training portal is created as a platform specialized in online training in development banking, management and financial issues.

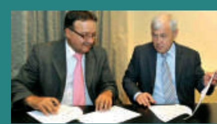
2008

- The ALIDE Prize for the Best Practices of Latin American and Caribbean Development Finance Institutions is instituted.
- The Virtual Library is created as a platform with a content specializing in development banking.

2009

- ALIDE's E-learning Portal is recognized in the American Society of Association Executives' (ASAE) Making a Better World Contest.

2012



Asia-Pacific Economic Cooperation

- ALIDE is incorporated in 2011 as a collaborating international institution of the Advisory Group on APEC Financial System Capacity Building, a public-private initiative within the sphere of Asia-Pacific Economic Cooperation (APEC).
- ALIDE signs a Cooperation Agreement with the Association of Regional Banks of Russia (ARBR).

2013

- ALIDE signs a protocol agreement with the French Development Agency (AFD) for the purpose of offering collaboration in the areas of sustainable urban development, education and professional training, private sector development, regional integration, reduction of poverty, and everything else with a strong social content.

2016

Banco Europeo de Inversiones

- The European Investment Bank (EIB) joins ALIDE as an associate member.
- Mr. Edgardo Alvarez Chávez is appointed ALIDE's new Secretary General.

2017

- ALIDE's Strategic plan for 2017-2022 and new communication strategy for building up, modernizing and changing the Association's institutional image and media for its dissemination are presented.

PRESENT

After over a century of development banks in Latin America and the Caribbean, what institutions do we find ourselves with today?

They push you into the playing field without asking whether you want to enter.

As if it were not enough, as goalie; an entire life covering holes.

And if you are able to cover one, they fling themselves on the ground and charge you a penalty.

«Brindis por Pierrot»

Jaime Roos (Uruguay, 1953)

Fernando Calloia

Former President of ALIDE in 2012-2014

Former President of Banco de la República Oriental del Uruguay (BROU)

State institutions in the financial sector

Over a 100 years have passed since the first development banks started operating in Latin America and the Caribbean (LAC), and despite the time that has elapsed and the duration of their actions, the very grounds for the existence of this kind of state-owned institutions in the financial sector continues to be an issue for heated discussion.

The crux of the problem lies in the existence or not of market failures that justify state intervention in LAC financial markets. In addition, if inefficiencies are detected, direct state ownership of financial institutions can mitigate their adverse effects for the benefit of all people's wellbeing.

Inasmuch as this discussion questions essential aspects of the political economy, such as the efficiency of the markets in allocating resources and, particularly, that of the financial markets, it carries implicit within it a great ideological burden that makes it difficult to compare hypotheses with historical reality and keeps different, overwhelmingly ideological, visions from leading to a scientific interpretation.

On the other hand, even admitting the existence of market failures, discussion of whether the state's intervention should be carried out through its direct ownership of financial institutions or, on the contrary, through adequate regulation and/or by recruiting private agents to fulfill those purposes remains pending.

Over these 100 years, development banks have produced grounds for or against their action, arguments that have altered over time, sometimes as a result of the successful or failed performance of those institutions; and others, because of the emergence of financial demands in response to changes in the economic situation or due to the adoption of different models by economic policy makers.

Above and beyond this entire discussion, there is a relative consensus that today LAC has mature development banks with good economic and financial performances and experience and a credit history that constitute unbeatable capital for the efforts of the region's financial systems.

Over this long course, ALIDE, which is celebrating its first 50 years, has played and continues to play an untransferrable role in the discussion and dissemination of the principal tasks incumbent upon development banks, as well as in the contribution of those institutions to the region's economic and social development.

This section is divided into three major parts: the first presents an overview of the different stages through which the development banks passed from their appearance to the present day. The second updates the grounds for the state's intervention in the financial sector and then continues to seek, in the third, to answer the question regarding whether LAC's present development banks are equipped to confront the challenge of contributing decisively to the region's economic and social development.

1

Overview of the different stages through which development banks passed from their appearance to the present day

a) The first development banks in Latin America and the Caribbean

The origin of the development banks in LAC dates back to the nineteenth century, when they emerged under different names: banks, land banks or development institutions, to attract savings and boost the output of the various economic sectors by providing money and credit, activities that at that time were monopolized by foreign-owned banks in the context of the existence of the gold standard that prevailed during the nineteenth century.

The first wave of banks with development functions to appear in LAC consisted of Banco do Brasil (1808), Banco de la Provincia de Buenos Aires (1822), Banco de la Nación Argentina (1891) and Banco de la República Oriental del Uruguay (1896). These were banks that, in addition to their commercial activities, had a mandate to promote the economic and social development of their respective countries. The main credit instruments used at the time were, aside from government financing, the discounting of commercial paper --transactional funding and short-term financing-- industrial development loans for small industrial companies and pawnshops where families could obtain money by pawning their belongings.

Toward the end of the nineteenth century a new form of bank credit began to emerge, different from the discounting of commercial paper, which consisted of advancing funds to industry or to agriculture to finance the production process or investment needed for the growth of production. This is a significant qualitative change, for it signified a movement away from the financing of commercial transactions, generally of large foreign corporations, toward the financing of local production and investment, a modality that called for closer familiarity with the customer and his/its production process. This transformation of banking activity offered fertile ground for the emergence of what we know today as development banking, an activity that aims to promote production, medium and long-term financing and broaden the customer base.

b) The Great Crisis and the first «pure» development banks[1]

Moving into the twentieth century and after the crisis of 1929 had discredited to some extent neoclassical liberal thinking and the beginning of Keynesian heterodoxy, new theoretical arguments were created and developed to favor active state presence in addressing economic problems.

In time, the first studies of Latin American economic development made their appearance under the influence of the thinking of Raúl Prebisch and of the Economic Commission for Latin America and the Caribbean (ECLAC). These emphasized spurring investment in industrial and infrastructure projects, maintaining high levels of protection and the active presence of the state in addressing economic problems. In the area of finance, the foundations were laid for the existence of strict control of the financial sector, the creation of non-bank financial institutions was obstructed and theories were advanced regarding the need to reduce interest rates as a way to promote national saving and full employment.[2]

It was in that context that the first experiences of «pure» development banks were seen, with an exclusive mandate to promote economic growth by financing specific sectors, unlike banks that also carried out commercial activities. Those experiences took as their reference the pioneering and successful creation, in

1 "Pure" development banks are those whose exclusive mandate is to promote socioeconomic development by financing specific sectors, while the remaining development banks carry out important activities or programs with development aims, in addition to their commercial activity. See Inter-American Development Bank (IDB). (2013) Bancos Públicos de Desarrollo ¿Hacia un nuevo Paradigma? Washington, D.C.: IDB.

2 It is interesting to note that Raúl Prebisch, the intellectual father of ECLA and of Latin American structuralism, was one of the economists who originally popularized Keynesian economics in Latin America and the Caribbean. In his book, Introducción a Keynes, he devoted several chapters to the behavior of the interest rate. In this work, Prebisch contended that government intervention to control interest rates accelerates growth. He later pointed out that the lowest interest rates promote saving and that the government should bring interest rates down to a level that would produce full employment.

1939, of Chile's Corporación de Fomento y Reconstrucción (Corfo), an institution designed to channel funds toward sectors considered to be of key importance for economic development.

The following, among others, emerged in this second wave of development banks: Nacional Financiera in Mexico (Nafin, 1934), Banco Industrial del Perú (1933), Instituto de Fomento Industrial of Colombia (1940), Argentina's Banco de Crédito Industrial (1944), Corporación Venezolana de Fomento (1946), Banco Nacional de Desarrollo Económico y Social of Brazil[3] (Bndes, 1952), Banco del Estado de Chile[4] (1953), and subsequently the regional development banks like the IDB (1959) and CAF (1968).

The basic aim of these new development banks was to furnish capital on a long-term basis for industrial and infrastructure business ventures that would, in some way, offset the incipient development of Latin American capital markets.

From 1930 to 1960, 132 development banks were established in Latin America and the Caribbean --36 institutions between 1930 and 1940, 51 between 1940 and 1950 and 45 between 1950 and 1960--raising the development banks' share of total banking assets to 64% in 1970[5].

c) The development banks faced with the liberalizing paradigm

The exhaustion of the import substitution model was followed by a period of slow economic growth. This was tied in with the deterioration of the terms of trade and the inability of industry to accede to foreign markets, as demonstrated by successive balance of payment crises, the emergence of inflation and a process of financial disintermediation. All of these worked together to prompt the emergence of a neoliberal model and the return to the market's role of resource allocator.

The new paradigm, which claimed that the market produces efficient results --in other words, that no other organization of production or consumption could increase a person's satisfaction without reducing that of another-- carried implicit within it a series of market reforms: liberalization and deregulation of the markets, privatization of public enterprises, and external opening via unilateral tariff reduction. In the financial area, local financial markets were liberalized, regulations were eliminated or relaxed and, as part of the process of state resizing and market liberalization, development banks started closing their doors or being privatized.

3 The appearance of BNDES was the result of a solution found by the government of Getulio Vargas to the problem of long-term non-inflationary financing in cruzeiros demanded by the World Bank. The institution was created from the proceeds of a 15% addition to personal and corporate income tax collections, together with other resources. See M. Rougier. (2011). La banca de desarrollo en América Latina. Luces y sombras en la industrialización de la región. Buenos Aires: FCE.

4 In 1855, when no banks were operating in Chile, Caja de Crédito Hipotecario opened its doors. Over the following years, Caja de Ahorros de Santiago, Caja de Crédito Agrario and Instituto de Crédito Industrial were set up in 1928, as institutions offering loans and taking deposits from people and companies. On July 24, 1953, Caja de Crédito Hipotecario, Caja Nacional de Ahorros, Caja de Crédito Agrario and Instituto de Crédito Industrial celebrated a merger agreement giving birth to Banco del Estado de Chile, now BancoEstado.

5 See Marcelo Rougier, op. cit., 2011.

To the prevailing way of thinking at the time, development banks failed to comply with their essential objective of promoting development, sustaining heavy economic losses or being in continuous need of recapitalization. In the words of the World Bank «Whatever their original objectives, ownership of the banks by the state tended to obstruct development of the financial sector, thereby slowing growth.»[6]

It is estimated that as a result of that process, between 1987 and 2003, 250 development banks were privatized at the global level for a total amount of US$ 143,000 million. Meanwhile, in LAC, with the closing of some institutions and the cut in mandate of others, the public banks' share of total banking assets dropped from 64% in 1970 to 40% in 1995.[7]

d) Development banks in the twenty-first century

With the advent of the new century, signs could be seen of a growing demand for a new model in LAC, given that the results of neoliberal practice were poorer than expected, leading to deeply-rooted financial and banking crises with a huge cost to society.[8] Bear in mind that in those years, LAC set the unfortunate record of being the region with the largest average number of banking crises per country.

In that way, the need for prudent macroeconomic management with a social vocation, associated with a new way of coordinating relations between state and market, together with the necessary prudential banking regulation and supervision as an essential element for preventing financial-banking crises, began to make itself felt.

In that framework, the role of development banks was redefined with the relaxation of several aspects of the neoliberal model that had been a hallmark of the region's economic policies since the seventies. The new role assigned to the development banks was grounded in the complementarity between those institutions and the private banking system in areas with obvious market failures.

In the words of the IDB: «State intervention was framed within the prescription of institutional economic theories that admitted that public intervention could be beneficial under certain conditions, particularly when it complemented or facilitated the activities of the private sector or did so in a cost-effective manner.» [9]

6 World Bank (IBRD), Finance for growth, choices in a volatile world, 2001.

7 Inter-American Development Bank (IDB). (2004). Desencadenar el crédito, cómo ampliar y estabilizar la banca; capítulo 11, ¿Debe participar el gobierno en el sector bancario?, p. 161. IDB.

8 According to the World Bank, 112 banking crises took place in 93 countries between 1977 and 2000.

9 IDB, op. cit., 2013.

The World Bank recently claimed in that same vein: «Now that the world seeks funding with which to reach the Sustainable Development Goals (SDG),[10] development banks can perform a decisive function in reducing that gap. In fact, they can help convene the private sector and serve as pillars in partnerships between the public and private sectors, particularly for infrastructure financing.»[11]

Under this new paradigm, development banks have reacted so dynamically and effectively that their assets have shown above market average growth, together with a significant improvement in economic-financial sustainability. Particularly noteworthy are the cost-effectiveness of their financing of key areas like SME credit, long-term financing and the promotion of environmentally sustainable projects, together with their decisive contribution to the region's financial inclusion process.

2

Grounds for state intervention in the financial sector

After long and profound discussions, the grounds for justifying the state's intervention in the financial system may be summarized today into four major groups, as follows: first, to cover market failures stemming from the existence of information asymmetries in MSME credit; second, to contribute to financing capital-intensive projects that are slow to mature and/or have positive externalities; third, to compensate for private institutions' lack of interest in operating in isolated areas without a sufficient minimum scale or with very low income; and fourth, to perform a countercyclical function in responding to unfavorable external shocks.

a) Cover market failures stemming from the existence of information asymmetries in MSME credit

The grounds most commonly used to justify the presence of the state in the financial sector have to do with the existence of market failures that keep (rural, industrial and commercial) MSMEs from acceding to credit in adequate or market conditions. In the case that concerns us, we are referring to both micro and small and medium enterprises (MSMEs) that are underserved by the financial system for two major reasons: on the part of the enterprises, because they do not possess the required --or verifiable-- information for proper credit assessment, and for their poor or nonexistent credit history that makes it impossible to value the capacity and willingness of the enterprise to honor its obligations. On the part of the financial intermediaries, the difficulty in making service to this economic segment profitable because of the high transaction cost of making small loans available, because of the difficulty of evaluating the enterprises' capacity for payment and, in addition, because adequate collateral to back the requested financing does not exist.

10 The Sustainable Development Goals (SDG), also known as Global Goals, are a universal call to take measures to put an end to poverty, protect the planet and guarantee that all people enjoy peace and prosperity. Those 17 goals are based on the Millennium Development Goals, but also include new areas like climate change, economic inequality, innovation, sustainable consumption and peace and justice, among other priorities. The goals are interrelated; frequently, the key to the success of one will involve the quests most frequently linked to another. Inherent to the SDGs is a spirit of collaboration and pragmatism for choosing the best options for the sustainable improvement of the lives of future generations. They offer guidance and clearly defined goals for all countries in keeping with their own priorities and the environmental challenges of the world in general.

11 World Bank (IBRD), ¿Una nueva función para los bancos de desarrollo?, Pazarbasioglu, Ceyla; Voces, May 2017.

It should be noted that the twenty-first century arrived accompanied by the Basel Agreements, with the consequent change in bank supervision and regulation that led to the modification of the financial institutions' risk assessment and mitigation process. Inasmuch as the identification and gauging of credit risks depend on the information that is obtained from the customers and the market, the less complete and precise it is, the greater the difficulty in measuring and valuing the credit risk, with adverse consequences for the institutions insofar as the establishment of allowances for non-collection is concerned. Furthermore, once the information has been obtained, the cost of its evaluation is complex and expensive and even more so in the case of small loans; to this we must add the very uncertainty regarding the future performance of the customer and of the economy.

Inasmuch as the new regulation demands that financial institutions apply a growing amount of capital as risky assets pile up, the existence of asymmetrical information and uncertainty over the future performance of customers and the market make it a rational decision for financial institutions not to participate in markets with relatively greater risks or, instead, to charge high interest rates that would more than cover the risk of an inaccurate rating of the customers or to demand a guarantee that would cover the requested loan several times over. Whatever the alternative chosen, we would necessarily reach a credit rationing in which customers that could be served based on their real capacity to meet their obligations would be unable to obtain their needed financing or would obtain it on unsuitable terms.

In this connection, it could be affirmed that the region's financial markets are deeply fragmented: the corporate market --that of large enterprises-- and people with considerable purchasing power, is competitive, with appropriate interest rates and terms of access. At the same time, both MSMEs and persons with middle and low incomes find their access to credit heavily restricted, as to both terms and guarantees and interest rates which, in some cases, could be considered abusive.[12]

In the case of MSMEs, which account for 50% of employment,[13] we find enterprises that are highly informal, with little information --in many cases, information that cannot be audited--, and with a weak credit record. Because of their size, the cost of analyzing their loans, which are relatively small, make their financing relatively uninteresting and for that reason they are the group that suffers the most from the rationing of formal financial market credit.

As a result, the existence of incomplete information that is difficult to verify by MSMEs, and the high evaluation and transaction costs on the part of financial intermediaries lead financial institutions to neglect to serve this business segment, leaving an important field of action open to development banks.

Available information reveals that in LAC, 47% of the SMEs have loans granted by financial institutions, compared with 54% of the middle-sized and 68% of the large enterprises.[14]

It should be stressed, as well, that development banks and domestic financial institutions enjoy comparative advantages for operating in the MSME market because of their experience in serving that market and for having built up a credit record over long decades that limits their credit risk compared with large foreign banks whose headquarters are abroad and their management systems centralized, that would be unlikely to be interested in penetrating a market they are unfamiliar with and, even less, in investing time and money to produce pertinent information for providing credit service to that business segment.

Below are some examples referring to the development of innovative financial products by development banks serving MSMEs that are indicative of the decisive contribution made by those institutions to facilitating the access of that business segment to credit.[15]

Service to family agriculture

- The **Programa de Convenios para el Financiamiento de la Agricultura Familiar** (Program of Agreements to Finance Family Agriculture), of Brazil's Banco Regional de Desenvolvimento do Extremo Sul (BRDE), aims to make the financing of family farmers without access to credit viable by means of cooperation agreements with rural production and credit cooperatives and large purchasers of the output of family agriculture

- Banco do Brasil's **BB Convivir** (Living Together) **Program** consists of agreements with rural savings banks, cooperatives and foundations. The bank transfers the resources and the enterprises or cooperatives share the credit risk, as a way to promote and step up the development of inclusion by decentralizing loans.

- The **Agroamigo** (Agricultural Friend) **Microfinance Program** of Banco do Nordeste de Brasil adapts urban microfinance methodology to the rural

12 By way of example, in October 2017, in Uruguay, with annual inflation on the order of 6%, the average annual local currency interest rates surveyed by the Central Bank reached the following values: for large companies 14%, for small businesses 23% and for microenterprises 28%, and for families (without any payroll discount) a whopping 92%. See: http://www.bcu.gub.uy/Servicios-Financieros-SSF/Paginas/Tasas-Medias.aspx

13 See Iglesias, Enrique. (2010). Una banca más eficiente y cercana en América Latina, Felaban.

14 See, CAF-Development Bank of Latin America. (2011). Servicios financieros para el desarrollo, promoviendo el acceso en América Latina. Bogota, Colombia, p. 126.

15 See Latin American Association of Development Financing Institutions (ALIDE), "La banca de desarrollo y la creación de productos para la inclusión financiera," ALIDE, 2014.

sector. It is based on customer service by a specialized professional, use of appropriate methodology for rural microcredit activities, promotion and service at the farmers' workplace, systematic monitoring in the rural community itself, identification of the customers' financial needs and guidance in transforming subsistence farming into sustainable agriculture.

- The **Rural Microcredit Program** of Colombia's Finagro was set up in 2005 using resources taken from different projects. The funds received are handed over to microfinance institutions specialized in microcredit that are responsible for selecting and evaluating the beneficiaries, investing the resources and their recovery.

The crux of the problem lies in the existence or not of market failures that justify state intervention in LAC financial markets.

MSME

- The purpose of Banco de la Nación de Perú's **Servicio Ventanillas para Mypes Urbanas y Rurales** (Windows for Urban and Rural MISEs) is to support the development of micro and small urban and rural enterprises in the country's most distant districts where the Bank provides the only banking services.
- The **Criatec Fund** of Brazil's Bndes aims to develop innovative micro and small businesses with a growth capacity based on technological development attained through shareholdings in those enterprises.
- Banco do Brasil's **Tarjeta Pronaf** (Pronaf Card) is intended for use by both the producers of the National Family Agriculture Program (Pronaf) and business farmers. This debit card can be used for purchases of machinery, equipment, fertilizer and materials needed for production purposes.
- The **Bndes Card,** created in 2003 by Banco Nacional de Desenvolvimento Econômico e Social de Brasil, is a revolving credit line maintained through a credit card for the purchase of products from suppliers accredited by the bank.
- The **Mi Crédito** (My Credit) Program of República Microfinanzas, S. A., belonging to Banco de la República Oriental del Uruguay (BROU), started operating in 2009 for the purpose of boosting the development of microbusinessmen and sectors not served by the traditional banking system.
- The **Promesa Program** of Provincia Microempresas, S. A., of Buenos Aires, Argentina, grants financing to thousands of people who do not qualify for it in the traditional banking system.

Available information reveals that in LAC, 47% of the SMEs have loans granted by financial institutions, compared with 54% of the middle-sized and 68% of the large enterprises.

- The **Servicio de Banca Electrónica** (Electronic Banking Service) of Colombia's Bancoldex is intended to simplify the application for funds in order to guarantee that the disbursements to businessmen are well-timed.

- The **Tabla de Negocios Mype** (SME Business Table) of Corporación Financiera de Desarrollo (Cofide), Peru's second floor bank, offers entrepreneurial management tools that support ventures and their inclusion in the formal economic sector, via trainings.

- The **Centros de Desarrollo Tecnológico** (CDT) (Technological Development Centers), of Fideicomisos Instituidos en Relación con la Agricultura (FIRA)-Banco de México, are technological service units made up of several production units that are operated under a single management. Equipped with land, machinery, facilities and other means, they provide demonstration, training, technical advice and specialized information services that make it possible to improve the skills and competitiveness of small and medium producers, suppliers of consulting services and operational personnel of financial intermediaries.

Production chains and regional development

- The **Programa de cadenas productivas** (Production chains program) operated by Mexico's Nafin is an integral program of packaged products designed for the development of MSME suppliers of large enterprises, units or institutions of the federal, state or municipal governments.

- The **Programa para el Desarrollo Regional y Sectorial (Proder)** (Program for Regional and Sector Development), of Banco de la Nación Argentina, supports projects with a high social impact and regional economies by helping people become qualified credit recipients.

Programas de garantías

- **Guarantee programs** have spread throughout the entire region. As a result, the **Progape** program of Banco de Desarrollo de El Salvador, and the **Programa de Garantías de Crédito Precios Diferenciados** (Credit Guarantee Program at Differentiated Prices), of Mexico's FIRA, offer guarantees for microenterprise risk management that benefit farmers, students, microbusinessmen, transporters and other rural activities.

- Financiera Rural de México's **Fondos Mutuales de Garantías Líquidas** (Mutual Funds with Liquid Guarantees) combine subsidies and credit to improve and

Development banks have taken steps in that direction, to such an extent that lately they have mobilized almost one-half of the region's climate resources.
Photo: BNDES.

build up mechanisms for access to financing, preferably in strategic sectors, as well to develop new credit recipients.

- Furthermore, the **Programa de Garantías para Pymes** (Guarantee Program for SMEs), of Mexican Nacional Financiera (Nafin), provides backing for the operations of financial intermediaries with SMEs by covering up to 70% in the case of financings for fixed assets, and 50% for working capital.

- The **Sistema Nacional de Garantías (**National Guarantee System), a product of the Uruguayan Corporación Nacional de Desarrollo (CND), operates by granting guarantees to give SMEs better access to financing.

Sustainable development

- Banco do Brasil's **Estrategia de Negocios de Desarrollo Regional Sustentable** (Sustainable Regional Development Business Strategy) seeks to promote sustainable, inclusive and participatory job creation and income generation, considering local economic, social, environmental, institutional, political and cultural characteristics. Its basic principle is that the business be economically viable, socially just and environmentally correct and consider cultural diversity.

- The aim of the **EcoCasa** (EcoHouse) **Program** of Sociedad Hipotecaria Federal de México is to help fight climate change by providing financing for the construction of accessible dwellings low in carbon emissions, thereby reducing family energy consumption and expenditure and reducing greenhouse gas emissions.

- The **Cofigas Program** is a financial product of Peru's Cofide that is intended to finance the conversion of light vehicles (taxis, private cars), public transportation units and heavy transportation units to the use of natural gas (VNG), in that way ensuring greater energy efficiency through a saving of up to 60% compared with traditional consumption.

First conclusion:

Faced by the rationing of credit to MISMEs by the traditional financial system, the intervention of development banks is essential to facilitate those enterprises' access to credit under terms appropriate to market characteristics. In that way, without purposely intending to do so, it helps resolve information asymmetries by producing verifiable information about MISME capacity and willingness to honor financial obligations. LAC development banks have developed a wide range of financial products --innovative, latest generation and cost-effective-- that contribute decisively to the fulfillment of that function.

b) Cover market failures deriving from the existence of information asymmetries in financing capital-intensive projects, ones that are slow to mature and/or ones with positive externalities.

Information asymmetries affect not only SMEs, but also large investment projects that are capital-intensive, slow to mature and/or rest on intangible assets and have positive externalities.

In fact, inasmuch as one of the hallmarks of the private Latin American banking market of this century is the orientation of credit almost exclusively toward the large enterprise, short-term, corporate market and toward financing family consumption, both production loans and medium and long-term financing have been neglected.[16]

The business model adopted by private banks in this new context is geared toward consumer financing with its attractive interest rates and scattering of risk and short-term corporate financing, also relatively low-risk and with interesting service fees.

As a result, in the absence of a developed capital market and with very little participation by pension funds in private lending, long-term investment credit has remained restricted to development banks and external financing sources to which very few companies accede.

Bear in mind that LAC capital markets are incipient, concentrated in a very few enterprises and show signs of large-scale illiquidity. The capitalization of the private and public fixed income bond market, for its part, amounts to 40%, but

16 «While bank credit has expanded, it is biased more in favor of consumer than of production financing. Access to long-term financing (of either households, enterprises or infrastructure) continues to be a problem.» «In fact, there is a widespread perception among policy-makers in the region that the banking system has become overly concentrated in financing consumption more than production.» See World Bank (IBRD). (2012). El desarrollo financiero en América Latina y el Caribe: El camino por delante.

three-quarters are concentrated in public bonds, with the result that bank loans to the private sector continue to be the main source of economic financing, accounting for 33% of the region's GDP.[17]

In the meantime, pension funds, one of whose functions is to finance private and infrastructure investment, have not yet achieved their aims, concentrating their loans in public paper, as well. Both regulatory limitations and the absence of financial instruments possessing an attractive balance between profitability and risk have limited the application of funds to productive and infrastructure investment, despite the existence of a broad project offering in different sectors and activities.

It so happens, then, that long-term bank credit has the responsibility of being almost the only available source of long-term corporate financing. The lack of interest of the traditional banking system in financing large, capital-intensive projects that are slow to mature, therefore, is contradictory to public economic and social development objectives.

Furthermore, in addition to the known market failures relative to the high cost of obtaining verifiable information and of evaluating the available information, the additional uncertainty over any long-term investment contributes to discouraging long-term financing. If we add to the former the fact that each customer represents a sizeable percentage of the bank's equity, then the conclusion to be reached is that the private banking system will be hard put to have the necessary incentives for considering large-scale, long-terms projects with positive externalities.

The new prudential regulations and their impact on exacerbating banks' aversion to risks in regard to financing available investment projects are another element to be highlighted. The limits on long-term financing and the establishment of additional provisions to cover future uncertainty in investment financing are only two of the elements that tend to restrict the financing of attractive and profitable projects.

To conclude, there is general agreement on the economic theory that market failures exist that «ruin the idyllic notion of perfect competition,»[18] as in the existence of positive externalities. In the case that concerns us, we refer to insufficient financing for socially attractive investment projects that are passed over by private financial intermediaries because their evaluation considers only the internal rate of return in relation to the risks.

The Agroamigo (Agricultural Friend) Microfinance Program of Banco do Nordeste de Brasil adapts urban microfinance methodology to the rural sector.

Photo: BNB.

17 See CAF, op. cit., 2011, p. 64.

18 Samuelson, P. & Nordhaus, W. (1993). Economía, McGraw-Hill, p. 356.

So it is that development banks, in addition to their traditional function, have incorporated successful experiences in helping to finance projects of social interest together with the private financial system, in some cases assuming the cost of obtaining truthful and verifiable information, or of creating guarantee funds. With the reduction in information asymmetry, they are able to reveal the existing opportunities by creating a «project market», encouraging co-financing and increasing the incentives for participating in financing ventures of that kind.

In accepting the important role of development banks in investment financing, we must not overlook the fact that as development institutions their actions are closely linked to sustainability from the viewpoint of the environment and adaptation to climate change. The inclusion of this factor in project evaluation, although it does make approval more expensive and difficult, is one more reason for justifying the importance of development banks in Latin America's financial situation.

Second conclusion:

In the absence of a developed capital market and faced by meager participation by pension funds in financing productive investment and the lack of interest on the part of private financial institutions in assuming the risks implicit in long-term investment projects, development banks continue to be the basic source of long-term financing in the region. That fact alone would justify the state's intervention in that market. If we were to add to this the positive externalities of projects with significant social returns and those that make environmental development sustainable in the region, the presence of development banks would become essential both for the integral financing of those projects and, through financings with the private investment system, by encouraging the participation of those institutions in financing capital-intensive projects that are slow to mature and have positive social, as well as environmental, externalities.

c) Offset the lack of interest of private institutions in acting in isolated areas without a sufficient minimum scale or with very low incomes.

Countless documents have surfaced lately that refer to the state's necessary intervention in the financial system in order to bring financial services into closer contact with the people living in isolated areas, in places that don't offer the minimum scale to make the installation of financial intermediaries profitable or in areas with very low-income inhabitants. Inasmuch as the private banking system will be hard put to provide services in those areas because of the low returns on investment, the state's presence is justified on the basis of the positive externalities that are produced, above all in production as well as in the reduction of poverty. Some analysts go even further, considering that access to financial services is a right and that the state should make an effort to guarantee their universal provision.

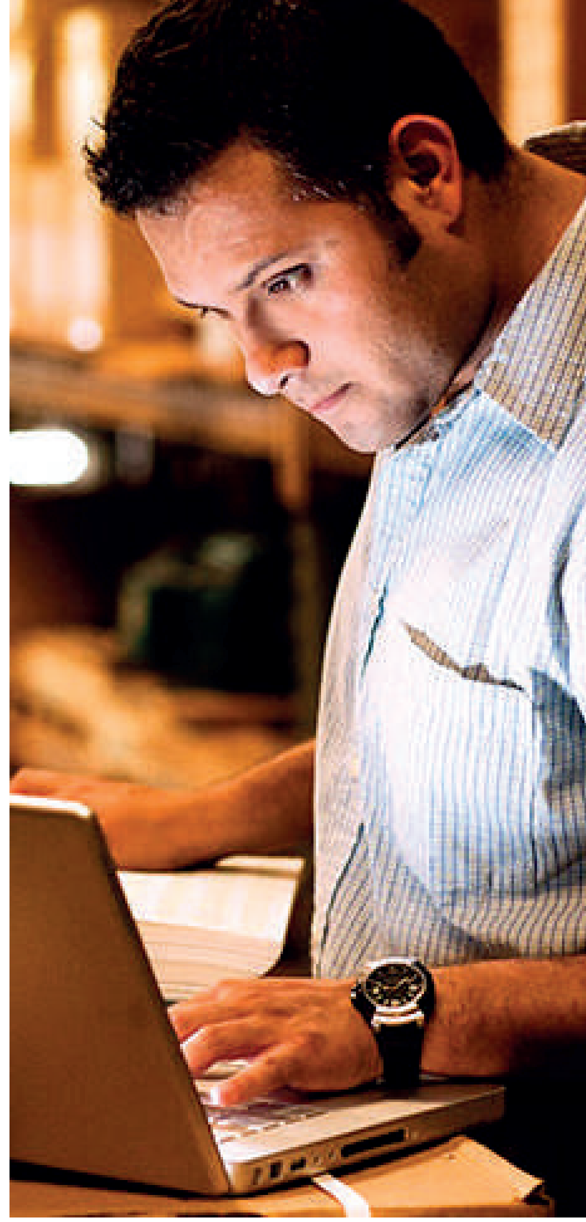
There are a series of indicators that reveal that financial inclusion in LAC is below the world average. A classic indicator refers to the percentage of people over the age of 15 who have bank accounts in formal financial institutions. In the case of LAC, 40% of the population over the age of 15 have bank accounts (with a range between 14 and 56%, according to the country), compared with a world average of 50% and a maximum in the OECD countries of 90%. Although there have been a series of innovative experiences lately in moving toward the objective of reaching greater financial inclusion, these have not had a decisive impact on the region's financial market. The challenge is, therefore, to create innovative low-cost products that are able to satisfy the needs of this customer segment in cost-effective conditions.

This opens up a huge field for action by LAC development banks that is in perfect harmony with their mission. In this connection, financial inclusion is not viewed as an additional social policy but, on the contrary, as part of a program of productive and social insertion covering both transactions and the financing of investment, production and consumption.[19]

Although it has been claimed that both regulation and subsidies are able to facilitate private financial development in areas of no great economic interest, experience indicates that private financial institutions, with the exception of enterprises specialized in microfinance, are not effective in penetrating low-income sectors, rural zones or areas with low population density.

In that way, a relative consensus has progressively taken shape regarding the role of public development banks in performing that function. Along that same line, the IDB maintains that state intervention should be favored in order to «promote financial development and furnish banking services that are accessible to residents in isolated areas,»[20] while the CAF affirms that « it is necessary to recognize that public banking can, on occasion, exercise basic leadership in developing those new market segments as to both penetration and the creation of new products.» [21]

Insofar as regulation is concerned, the use of financial and non-financial correspondents has become general practice among financial institutions. These



The Programa de cadenas productivas (Production chains program) operated by Mexico's Nafin is an integral program of packaged products designed for the development of MSME suppliers of large enterprises, units or institutions of the federal, state or municipal governments.
Photo: Nafin.

19 See Titelman, Daniel (Ecla). (2012). "Innovación financiera para la inclusión: desafíos de la banca de desarrollo", ALIDE, 42th Regular Meeting of the ALIDE General Assembly, Quito, Ecuador.

20 See IDB, op. cit., 2005, p. 163.

21 See CAF, op. cit., 2011, p. 297.

offer services similar to those of banks, but without having to cover the steep costs of setting up a bank branch and do not engender such a strong feeling of rejection on the part of low-income earners.[22] On the other hand, money laundering controls frequently make access to the formal financial system difficult because of the very amount of information needed to open a bank account.

At the same time, it is stressed that the new technologies have contributed decisively to facilitating the universal provision of those services. Nonetheless, inasmuch as financial innovation oriented toward covering those zones can be viewed as a public good, --that is, a situation in which private financial institutions will not invest enough because they cannot appropriate all of the benefits produced by their action and, if they are able to do so, it will be by using collusive practices that point to obvious inefficiency in resource allocation-- this creates a huge field for the action of development banks. Those institutions will be responsible for furthering financial innovation processes that will enable them to act in a cost-efficient manner in those markets, thereby contributing to the wellbeing of a significant percentage of the LAC population.

Inasmuch as the results of development banking action in isolated areas, without a sufficient minimum scale or with very low incomes, have not been duly quantified, it is impossible to bring relevant quantitative information to bear on the subject. Even so, a description of the array of financial innovation instruments that development banks have implemented to fulfill that mission reflect the significance of their action in the regional context.[23] In describing the various products innovated by development banks, the relevant role played by ALIDE must be given particular emphasis.

Service in isolated zones

- The **Banca Rural Móvil** (Mobile Rural Banking) project is a service channel offered by Banco de la Nación de Perú. It is a travelling platform that provides banking services in keeping with the needs of people in places in the Peruvian territory that are difficult to reach and isolated (such as, for example, inhabitants on the banks of the Putumayo River). To that end, the bank has established partnerships with institutions that allow for and facilitate access to the locality, such as the Armed Forces of Peru, the National Police and the Regional Government, among others. Through Mobile Rural Banking, distant localities without any banks are reached over highways and/or trails. In order to make their banking services available to the people, the program operates in Sunday fairs or patron Saint's Day celebrations where the inhabitants sell their

22 It was learned in a qualitative study of microentrepreneurs in Uruguay that they feel emotionally estranged from the banking system. They do not perceive that it has products or services to offer them. The banking system, then, is viewed as a system that functions only for those who do not need any money: "For people with money, for people who don't need it. » «The bank helps you if you don't need it." "You have to have money to apply for a loan, then if you have money and don't need anything... then they will lend it to you." See Encuesta cualitativa de microempresarios, BROU, 2007.

23 http://www.alide.org/publicaciones2014.asp See ALIDE, op. cit., 2014

products. The Mobile Rural Banking river program reaches distant Amazon localities across the Putumayo and Amazonas River Basins, through a strategic alliance with Peru's Navy.

LAC development banks have developed a wide range of financial products --innovative, latest generation and cost-effective-- that contribute decisively to the fulfillment of that function.

- Banco del Ahorro Nacional y Servicios Financieros (Bansefi), of Mexico, through its **Programa de apoyo para fomentar la inclusión y el fortalecimiento del sector de ahorro y crédito popular y cooperativo** (Support program for promoting the inclusion and strengthening of the people's savings and loan and cooperative sector), offers financial services mainly to the needy population, to people living in distant or hard-to-reach localities where no formal financial intermediaries and beneficiaries of social programs are present.

- The **CajaVecina** (Neighboring Bank) product of Chile's BancoEstado aims to reach each of the country's municipalities, assumes the mission of crossing boundaries and pioneering bank use. Its goal was «to reach places where others do not», ease «inequality» and improve the people's quality of life.

- The objective of the **Oficina Virtual** (Virtual Office) put into operation by Banco Nacional de Costa Rica (BNCR) is to expand the bank's coverage and financial deepening with executives who are able to establish secure connections with systems lodged in one of the bank's servers and in that way carry the «Bank closer to its customers.»

- The concept of **Corresponsales No Bancarios** (CNB) (Non-Banking Correspondents) was originally a highly successful model in Brazil, Peru, Colombia and Mexico, and later spread across the entire region, bearing financial services into closer contact with the lowest income segments and those living in very distant places.

- The **Programa Inclusivo de Desarrollo Empresarial Rural** (Prider) (Inclusive Rural Business Development Program), implemented by Corporación Financiera de Desarrollo, S. A. (Cofide), of Peru, is designed to improve the living conditions of poor families in rural areas through their efficient and sustainable inclusion in the market.

Other programs

- Banco Ciudad de Buenos Aires, Argentina's **Programa Ciudad Social** (Social City Program) targets sectors with a smaller purchasing power and provides them with microcredits to help them buy low-cost housing or a lot plus sole

Bansefi, of Mexico, through its Programa de apoyo para fomentar la inclusión y el fortalecimiento del sector de ahorro y crédito popular y cooperativo, offers financial services mainly to the needy population.
Photo: Bansefi.

family home for permanent occupation in the city of Buenos Aires and the greater Buenos Aires area.

- The **Caixa Aqui** (Bank Here) product was developed by Brazil's Caixa Económica Federal (CEF). This is a system of correspondents in commercial establishments with a membership approaching 30,000.

- **Conta Popular** (People's Account) and **Conta Caixa Facil** (Easy Account Bank) are products of Banco do Brasil and CEF for creating simplified bank accounts.

- The **Programa Tarjeta Social** (Social Card Program) of Banco de la Nación Argentina involved the nationwide bankarizing of beneficiaries of social plans. That context merited creating and organizing massive operations for the delivery of debit cards and offering training and communication elements in keeping with the targeted sector.

- The **Fondo de Garantía para Estudiantes (Foneduca)** (Guarantee Fund for Students) of Banco de Desarrollo de El Salvador (Bandesal) offers supplementary guarantees to intermediaries in an amount of up to 90% of the value of study loans for young people with few resources.

- The **Programa de equidad de género** (Gender equality program) of Mexico's Banco del Ahorro Nacional y Servicios Financieros (Bansefi) created products for women by institutionalizing a gender approach in planning processes. The objective was for the institution to carry out affirmative actions that would contribute to women's empowerment.

Third conclusion:

Providing financial services to residents of isolated zones, in localities without the necessary minimum scale or in zones of low-income inhabitants creates positive externalities over both the production activity and in reducing poverty. This function is so important that some analysts consider that access to these services are a right that should be duly guaranteed. The difficulty of the private financial system in deciding to provide services with little or no profitability justifies the state's presence in guaranteeing such services. Inasmuch as both regulation and subsidies can be instruments that contribute to that aim, experience has shown that public development banks are the most effective tool for penetrating low-income segments, rural zones or those with little population density.

d) Performance of a countercyclical function in the face of unfavorable external shocks

Photo: Banco República Oriental del Uruguay (BROU).

The countercyclical function of LAC development banks has been a hallmark of those institutions from the very beginning. Toward the year 2005, the IDB maintained that «loans from private banks could elicit an overreaction to recessions and expand the economic cycle. [...] Hence, managers of public banks that absorb the benefits of increasing credit during recessions could play a highly important role in softening credit cycles.»[24]

Prior to the crisis of 2008, analysts had foreseen the possibility of its occurrence, but no one expected a crisis at the very center of a globalized world with information technologies that linked up markets with the speed of light. So it was that the bankruptcy of Lehman Brothers in September 2008 set off a worldwide panic that froze stock and credit markets even more rapidly than the crisis of 1929.

Faced by the global crisis, Latin American stock markets fell and government securities lost half of their value in a matter of weeks. Meanwhile, the Latin American commercial banking system --with headquarters offshore and centralized management -- immediately felt the impact of the Lehman crisis because of the scandal over the rescue or the largest U.S. bank (Citicorp), which was an important and active commercial bank in many of the region's countries, among other reasons. As a result, the commercial bank credit market suffered a freeze and later began to shrink at the decision of many foreign commercial banks to demand repayment of their loans.

All available information indicates that, faced by the crisis of 2008, national and foreign banking systems in LAC performed very differently. While domestic banking slowed credit growth but kept it positive on the order of 3% a year, foreign banking abruptly reduced its loans by something over 10% in 2008.[25] The conclusion to be reached, considering that foreign banks held approximately two-thirds of the countries' total local credit,[26] is that the procyclical behavior of those foreign markets in 2008 was a decisive element in producing the region's economic instability. The reasons for that behavior can be found in the offshore location of their headquarters and the lower outflow costs, as well as the more rapid reduction of operations in local markets in the face of shocks in their countries of origin.[27]

In that context, development banks demonstrated the full extent of their potential and efficiency by stabilizing the credit supply when private banks withdrew funds from the market. In almost all of the LAC countries, countercyclical

24 See IDB, op. cit., 2005, p. 167.

25 See Rojas-Suárez, L., Banca doméstica y banca extranjera en América Latina: ¿Roles diferentes en la estabilidad financiera y el crecimiento económico? SEGIB, Madrid, 2009.

26 See IDB, op. cit., 2005.

27 See IDB, op. cit., 2005, Capítulo X, Banca extranjera, ¿qué gana el país anfitrión?

policies were implemented with active development bank involvement.[28] By way of example, it can be said that in Brazil, Banco Nacional de Desenvolvimiento Econômico e Social (Bndes), Caixa Económica Federal (CEF) and Banco do Brasil acted decisively to expand the credit supply. The strongest measure was approved in February 2009, when the government made an additional US$ 45,000 million available to Bndes to expand its corporate loans. In Mexico, both Nacional Financiera, S.N.C. (Nafin), and Banco Nacional de Comercio Exterior, S.N.C. (Bancomext), made additional resources amounting to thousands of millions of dollars available to SMEs, as did other institutions like Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero (FND), Banco Nacional de Obras y Servicios Públicos, S.N.C. (Banobras) and Instituto del Fondo Nacional de la Vivienda para los Trabajadores (Infonavit). Guarantee programs were given injections of more than US$ 1,000 million to incentivize loans to SMEs by the commercial banking system. In Chile, the state channeled funds through Corfo for SMEs whose respective credit lines had been affected, broadening the coverage of bank loans to exporters and Fondo de Garantía de Inversiones (Fogain). In addition, BancoEstado was authorized to make an extraordinary recapitalization. Similar measures were taken in the other Latin American economies with the active participation of development banks in their implementation.

This efficient countercyclical performance demolished several of the criticisms levelled against development banks in recent decades. In the first place, it was shown that public banking credit is less procyclical than that of private banking, and that development banks therefore efficiently perform their function of softening the economic cycle. In the second, that the effectiveness of development banks in performing countercyclically is in direct proportion to their size and their status of ground floor bank. The doubt over whether it is better to correct this market failure via subsidies and regulation or through the state's ownership of this kind of institution is surmounted. It was demonstrated that in reality, when credit tightens, guarantees, subsidies and regulations lag behind the event, making them completely ineffective in resolving the problem of credit stability. Only the first floor and large-scale development banks were able to partially offset the contraction phases of policies restricting local credit implemented by foreign-owned private banks. In the third, if, as the World Bank claims, «the discipline of the market can fail thunderously and paradoxically, even more so in the terrain of the sophisticated and well-informed agents,»[29] the presence of development banks offers a huge potential for supporting the region's stable socioeconomic development.

28 See ALIDE, "Papel contracíclico de la banca de desarrollo y áreas estratégicas de actuación", ALIDE, 2010

29 «The crisis… showed that apparent macroeconomic stability … can contribute to unsustainable financial development. It also demonstrated that market discipline can fail resoundingly and, paradoxically, even more so in the land of sophisticated and well-informed agents. […] The crisis provided evidence that with financial development, market discipline can, actually, be reduced, rather than stepped up. The crisis also showed that the supervisory program inspired on Basel suffered from major defects, inasmuch as the soundness of the parts does not guarantee the soundness of the whole. It demonstrated that the links between financial stability and financial development are far more complex than had been believed. Lastly, the crisis prompted the appearance of red flags regarding policies that seek to enhance financial access too aggressively. It demonstrated that important tensions can be created between financial inclusion (by way of example, the impetus to make all families owners of their own homes) and financial sustainability.» See World Bank (IBRD), "El desarrollo financiero en América Latina y el Caribe. El camino por delante," 1. Visión General, Washington, 2012.

Fourth conclusion:

Today a consensus exists regarding the important countercyclical role played by development banks, after the experience following the international financial crisis of 2008. The greater stability of development bank credit compared with that of the other financial intermediaries during moments of crisis, like the «resounding failure of market discipline» to resolve the problems stemming from procyclical economic behavior, has been clearly demonstrated. Elements also emerged that made it possible to conclude that the state's direct presence in the ownership of development banks is more effective than hiring private agents to fulfill that function, and that the effectiveness of development banks during moments of crisis is directly tied in with their relative size and with their operation as «first floor» banks.

3

Are the development banks of Latin America and the Caribbean equipped to confront the challenge of contributing decisively to the region's economic and social development in a cost-effective way?

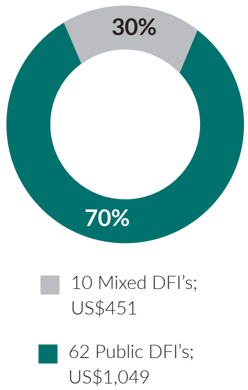
The performance of development banks over their entire history has been both positive and negative, generally in association with the region's economic behavior: in the early stages, with its modernization, by laudably fulfilling their mission of economic stabilization and development through the introduction of money and credit with remarkable efficiency. And later, with the «accelerated internal industrialization,» as Prebisch identified that historical period, by contributing decisively to the profound economic and social transformation. And with the stagnation and successive financial and balance of payment crises, «as goalie; covering holes his entire life,» in the words of Jaime Roos, which led to its deterioration and the consequent cut in and privatization of a sizeable portion of the LAC development banks.

Today, having successfully weathered the international financial crisis of 2008, development banks have experienced a particularly vigorous rebirth at the level of both financial theory and its practice in Latin America.

We have seen how, at the theoretical level, the new paradigm assigns a «decisive function» to development banks in reducing the gap toward achieving the Sustainable Development Goals. In that new framework, we have examined the justification for the state's intervention in the financial system and enumerated a significant set of instruments used by development banks in accomplishing their mission in a cost-effective way.

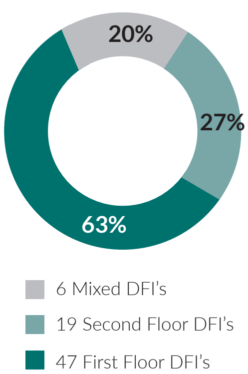
DFI Ownership (%)

(Number of institutions, Ownership, Thousand Millions and Percentage)



DFI Operating Modality (%)

(Number of Institutions, operating modality and percentage)



Obviously, addressing asymmetries in information about micro, small and medium enterprises cannot be an action aimed at obtaining negligible earnings. Nor can inclusive programs for isolated zones. Nor, of course, can financing long-term projects with strong social and economic externalities. Even so, theorists advocating «market discipline» do not cease to claim that «public banking... tends, on average, to perform commercially worse than private banking.»[30]

It is clear today that development banks face the challenge of complying with the mandate to contribute to sustainable economic and social development, while attaining their financial sustainability --in other words, without incurring undesired fiscal costs or affecting credit markets negatively.

That premise, which is so simple to define in theory, can, however, weaken compliance with the development banks' mission. The existence of pressure in favor of financial sustainability tends to induce development banks to turn away from their mandate and imitate private banks in their behavior of maximizing profits. As the IDB affirms, «the presence of profitable public banks can be more indicative of the failure of the incentive mechanism than of its success.»[31]

The importance of development financing institutions in Latin America and the Caribbean

According to information available in ALIDE, the 72 development banks surveyed in 19 countries together own more than US$1.5 billion (2016) in assets, representing over 28% of the region's GDP.

Within that total, 62 are fully publicly-owned and account for 70% of the assets and 79% of the institutions. The remaining 10 development banks are mixed and of those Banco do Brasil possesses US$430,000 million, or 9% of that category.

Almost two-thirds of the institutions operate as "first floor" banks with assets that account for 63% of the total.

They are followed in importance by the "mixed" institutions (six development banks) that hold 20% of the assets and, lastly, those that operate exclusively as "second floor" institutions, which include 19 development banks with 6.8% of the assets.

A breakdown by sector orientation reveals: 51 development banks with assets amounting to 92% of the total have a "multisector" orientation, compared with 4% that are dedicated to infrastructure and housing, 2% that focus on agriculture and the remaining 1% that targets foreign trade.

30 See CAF, op. cit., 2011, p. 289.

31 See IDB, op. cit., 2005, p. 164.

Recently there has been a trend toward a "multisector" orientation in an effort to mitigate credit risk, as in the case of Banco de Desarrollo de El Salvador, Banco Agrario and Banco de Comercio Exterior of Colombia, Corporación Financiera Nacional of Ecuador and Banco de Desarrollo Productivo of Bolivia.

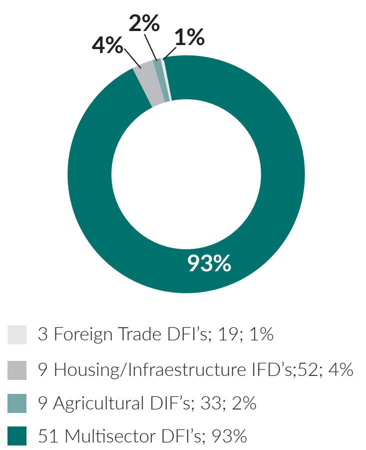
The structure of development banks by size indicates that 59 development banks (82%) own assets of less than US$10,000 million, or barely 11.1% of the total. On the other hand, the assets of only 13 development banks account for the remaining 92%. Foremost among the latter are 3 Brazilian development banks with over US$300,000 million each, followed by four institutions, one each from Chile, Argentina, Mexico and Brazil, that have assets totaling US$30,000 to US$50,000 million.

The first thing that emerges when the significance of development banks by country is studied in relation to their per capita product is the positive relationship that exists between development banks and economic development. Countries with a low per capita product have few development banks, while in the case of those with medium or high per capita products, the shares of development banks can be seen to be growing.

Only three countries with a very high development bank participation in per capita GDP fail to comply with the above-cited trend, namely: El Salvador with a medium-to-low per capita product and development banking assets on the order of 19% and Costa Rica and Brazil which, with a medium-to-high per capita products show the highest development banking values in terms of their GDPs.

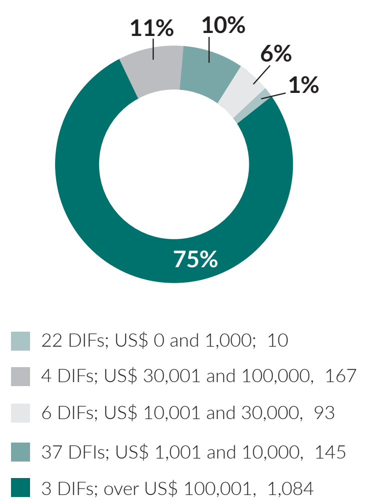
DFI Sector Orientation

(Number of institutions, Sector Orientation, Thousand Millions and Percentage)



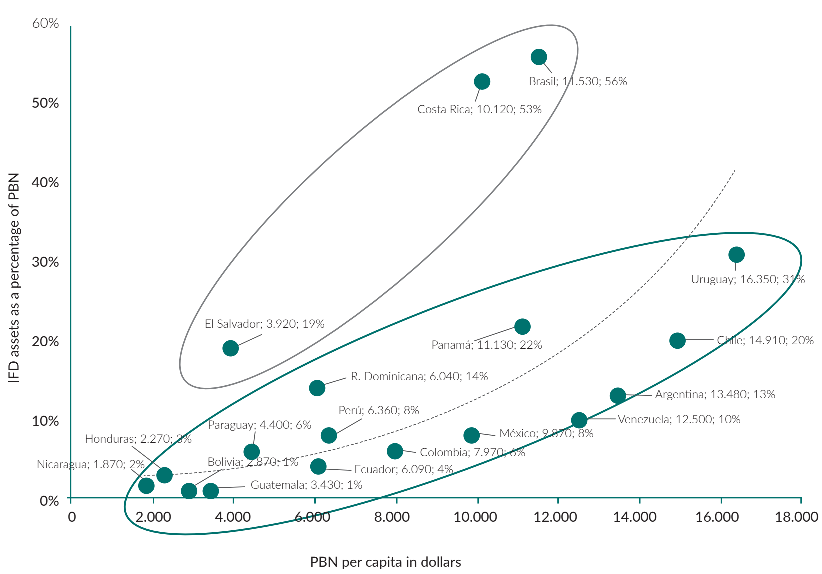
DFI Size by Assets

(Number of institutions, Size, Thousands of Millions and Percentage)

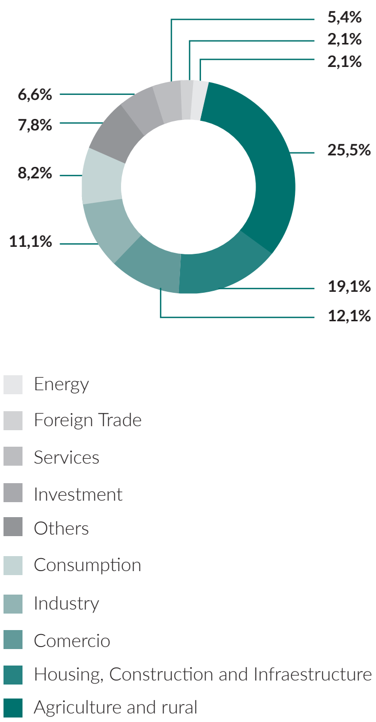


GDP per capita and IFD assets in PBN

(Country, Billions of dollars and % DFI/PBN) – 2014



Latin American and Caribbean DFIs : Loan Portfolio Sector Distribution (%)



In the case of the four relatively less developed countries with a per capita product of less than US$3,500, development banks are so few and far between that their total assets represent barely 1.6% of GDP.

The group of seven countries with a mid-range per capita product --between US$4,000 and US$10,000-- , show signs of greater DFI activity which, measured in terms of their assets as compared with GDP, average 8%.

Lastly, in the eight countries with a per capita product of more than U$S 10,000, the assets of their development banks represent 41% of GDP. There are two countries within that subgroup (Costa Rica and Brazil), whose development banks have a share of over 50% of GDP.

Sustainability of the public development banking system

LAC development banks are institutions with sound equity. Their creditworthiness (ratio of equity to assets) averages 9.7%, with high levels in the smallest institutions, most of whose funding comes from capitalizing public resources. On the other hand, relatively larger development banks that turn more to the financial market to obtain the funds they need for their activities, reveal lower --though adequate-- creditworthiness levels.

Number of DFIs with assets between:		Assets	Portfolio	Equity	Profit	Credit-worthiness	ROE	Delinquency
0 and US$1,000	22	9 655	5 013	2 391	120	24,8	11,1	4,3
1,001 and US$10,000	37	145 977	94 045	30 083	2 189	20,6	11,0	3,5
10,001 and US$ 30,000	6	92 842	45 169	6 392	592	6,9	8,0	2,4
30,001 and US$100,000	4	167 402	76 637	31 088	1 960	18,6	10,3	0,9
Over US$ 100,001	3	1 084 319	611 471	75 055	6 010	6,9	7,0	1,2
TOTAL	**72**	**1 500 195**	**832 335**	**145 009**	**10 871**	**9,7**	**9,5**	**2,5**

Development banks are also profitable institutions. The average return on investment (ROE) obtained in 2016 by the development banks as a whole, of 9.5%, is more than acceptable for institutions with those characteristics. If their profitability is compared with the size of the development banks, we can see that they are profitable, no matter what their size.

Only four institutions showed losses in 2016, amounting to barely 1% of total assets, compared with 27 that had positive returns of up to 6%, 16 whose profitability was between 6% and 12%, and 25 that obtained rates of more than 12%.

They are also dynamic institutions. Following the crisis of 2001/2002, LAC development banks showed a notable growth in assets. Dollar-wise, development bank assets rose from US$ 300,000 million in 2002 to US$1,500,195 million in 2016, which is reportedly equivalent to an annual growth rate of 16%.

Fifth conclusion:

The 72 LAC development banks studied have a series of identifying hallmarks: most are publicly-owned and they generally operate as "first floor" banks with a multisector orientation. Over three-quarters have less than U$S10,000 million in assets. They are highly dynamic enterprises with a very sound equity --particularly in the case of the smaller banks-- and generally earn an adequate profit, which explains their economic and financial sustainability in fulfilling their mandate.

a) Fulfillment of the development banking mandate

It is not easy to measure the performance of development banks in terms of their mandate because little statistical information is available and cannot be systematically organized.

Very little can be said about some indicators that reveal the activity of the banks as development institutions: loan portfolio structure by type of customer and loan sector orientation.[32] No aggregate data are available about the number of customers by micro, small or medium enterprise, number of customers served in isolated zones, use of the long-term financings and other variables indicative of the fulfillment of development bank mandates.

We will start off by pointing out that loan allocation by sector of activity is directly tied in with Latin America's economic situation. As a result, the largest

32 See ALIDE Database, op. cit., 2016

percentage of credit goes to the agricultural sector (25.5%), followed by housing, construction and infrastructure with 19.1%, trade with 12.1%, industry with 11.1%, and consumption with 8.2%.

As is to be expected, most of the loans involve medium and long-term financing, which is also a basic function of institutions of this kind. In 2016, 62% of the development banks' loan portfolio consisted of medium and long-term loans.

In the case of credit by type of enterprise, attention should be drawn to their vocation for financing SMEs (39%) and microenterprises (20%), an aspect that is directly associated with their mission.

In that connection, the microenterprise portfolio of nine specialized institutions associated with development banks --for which information is available--, reveals the direct service given to something over five million microentrepreneurs, while two million additional customers are reached indirectly, through funding or guarantees.[33]

The network of agencies and branches, for its part, is impressive. Through the operation of 78,850 banking windows, development banks are also able to bring their activity into proximity with almost the entire region.

Sixth conclusion:

The available information permits us to adduce that LAC development banks are orienting their efforts towards fulfilling their mission. Credit is directed largely toward financing sectors that are underserved by the traditional banking system, such as MISMEs and items in which commercial banking is markedly uninterested, like family agriculture. Most of the financing is arranged for on a medium or long-term basis to cover investment needs. Furthermore, the extensive network of operating windows --almost 80,000-- speak to us of actions seeking to reach both customers in large cities and those in isolated zones that have problems acceding to banking services.

b) By way of conclusion

The region's development banks, after passing through periods of optimism and of disenchantment over their long history, have resurged with renewed vigor in the twenty-first century, as a key public policy instrument for reducing the gap and reaching the Sustainable Development Goals (SDGs): «a universal call for the adoption of measures to put an end to poverty, protect the planet and ensure that all people enjoy peace and prosperity.»

33 See ALIDE Database, op. cit., 2016

This has proven possible thanks to their important role in covering market failures by lending to MISMEs and financing capital-intensive projects, as well as offsetting the lack of interest on the part of private institutions in acting in isolated zones. Their essential countercyclical role in the face of unfavorable external shocks has also been demonstrated.

The CajaVecina (Neighboring Bank) product of Chile's BancoEstado aims to reach each of the country's municipalities, assumes the mission of crossing boundaries and pioneering bank use.

Photo: BancoEstado.

This renewed interest was also associated with the significant improvement in economic – financial performance, after the difficulties they faced at times of serious macroeconomic imbalances in the Latin American countries.

Today the region possesses a series of development banks with strong economic – financial management, that are profitable, have an enviably sound equity and, basically, a geographic distribution and an experience and record in credit activities in the region that make them irreplaceable.

They exercised basic leadership in the development of new instruments and innovative programs for acting in isolated zones and for serving SMEs --some of them described in a previous chapter-- in a cost-effective manner. They also made effective use of the emergence of new players in that market, such as financial and non-financial correspondents that offer services similar to those of banks, but without having to cope with the high cost of setting up new branch offices.

On the other hand, and although the pressure brought to bear for financial sustainability could have induced them to turn away from their mandate to imitate private banks in their dealings, available indicators reveal a performance that is in line with their mission by tending to cover credit market failures, promote financial inclusion, and fulfill a countercyclical function in the face of unfavorable external shocks. Although no aggregate statistical data exists

Principal DFI Indicators for Latin America and the Caribbean by Country

Millions of dollars – 2014

Country	DFI	Development Financing Institutions (DFIs)							Population (million)	Gross Product	Per capita GDP in U.S. dollars	DFI Assets in GDP	Per capita DFI assets
		Assets	Portfolio	Equity	Profit	Delinquency	Creditworthiness	ROE					
Nicaragua	1	172	47	117	11	0.8%	67.7%	9.6%	6.0	11,300	1,870	2%	29
Honduras	2	573	468	312	16	8.4%	54.4%	5.1%	8.0	18,100	2,270	3%	72
Bolivia	1	309	227	70	4	0.0%	22.7%	5.9%	10.6	30,300	2,870	1%	29
Guatemala	1	414	152	27	1	15.7%	6.5%	4.8%	16.0	55	3,430	1%	26
Low per capita GDP	5	1,468	893	525	32	6.2%	35.8%	6.2%	40.6	114,700	2,825	1%	36
El Salvador	3	4,502	2,032	1,493	119	4.3%	33.2%	8.0%	6.1	23,900	3,920	19%	738
Paraguay	3	1,719	805	368	40	3.7%	21.4%	11.0%	6.6	28,800	4,400	6%	260
Dominican Republic	3	8,785	5,559	802	172	0.9%	9.1%	21.4%	10.4	62,900	6,040	14%	845
Ecuador	3	3,622	2,040	996	80	17.6%	27.5%	8.1%	15.9	96,800	6,090	4%	228
Peru	4	16,633	6,783	2,738	315	1.7%	16.5%	11.5%	31.0	196,900	6,360	8%	537
Colombia	7	23,238	13,498	3,131	96	4.5%	13.5%	3.1%	47.8	381,000	7,970	6%	486
Mexico	7	104,489	50,859	10,419	589	5.3%	10.0%	5.7%	125.4	1,237,500	9,870	8%	833

Country	DFI	Development Financing Institutions (DFIs)							Population (million)	Gross Product	Per capita GDP in U.S. dollars	DFI Assets in GDP	Per capita DFI assets
		Assets	Portfolio	Equity	Profit	Delinquency	Creditworthiness	ROE					
Mid-range per capita GDP	30	162,988	81,576	19,947	1,413	5.4%	12.2%	7.1%	243.2	2,027,800	8,338	8%	670
Costa Rica	4	25,261	16,087	2,740	200	2.4%	10.8%	7.3%	4.8	48,100	10,120	53%	5,263
Panama	1	9,319	3,101	657	102	1.3%	7.0%	15.5%	3.9	43,100	11,130	22%	2,389
Brazil	8	1,326,766	792,217	103,284	11,884	1.8%	7.8%	11.5%	206.1	2,375,300	11,530	56%	66,437
Venezuela	4	38,910	3,950	5,378	747	5.0%	13.9%	13.9%	30.7	373,300	12,500	10%	1,267
Argentina	14	73,391	31,075	7,766	2,323	2.3%	10.6%	29.9%	43.0	579,200	13,480	13%	1,707
Chile	2	53,809	27,845	9,351	306	3.3%	17.4%	3.3%	17.8	264,800	14,910	20%	3,023
Uruguay	3	17,255	6,978	2,100	226	2.7%	12.2%	10.8%	3.4	55,900	16,350	31%	5,075
Puerto Rico	1	1,090	311	166	-		15.2%	0.0%	3.5	69,400	19,310	2%	311
High per capita GDP	37	1,545,801	881,564	131,441	15,787	2.7%	8.5%	12.0%	313.2	3,809,100	12,162	41%	4,936
Total	**72**	**1,710,257**	**964,033**	**151,914**	**17,232**	**4.1%**	**8.9%**	**11.3%**	**808.8**	**5,951,600**	**6,757**	**29%**	**1,942**

Among the persistent challenges are those concerning access to credit by MISMEs; the financial inclusion of poverty-stricken sectors and the boosting of microfinance.
Photo: World Bank.

with regard to performance in social dimensions difficult to quantify, those institutions assisted millions of customers in the most inaccessible regions of our America. Some actions even appear to be taken from the movie Fitzcarraldo,[34] such as the Mobile Rural Program of Banco de la Nación de Perú, which carries financial services closer to distant Amazon localities across the Putumayo and Amazonas River Basins in a strategic alliance with the Peruvian Navy.

Despite the notable progress already described, development banks face huge challenges in the twenty-first century. Some deal with elements that continue to exist from a distant past and others are the product of this century.

Among the persistent challenges are those concerning access to credit --in adequate conditions-- by MISMEs; the financial inclusion of poverty-stricken sectors and the boosting of microfinance; the supply of funds for financing long-term investments with positive externalities; and the performance of a countercyclical role at times of unfavorable external shocks.

Among the new challenges are new technologies and their impact on the actions of development banks, growing concern over financing that is sustainable in environmental terms and support for the improvement of infrastructure.

The new Information and Communication Technologies (ICTs) have had an impact on financial activities and will continue to do so, with even greater speed, over the next few years. They constitute a major challenge for development banks that is not free from threats. The challenge is to employ that technology to fulfill their mission with the most efficient use of their resources. The threats

34 Fitzcarraldo, a 1982 movie written and directed by Werner Herzog, and set in the nineteenth century. It tells the story of Fitzcarraldo who, obsessed with opera, wants to build a theater in Peru's Amazon jungle.

emerge from the new competitors, like financial technology companies known as fintechs, which offer financial services «that are bureaucracy-free, at better rates and with larger returns.» Are development banks preparing to operate in the new market? What will the banking practices of the future be like? Will banking units exist as we conceive them today? What priority will technological change have among the various activities that are carried out by development banks today? Will technology contribute to an improvement in financial inclusion or will it open up an even more profound gap between those who are included technologically and those who are not?.

Insofar as environmental sustainability is concerned, the tasks of development banks are viewed as being even more challenging. Past economic growth has offered telling proof that markets have been unable to properly handle the gap between private benefits and environmental balance. As a result, development banks have become one of the keys for protecting our planet from degradation in promoting sustainable management of natural resources and collaborating in facing up to climate change, as pointed out in the Sustainable Development Agenda for 2030.

Development banks have taken steps in that direction, to such an extent that lately they have mobilized almost one-half of the region's climate resources. In fact, some development banks have created «green» products like the EcoCasa Program or the Sustainable Regional Development Business Strategy, to name only a couple. It is equally necessary to continue deepening the activities of development banks in that direction in the immediate future. Are development banks preparing to take on that challenge? Which will the proper management model be for fulfilling that function? What areas should be strengthened and which will the most efficient products be for resolving that problem?

To conclude, infrastructure constitutes a central element toward attaining economic development and reducing poverty. According to Eclac, «it will be necessary to invest about 5.2% of the region's GDP every year (some 170,000 million dollars of the year 2000) in order to provide an answer to the needs of companies and final consumers in the region that will arise between 2006 and 2020.»[35] The characteristics of this type of large volume investment that is slow to mature demand the presence of institutions specialized in attracting private financial intermediaries interested in mobilizing resources for that purpose. Development banks have the prestige, experience and capacity to structure the financing of investments in infrastructure by sharing the financing with private finance institutions. Are they prepared to assume that function? Will they be capable of mobilizing the plentiful resources needed for that kind of investment?.

35 Eclac, La brecha de infraestructura en América Latina y el Caribe, Eclac Series, 2011.

FUTURE

Vision from the vantage points of regional financial organizations

When we least expect it, life raises a challenge that puts our courage and our will to change to the test.

Paulo Coelho (Brazil, 1947)

Juan Antonio Ketterer[1]

Head of the Connectivity, Markets and Finance Division

Inter-American Development Bank (IDB)

National development banking prospects: a new finance model

The national development banking (NDB) system has shown itself to be one of the most effective instruments for implementing a wide array of public policies aimed at Latin American and Caribbean productive, inclusive and sustainable development. This point was touched upon in depth in a previous article, published in the ALIDE magazine in the middle of last year[2]. That same document also contained a review of the areas for NDB intervention considered most important for the medium term. One of the conclusions presented there is that access to credit is one of the region's most important problems. Financing is scarce, expensive and short-term, to a greater or lesser degree, depending on the country in question. Based on that diagnosis, a series of recommendations are put forward on which sectors should be given the greatest priority for intervention by the region's NDB.

This work takes a different, yet complementary, approach. The focus will be placed not so much on what the future NDB should do (this was already taken up in the previous study), but, rather, on how it should be done. The

1 The opinions expressed in this publication are those of the author and do not necessarily reflect the viewpoint of the Inter-American Development Bank, its executive directors or the countries it represents.

2 Ketterer (2016). Available at: http://www.alide.org/download/Publicaciones/2016/revista16_2.pdf.

question of how rates vary highly in the ranking of priorities, for times are changing and new challenges are emerging on this dimension, as well. NDBs are facing an important structural challenge that is also affecting public policy-making in many of our region's countries. This is the glaring mismatch between the growing demand for investment with which to finance production programs and the dwindling supply of both public and private financing they are given. This gap in financing is producing a negative impact on productivity growth rates, with serious consequences for economic growth and development (OECD and IDB, 2016).

This problem has led public entities in the various countries and bilateral and multilateral development institutions[3] to reconsider the classic financing devices, which have shown themselves to be clearly insufficient, and to seek alternatives that would be capable of mobilizing more resources toward strategic sectors that lack investments today[4]. The following text claims that NDBs could not only serve as an instrumental vehicle for coaching this process of change in financing method, but could even go so far as to play a critical role in its implementation.

The traditional method of financing and the problem of the gap in financing

Traditionally, the productive investment programs considered to be of public interest and that the private sector did not finance (or financed insufficiently) were handled in their entirety by the public sector. The latter, in turn, drew upon private sector resources through a combination of taxes and borrowing. The greater part of the countries used that traditional financing system with relative success, or at least that was what was thought. The main advantage of that method is its simplicity, both conceptual and operational. The government assumes all of the risks and the private sector receives standardized public debt guaranteed by the full public equity, due to the pari passu clauses that appear in almost all issue prospectuses.

Nonetheless, the inadequacies of that system have come to light in recent years and its sustainability has begun to be questioned. Given most countries' levels of borrowing and the restrictive fiscal policies in which they have been engaged, the basic assumption that a large part of the productive investment that would be socially desirable could be directly covered by the public sector is no longer true. In addition, the macroeconomic situation in the region particularly affects productive investment using public resources, which leads the region to reduce capital spending in order to cope with current expenses (Cavallo and Serebrisky,

3 See, for example, From billions to trillions: Transforming Development Finance. Available at: http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002(E)FinancingforDevelopment.pdf.

4 Different exercises have been carried out by multilateral organizations as part of this initiative to correctly gauge the true leveraging of private resources mobilized through official development finance interventions. Examples of these works can be found in Benn et al. (2016) or Halvorson-Quevedo and Mirabile (2014).

2016). All of this is reflected in practice by the appearance of growing gaps in the provision of services and of infrastructure in multiple environments.

Those gaps, in turn, cause a delay in the growth of economic productivity, with highly negative consequences for national economic growth and development. Among the areas in which the shortage of investment and growing gap are most documented are those concerned with productive infrastructure and with investments associated with climate change. Most studies published on the subject reveal investment erosion figures that are extremely worrying[5].

Change in model

In order to cope with the situation described, it has become necessary to reconsider the model on which traditional finance was predicated. To that end, it has been necessary to analyze the reasons why projects have been unable to obtain the required financing. In the case of the public sector, we have determined that the problem lies in the lack of fiscal resources. When we examine why private parties fail to invest in given projects, on the other hand, the answer must be sought in the characteristics of the project's risk-return profile. In most cases, the conclusion reached is that the problem lies in the perception of a very high risk, an ignorance of the underlying technologies or the fact that that the expected project earnings are insufficient to compensate for the investment at the high discount rates in effect.

This line of reasoning immediately leads us to the idea of using public resources to modify the risk-return profile of the projects until they can be perceived as being bankable by the private sector. This is precisely the baseline for the new finance model: applying public resources to attract private sector investment --in other words, if in the previous model public resources were used mainly for direct project finance, in the new model, public resources are used basically to mobilize private funds. In that way, projects are financed under the new paradigm with a combination of public and private resources that seek to economize fiscal spending, while at the same time striving to maximize the total resources available for project finance.

Implementation of the new finance model

The resource mobilization concept based on the new model is extremely attractive from the conceptual viewpoint. But experience shows, however, that its practical

The focus will be placed not so much on what the future NDB should do (this was already taken up in the previous study), but, rather, on how it should be done.

5 Several studies conclude that the LAC region needs additional financing to cover infrastructure gaps equivalent to between 2.0% and 2.5% of GDP or, what is the same, some US$120,000 to US$150,000 million a year. If we consider the additional financing needs to fight climate change and promote sustainable infrastructure, the necessary financing would need to be raised by some US$30,000 to US$50,000 million a year. See: Serebrisky et al. (2015) and Abramskiehn et al. (2017); IFC, 2016.

implementation is not that simple. In order to illustrate that point, let us consider public-private partnerships (PPPs) as an example.

A PPP is essentially an agreement between the public sector and a group of private enterprises in such a way that the private party commits to finance given infrastructure (to continue with the example) in exchange for having the public counterpart commit, in turn, to a series of considerations. Among the most common of these are to maintain a stable regulatory framework, not to undertake any action that could impair the project exploitation cash flows, make transfers, offer minimum income guarantees, etc. Whenever a commitment exists between two parties that entails future obligations, there is usually a shared fear that the opposite party could cease to honor its commitments. The greater the perception by the private sector that the public sector could fail to comply, the greater the cost of its financing via the pertinent risk premium.

In that context, if a third independent party that enjoys the trust of the other parties were to enter on the scene and fully or partially guarantee some of the obligations of the parties, then the risk premium could be reduced considerably. As a result, it would be highly recommendable that the public sector consider the possibility of endowing itself with a counterpart risk management system as part of its global management of PPPs. That system would consist of guarantees and other financial instruments that, suitably administered, would make it possible to minimize the project finance cost.

As can be imagined, the design, development and implementation of this kind of risk management facilities is not easy. In fact, it is quite complex, for its proper implementation and management call for highly specialized technology and personnel. Even so, it would appear that there is sufficient evidence to demonstrate that the investment is worthwhile. The reason for this is that the potential benefits are very large, especially when the size of the projects needing financing tends to be significant[6].

The National Development Banking system in the described context

The phenomenon described above for general public sector finance is replicated verbatim in the particular sphere of operation of the NDB system. NDBs have historically used their capital of pubic origin to leverage their borrowings (frequently with the guarantee of the national government) and with resources obtained by financing public policy projects required for the compliance of their mandate. In other words, NDB has operated under the same traditional finance paradigm as the rest of the public sector.

6 Note that the public sector, while managing investments itself, will have to develop appropriate methodology for identifying, counting and managing the risks associated with the contingent liabilities produced in PPP activities. See in this regard Demaestri and Moskovits (2015). Available at: https://publications.iadb.org/handle/11319/7360.

The problem lies in the fact that NDB capital is increasingly scarce, considering the growing need for financing. Furthermore, the new Basel prudential regulations call for more intensive capital use for long-term financings. This complicates even further traditional NDB operations. Given the fiscal restrictions experienced by national governments, there is little likelihood that the shortage of capital will cease to be a problem. On the contrary, everything would tend to indicate that the problem will only worsen over time.

Therefore, it would appear reasonable to consider the possibility of replicating, within the NDB environment, the change in model that is already taking place in other public spheres. In fact, the possibility of making that change offers a great opportunity to NDBs to take a leap in quality and quantity in the performance of their mandates. NDBs can open the way to innovation and standardization in mobilizing resources to finance public projects.

This line of reasoning immediately leads us to the idea of using public resources to modify the risk-return profile of the projects until they can be perceived as being bankable by the private sector.

Implementing the new model in the NDB system: Opportunities

What specific actions can NDBs take in the context of the new public finance model? Below we will underscore those that appear to be the most immediate and that could produce a greater impact in the medium term.

1. NDBs could coach governments and pertinent PPP agencies in moving innovation ahead insofar as the adoption of new financial engineering techniques are concerned for mobilizing resources for the benefit of their countries. That is an ambitious project that calls for a certain level of sophistication, insofar as the capacity for analyzing project risk-return profiles and the use of complex financial instruments are concerned. Bear in mind that the aim is for the public sector to absorb the least amount of risks so that, in each particular case, the mobilization of private resources is maximized. But, in addition to the technical aspects, is it very important for a consensus to be reached on the advisability of using given risk management instruments. For example, if an insurance premium is paid and the risk fails to materialize later, it is important that it be understood that payment of the premium was not a mistake. Questioning of that kind is the result of a lack of understanding of the minimum aspects of risk management. NDBs can contribute to the tasks of educating on and disseminating the basic elements of risk management, in order to create sufficient knowledge to enable experts to do their job, subject to the necessary controls, but without undue interference.
2. Support subnational and national government in all matters concerning the financial structuring of PPPs by, for example, offering assistance in designing procedures to determine the level of guarantees and/or co-financing required

by each investment project to ensure the full participation of the private sector. That means negotiating and agreeing with the private party on the ex-ante distribution of the project risks and corresponding costs. In addition, inasmuch as the NDB has a balance, it can participate directly in mezzanine or bridge financings, as needed for specific types of projects. That is particularly important in cases where the risks during the construction stage are very high or difficult to quantify or in other situations where there is a great deal of uncertainty over the viability of the projects. That tends to be the case in projects involving geothermal exploration, for example.

3. NDBs are in a privileged position to serve governments in an advisory capacity on all matters concerning the design and implementation of the credit enhancement or derisking facility, as described above. Not only that, but they may also play the role of fiduciary agent of that facility, especially in cases where their instrumentation takes the form of a trust fund or a similar fiduciary structure. The idea behind that credit enhancement facility is that it be established as a pool of self-owned and third-party resources (such as, for example, those of multilateral organizations) that would make it possible to allocate guarantees or financings to individual projects as the need arises. Management of a facility of that kind calls for at least two elements: on the one hand, having a strong back-office that allows for strict control of the risk management instruments, which is not simple, for those instruments are of a derived nature; and on the other, a strong front-end with the capacity to allocate facility resources in such a way that with a minimum of funds, the participation of the private party is maximized.

4. One of the most important elements for attracting international investment, particularly that of an institutional nature, is the availability of suitable vehicles for investment. Once a country has been able to demonstrate that it has a pipeline of technically and financially well-prepared projects[7], the next step is to offer investors a suitable vehicle for materializing their financings. The simplest example of this type of vehicle is a common investment fund domiciled in the most convenient jurisdiction and managed by an internationally reputable fund management company. Each country, however, has its idiosyncratic characteristics and the investment vehicles must be adapted accordingly. NDBs can be very helpful, given their level of understanding of and relationship with the international investment community and with the financial services industry in general, in creating a series of investment vehicles that would offer the most desirable characteristics for attracting private sector resources.

5. In addition to the creation of vehicles for investment that we have just outlined, a complementary way of attracting international investors consists

7 While the pipeline problem is a crucial aspect of investment in public infrastructure that deserves careful analysis, we will not take it up in this study.

of creating negotiable derivatives of the project finance associated with many PPP projects (for example, construction progress or completion certificates). A simple system of creating assets of this kind consists of packaging dissimilar instruments from different individual projects and refinancing them in the market. Furthermore, the original package can be broken into different tranches. In that way, the different risk appetites that the various classes of investors, both domestic and international (hedge funds, institutional investors, wealth management funds, pension funds, and sovereign funds, etc.), tend to have can be accommodated. That type of refinancing of project finance certificates, conveniently repackaged and segmented in accordance with their component risks, is a function that can be easily performed by an NDB[8].

6. Along this same line of attraction of international investment described in the previous point, a somewhat more ambitious project could consist of moving toward the creation of an array of instruments negotiable at the regional or subregional level that could be set up as an asset class (Arezki et al., 2016). This would require a certain level of coordination among the different NDBs of the region or subregion to ensure that the instruments that would be issued would be as similar as possible and reach a minimum level of homogeneity. In that way, institutional investors would only need to do their due diligence once, thus simplifying the process considerably. That is very important, for the cost of doing the due diligence is one of the most important obstacles for this kind of investor. A very simple example of what could be done in this area could consist of the following: An international investment fund could be created (domiciled in the most convenient jurisdiction), to which the instruments produced by the securitization of the certificates described in the previous point could be ceded. That fund would, in turn, be offered to international institutional investors that could, in that way, obtain diversified exposure to given sectors in a predetermined group of countries, without having to duplicate the due diligence processes.

7. Throughout this section, we have used infrastructure investment projects as an example. Even so, most of what has been stated is also applicable to other public finance programs with a positive social value. But because the private sector perceives a very high risk or expects a very low return, it will be necessary for the public sector to intervene in order to redefine the risk-return profile. Examples of such programs are support programs for small and medium enterprises, digitalization of the fabric of production, strengthening of value chains, and so forth[9].

8 Project bonds are an example of instruments of this kind. See, for example, http://www.eib.org/products/blending/project-bonds/index.htm.

9 For a more detailed discussion of programs of this kind, see Ketterer et al. (2017). Available at: https://publications.iadb.org/handle/11319/8678.

Alternative financing sources

In the previous section, we reviewed some of the methodologies NDBs could use to help mobilize private capital in the context of the implementation of the new finance model. Below, we will concentrate on how NDBs can seek their own financing sources to optimize use of the little capital they possess.

1. In order to make the most of their balance by economizing the use of regulatory capital, NDBs could consider the possibility of adopting methodology for the selective securitization of their asset. Use of the "selective" securitization concept is important for securing the maximum benefit possible from this kind of process. That means identifying asset segments with homogenous characteristics that may be attractive to given classes of international institutional investors. In that way, by being securitized, they will be placeable with a premium and produce sizeable savings in the financing of the underlying projects. One of the financial instruments that is proving to be particularly suitable for this purpose are the "thematic" bonds. The best known and most used of the thematic bonds are green bonds, followed fairly far behind by bonds with a social impact. In our region, green bond issues are growing, but a large number of opportunities still exist for NDBs in this terrain[10].
2. NDBs are well situated to act as middlemen between international concessional funds --particularly green funds like the Green Climate Fund-- and the private sector in their corresponding countries. That intermediation is necessary for purposes of economies of scale and of a knowledge of the unique processing characteristics of each of the funds.
3. NDBs are able to optimize the use of subsidies implicit in the cited international concessionary funds. As for the handling of funds of that kind, it is important to point out that their best use is achieved when their subsidy element can be separated from their loan element per se. In some cases, that separation requires a degree of financial engineering, but it is always worthwhile to examine the possibility of doing that in consultation with those responsible for the corresponding funds.
4. Continuing with the idea of optimizing the use of regulatory capital, NDBs should seek a maximum of off-balance operations. The fact that specific programs are implemented off-balance does not mean, in most cases, that no changes are made in their given public policy objectives. Even so, off-balance resource management does not normally require any application of regulatory capital. That kind of off-balance operation is extremely useful for managing the subsidies that sometimes accompany credit operations. This is

10 NDBs have led fully 60% of the green bond issues in the region. In this connection, see Boulle et al. (2014); Weinman, A. (2017) and Latin America and Caribbean Green Finance (2017).

due to the fact that if, as indicated in the previous point, pure capital is able to be separated from the corresponding subsidy element, the latter should not consume regulatory capital. In other words, it is sometimes advisable to orchestrate a small regulatory exchange in order to favor development.

Updating of NDB technology

In order for NDBs to be able to take advantage, with the greatest possible efficiency, of the business opportunities and activities that have just been indicated, some adjustments in their structure, organization and, particularly, their technology are recommended. Bank technology is in the process of transformation, mainly as a result of the emergence of fintech. Here, it is important to stress that above and beyond the new financial intermediation techniques and models that could compete with traditional banking, fintech has another aspect that is more interesting for purposes of the NDBs.

In effect, fintech is developing a series of innovations that could drastically reduce the transaction costs traditionally associated with financial operations. Examples of this are the use of the "cloud" and of artificial intelligence that would make it possible to manage classic banking processes at a fraction of the cost. Back-office operation, which is so important for granting and following-up on the previously cited trust guarantee operations, can be handled far more efficiently using some of the fintech advances.

Fintech also offers opportunities to enhance the efficiency of optimized regulatory compliance to a maximum by following regtech models, complying with money laundering guidelines (KYC) based on artificial intelligence models, block-chain or distributed ledger technology-based applications for the management of shared databases, among other things. Another option is the possibility of developing blockchain applications to verify that funds managed in trust by NDBs are used for the purposes pre-established in the programs and are in keeping with the specific results sought.

To conclude, it is highly important that NDBs be in the technological forefront. In order to accomplish that, what is most important is to be aware of developments that are taking place in the fintech world. That will make it possible to select those models that are appropriate for NDB practice and to determine whether the required investment is meaningful from the viewpoint of the efficiency of the business[11].

NDBs are well situated to act as middlemen between international concessional funds --particularly green funds like the Green Climate Fund-- and the private sector in their corresponding countries.

11 For a fuller examination of this area, see Ketterer (2017). Available at: https://publications.iadb.org/handle/11319/8199.

Summary and conclusions

NDBs have a great opportunity to be players in the change from the traditional model of direct financing of public projects to a new resource mobilization and capital use optimization-based paradigm.

To that end, it is necessary for NDBs to build the capacities that will enable them to progress from being traditional lending institutions to being modern financially engineered banks, banks that use state-of-the-art instruments to mobilize private resources, seek innovative financing sources in order to optimize use of their capital and continuously update their technology in order to carry out their mission as efficiently as possible.

The Inter-American Bank, ALIDE and the rest of the multilateral community are willing to collaborate in that project.

ALIDE offers the ideal context for the discussion and analysis among all of the parties of the previously cited topics and others that could arise along the way.

ALIDE offers the ideal context for the discussion and analysis among all of the parties of the previously cited topics and others that could arise along the way. That discussion and exchange of opinions are very important to us for they will enable us to review and update our strategy by incorporating inputs stemming from the dialogue with the NDBs and ALIDE.

Looking ahead, I believe that it is highly important to strengthen and broaden our strategic alliance with ALIDE so that, from that platform, we will be able to contribute to the exchange of information and provision of services for the region's DBs. In that way, we will be able to ensure the development of their full potential and that they are able to effectively confront the challenges that arise along our region's road to progress and toward a model of sustainable and inclusive development.

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CAF-Development Bank of Latin America

The National Development Banking system and the productivity challenge in Latin America

Overview of the Latin American region

Diagnoses of the region's development challenges suggest that the problem most responsible for the gap in per capita income between LAC and the developed countries is the region's laggard productivity --that is, the fact that it is not making the most of its productive resources (capital and labor) to expand the production of goods and services.

Sustained productivity growth calls for establishing enterprises with a potential for growth and closing those that are not very productive: firms that innovate and adopt new technologies and, within the sectors, reallocating capital and labor from poorly performing companies to those with high productivity.

A key aspect here is that the operation of credit and capital markets must make it possible to redirect resources toward activities and firms with greater potential. But access to financial resources is not enough by itself. It is also important to produce initiatives that entail the identification, training and interrelationship of good entrepreneurs, facilitate their access to technological services, and ensure that their companies are able to hire the labor they need (with the necessary skills to perform those new jobs). In addition, the enterprises themselves require transportation, communication and energy infrastructure in order to develop[1].

Many of those activities are subject to market failures stemming from problems of incomplete information, coordination, a large degree of uncertainty, and high fixed costs, etc. It is in those areas that public policy can do much to promote the growth of productivity. National development banks (NDBs), as we will claim throughout this note, can play a significant role in the design and implementation of those policies, making them a key instrument of national development strategies.

Public development bank areas of action

The practice of national development banks in both developed and developing countries demonstrates that those institutions carry out at least three kinds of activities[2] (CAF, 2011; Griffith-Jones et al 2017): i) reinforce access to the financial system by lower-income families, microenterprises and SMEs; ii) promote corporate innovation, dynamic entrepreneurship and internationalization of enterprises; and; iii) finance infrastructure.

Those three types of intervention are described below in greater detail, with some successful examples in the Latin American case.

a. Promote more access to financial services

A first critical aspect of NDB action is the promotion of access by low-income families, microenterprises and SMEs to financial services. That kind of activity responds to a criterion of equity, but can also be justified by the presence of market failures. Generally speaking, operating with customers that have less purchasing power results in smaller incomes, while the administrative costs remain the same or are even higher than those of larger operations, because of the informal nature of those families or enterprises (which require closer personal contact or so-called "relationship banking") or because those customers are located in rural areas distant from the large urban centers. The risk is also greater, for those families or enterprises do not own sizeable assets from which to provide guarantees. That is why that family or business segment is generally underserved by the traditional banking system.

The region's NDBs have made efforts to create products and services, in order to promote financial inclusion. An interesting case in point is the Unicas program of

1 Other policies that affect productivity and that will not be examined here have to do with "government failures" associated with low-quality public goods above and beyond infrastructure, such as justice and legal security, and distortions produced by taxes and other regulations that impair competition in the markets for goods and factors of production.

2 Two other areas observed in NDB practice have been: i) counteracting the procyclical behavior of private financing sources, above all during financial crises as in the case of the 2008-2009 period; and ii) supporting the financing of projects to fight climate change, as in the case of Germany's KfW bank.

Sustained productivity growth calls for establishing enterprises with a potential for growth and closing those that are not very productive.
Photo: CAF.

Peru's Corporación Financiera de Desarrollo, S. A. (Cofide), whose purpose was to promote the creation of small cooperatives in order to bring savings and loan services to productive micro-ventures and families in rural zones of that country. Another interesting case in the implementation of non-banking correspondents that makes it possible to use retail businesses to provide some financial products and services. This was boosted by public banks, Colombia's Banco Agrario and Caixa Econômica Federal in Brazil, and also through the private banking system via changes in regulation.

Insofar as SMEs are concerned, NDBs have also developed initiatives for guaranteeing funds to compensate for the weakness of some of those enterprises and for offering collateral in loan operations. In that case, a good example is the National Guarantee Fund developed by BancoEstado in Chile. Furthermore, factoring is a relatively new financial instrument that plays an important role in the growth of small and medium-sized businesses belonging to sector production chains. The case of Nacional Financiera, S.N.C. (Nafin), in Mexico, is an interesting one. That institution was able to resolve several market failures by creating a technological factoring platform and a guarantee market to enable SMEs to trade their bills in advance in order to improve their cash flows.

NDBs have implemented a wide range of other interventions in order to promote access to financial services (simplified accounts, microcredit assistance, micro-insurance, etc.) which a lack of space prevents us from fully discussing here. Even so, it is worth stressing that some of those services are furnished directly by the institutions, while others are provided through cooperation with the private banking system or other institutions (NGOs, cooperatives) that are better positioned to reach those firms and families.

b. Promote entrepreneurship and innovation in the production sector

The promotion of development and entrepreneurial innovation are a key aspect of NDB action. By considering only the strictly financial benefits of resource allocation, traditional private banking fails to provide an adequate level of funds for activities like research and development, new exports, or ventures that could produce benefits and generate positive externalities on the rest of the economy.

Performance of those activities requires not only allocating funds to given companies or projects, but also supplementing them with other activities like training (of both entrepreneurs and workers), creating entrepreneurial networks, providing certain public goods inside the production chains, and

NDBs can play a positive role in covering needs that are not well served by the private banking system, regardless of the greater risks involved. That calls for capacities to mobilize resources by using different capital market instruments, as well as tools for analysis and knowledge that would make it possible to identify companies, sectors and projects with potential.

regulatory changes (in patent legislation, for example), among other things. Those actions are also subject to market failures, in which case incentives would be insufficient for their adoption by individual enterprises.

The Start-Up Chile program developed by Corporación de Fomento de la Producción (Corfo) is an interesting example of the kind of intervention that has promoted the attraction of business talent. The program, launched in 2010, provides seed capital for new companies that decided to establish themselves in that country (González Uribe, 2015). Another interesting case is the INNpulsa program created by Bancoldex in Colombia, that seeks to activate the establishment of companies with a large potential for growth by contributing funds and advisory assistance and mentoring through institutions and consultative forums (Vesga, 2015). In Brazil, for its part, Financiadora de Estudos e Projetos (Finep), in collaboration with Banco Nacional de Desenvolvimento Econômico e Social (Bndes) and Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (Sebrae) have also played an important role in boosting entrepreneurial development by creating seed capital and risk capital funds (Furtado, 2012)

c. Building up infrastructure financing

A third critical aspect of NDB actions has to do with the provision of infrastructure financing. By their very nature, infrastructure projects are a challenge to private finance companies because the large scale of the investments and the long fruition time create significant risks. Those risks are associated with shocks in construction costs, the demand for services, changes in regulations, and political uncertainty, among other things. It is understandable that in that context, particularly in Latin America and the Caribbean, it is the governments that, for the most part, have been responsible for providing resources for infrastructure.

Even so, that is not necessarily the only course that is open. On the one hand, the public sector has limited funds to contribute, above all during the current

The practice of national development banks in both developed and developing countries demonstrates that those institutions carry out at least three kinds of activities.

Insofar as SMEs are concerned, NDBs have also developed initiatives for guaranteeing funds to compensate for the weakness of some of those enterprises and for offering collateral in loan operations.

periods of fiscal consolidation, and, on the other, infrastructure construction and management could benefit from greater private sector participation, as shown by the growing number of public-private partnership initiatives in the world and in the region. In that connection, NDBs could serve as a useful instrument for channeling funds toward this crucial sector for development.

Having said that, those institutions could play an important part in contributing two types of capacity: i) technical, for the identification of projects, in order to improve their design and planning and make an accurate economic, social and risk assessment; ii) financial, to provide funds of their own and of the private sector by creating financial vehicles that, through a proper combination of shareholdings, loans, guarantees and refinancings via bond issues, could moderate the risks involved, in order to turn infrastructure into a new class of attractive assets for institutional funds (pension funds, sovereign funds, insurance companies) and other long-term investors (Ketterer & Powell, 2017). CAF has played an important role in the region by promoting the development of financial vehicles in collaboration with local development banks and institutional investors.

By way of conclusion

The development banking system can play a critical role in national development. Its contribution to access to financial services, the promotion of entrepreneurship and innovation and the leveraging of greater resources for infrastructure can be a key element for boosting economic growth. Nonetheless, the creation of institutions of that kind is not, of itself, a guarantee of effectiveness. Three additional elements are needed to ensure the conditions for success:

1. The clear definition of the strategic aim and focus in the mandate for which it was created and which, insofar as possible, should be linked to some of the previously described market failures.

2. Good corporate governance, including the transparency of information, independence of the board of directors and accountability mechanisms, is essential for enabling those institutions to reach a balance between assuming greater risks in fulfilling their mission and maintaining sound management of their equity and financial viability.

3. The quality of the country's specific regulations that affect those institutions. Those regulations should make sure that the state's function

as owner and regulator is not mixed up, thus avoiding conflicts of interest. Specifically speaking, national regulations should not give those institutions disproportionate competitive advantages over other private banks and thus distort the operation of the market, by, for example, impeding the private banking system from making use of the innovations furthered by public institutions to extend and replicate those initiatives. (CAF 2011)

In short, we in CAF-Development Bank of Latin America are convinced that the public development banks are responsible for playing a key role in promoting the region's economic growth and are determined to serve as an effective ally of those institutions in each of our shareholder countries, for the purpose of boosting the region's sustainable development.

Financial Fund for the Development of the River Plate Basin

(Fonplata)

Fonplata and the national development banks

National development banks are financial institutions that supplement and play a catalytic role in supplying the resources for public sector activities and incentives for boosting long-term investment. They can also assume greater risks and attract resources from multilateral financial organizations.

Normally they have a wide knowledge of the local credit market and of the restrictions on long-term investment. They can link up with the public sector and the private sector and manage their financial liabilities autonomously by administering their sovereign risk.

FONPLATA, as an institution specialized in promoting integration among countries, can design business relations with national development banks in order to leverage public and private investments in support of public policy.

There are consensuses in the region that the important gap in socioeconomic and productive infrastructure must be dealt with. The growing production of exportable raw materials and products multiply the need for logistics, distribution and development of human capital.

Nonetheless, levels of investment over GDP dropped and the possibilities for maintaining production growth and competitiveness in attracting investments are dwindling. To this, we must add the appearance of protectionist practices in the developed world that put the recovery of trade in doubt.

All of this is conducive to stronger volatility and uncertainty.

In that context, the public sector acting alone will have trouble reducing the significant gap in infrastructure and providing the additional investment resources that are needed to keep that investment from having a negative impact on wellbeing and social inclusion.

Photo: Fonplata.

Closing the region's infrastructure gap, supporting investment initiatives that will have an impact on reducing production costs, social inclusion and the boosting of national production chains that are capable of benefiting more than one country, will continue to require growing amounts of long-term financing.

FONPLATA's experience in implementing finance systems with the countries' development banks can serve as a mechanism for expanding long-term financing that would allow for greater use of private capital and have a stronger impact on public policy, which is a major government concern.

A strategic association of national development banks with FONPLATA could make their financing more effective, broadening their business transactions and strengthening their role as financial institutions, by mobilizing resources for development that require long-term financing.

The financial investment and pre-investment loan instruments being used by FONPLATA could serve as a basis for leveraging public and other multilateral resources to improve intervention risk profiles and favor the supply and demand for resources. National development banks would contribute to a basic financial structure for developing those financial instruments.

FONPLATA's capacity for financing feasibility studies and mobilizing technical cooperation resources would make it possible to design that relationship and have access to resources free-of-cost with which to overcome limitations on developing the new joint role being promoted.

The use of second floor loans, in which national development banks' own resources could be combined with FONPLATA's long-term soft funds, would make it possible to offer more attractive financial terms for financing initiatives.

As a result, a partnership between FONPLATA and national development banks for long-term financings would allow for the design of solutions with an appropriate mix of risks and returns with which to incentivize the participation of the public and the private sectors by supplementing and activating resources for investments of public interest in all of the region's countries.

The future of development banking: governance, profitability and management of market risks

The future goes by many names.
For the weak, it is the unreachable.
For the fearful, the unknown.
For the courageous, the opportunity.

Victor Hugo (France, 1802-1885).

Mauro Alem*

Former President of ALIDE in 2014

Former President of Banco de Inversión y Comercio Exterior, S. A. (BICE), Argentina

ALIDE is, without a doubt, our «place in the world» for those of us who obsess over our region's development. Its meetings always offered an opportunity to learn, for open discussion from the vantage point of different visions and experiences, for agreeing on and undertaking common activities.

ALIDE was key for recovering the interest of many countries in consolidating their development banking system, thanks to its having built over these 50 years strong pillars for governance, for professionalizing its human resources and for managing its risks. This good present augers well for a great future.

I will attempt in these notes to contribute my reflections in response to the honor of having been invited to contribute this view of the future. Even despite a subjectivity born of my experience in having headed the Argentinean development bank, I hope to convince you of having been able to offer key guidelines for the intervention of the development banking system in the future.

1

The challenge of the new technologies, new actors and few resources

Strong foundations have been laid down over the past 50 years for building a new era in the development banking system. With ALIDE's commitment to good corporate governance, the professionalization of human resources and appropriate risk management, it proved possible to obtain the highest credit ratings in the market.

* The opinions expressed in this publication are those of the author and do not necessarily reflect the viewpoint of the Inter-American Development Bank.

Today we enthusiastically observe the transformation of our institutions and the emergence of new entities as the seed for the development banking system of the future.

These advances are irreversible. We have learned from our mistakes of the past. Continuous exchanges and experience accumulated in ALIDE resulted in a strong consensus favoring high standards of governance and the need to monitor efforts of the member institutions to achieve them.

*The opinions expressed in this publication are those of the author and do not necessarily reflect the viewpoint of the Inter-American Development Bank, its executive directors or the countries it represents.

In many cases, it also proved critical to consolidate indicators of financial profitability in order to underpin the professionalization needed for technical autonomy. The production of financial surpluses was key in a context of fiscal restriction that made receiving capital increases difficult.

We showed each other that we cannot sustain ourselves on the basis of grants or international financial aid alone. Profitability constitutes a basic pillar of our projection in the future.

Changes in macroeconomic context, greater concentration in the financial sector and accelerated technological incorporation present challenges that go beyond the traditional role of providing long-term financing. Now, more than ever, it is necessary to have an understanding of market conditions in order to design interventions. Specialization in market risk management has become vitally important.

The reduced fiscal space means redefining guidelines for intervention, in an effort to secure the maximum leverage of our institutions' capital resources. Capital use takes on new connotations that until a few short years ago we did not bear in mind so strongly. That new orientation will seek largely to occupy the gaps in local capital markets.

That redefinition will make it necessary to develop co-financing instruments and structures with private capital resources. In the future, making maximum use of public resources will mean allocating the least capital possible to retain risks that ensure the funding and governance of long-term financing, while other risks are transferred to private actors in the expectation of obtaining more profits.

Those future prospects make the development banking system the bridge toward promoting standard long-term financing techniques, as a way of convincing private saving to invest in those ventures with high social returns.

In the end, this outlook seeks to develop new forms of financial intermediation that would produce contractual structures based on the optimum risk allocation theory, in order to guarantee that relatively less informed investors are assured of credit ratings for instruments or bonds intended for the market.

Financial Instruments and structures to attract private capital need developing so that public resources can be leveraged in interventions that are able to be replicated and sustained with private investment.

Using the governance and profitability pillars as a reference, the reflections set out here are based on practical experience and the lessons learned during my Presidency of the Argentinean development bank between 2009 and 2014. Key guidelines are identified and illustrated with cases that were handled during that period.

2

Principal guidelines of the new paradigm

In practice, the complexity of the problems that the development banking system confronts values the importance of having people with first-hand experience in the region's development banking system address those analyses and discussions.

The proposal of key guidelines for development banking intervention in the future also bears with it the identification of critical market conditions that must be fulfilled to avoid diversions.

That approach was chosen because there is no development banking model that can be applied to all of the countries, or to even two of them.

Nor is there an optimum intervention to be made from the viewpoint of economic theory. Rather, it is built based on a process of learning and of experimental innovation that develops long-term financing techniques from an approach of resource and of risk allocation through contracts and market instruments.

This new development banking system presents itself as a change in model that seeks to structure long-term financing and, thereby, occupy the space left temporarily unoccupied by our capital markets as effective mechanisms familiar with investment techniques.

Today, more than ever, it is necessary to understand the critical market conditions and the technological changes brought about by development.

The outlook for the future of the development banking system that we have presented is optimistic, in the sense that it envisages surmounting the conflict: «overcoming market failures» versus «constituting a government failure». The vision that is proposed is that of a corporation willing to «submit to laboratory tests» interventions that are capable of replication on a broader scale in the real world, but one in which escalation would be the result of private investment and initiative, in which the state would reserve a share that would enable it to recover its initial investment and undertake new experiments.

Those experiments would entail nothing more than expanding the role of the market in new contexts and overcoming certain taboos that that keep profits from trade from being released as a result of different perceptions of the risk and of the capacity to absorb it.

The vision of the role of public banks goes far beyond their contribution toward financing longer-term investments. In the past, the less importance given to the analysis of the initial market situation led to loan routing systems that frequently resulted in financial repression measures that impacted the tax burden.

In practice, analyses of macroeconomic restrictions and excessive concentration of limited actors in the financial sector were left out. The difficulty in boosting more competition in the market consigned to oblivion the possibility of developing instruments based on risk allocation in coordination with market actors.

The development banking system should, with the available capital, make itself the guarantee of the governance of long-term financing. A small contribution of seed capital by those banks should be sufficient to convince the market that the project is of strategic importance and will materialize. That contribution will, in practice, take the form of a long-term credit because of the problems intrinsic to capital investment by the public sector.

Its contribution in projects with best practices in the use of standard long-term financing techniques will make it possible to convince the market to invest in those ventures. It is not a question of guaranteeing the private party that the operation will be profitable, but of boosting a risk management environment that would ensure a private counterweight in the governance structure of the financing.

Its contribution of long-term capital would make it possible to hold back those critical risks of projects in strategic areas and attract more private funding to back the repayment of the financing by the banking sector and the capital market. At the same time, a significant portion of the project implementation risks would be transferred to private sector actors. In exchange for that contribution, banks would charge a risk premium in order to obtain minimum profitability that would ensure their financial sustainability.

Promotion of market financing systems with private participation would lead to the incorporation of instruments that today would appear to be alien to the development banking system.

On the one hand, seed capital investments in innovation would lead to the emulation of equity participation through share purchases. That tool could be very difficult to implement in practice, for it would first be necessary to ensure a sophisticated corporate government, including the possible involvement of independent external directors.

Long-term credit fulfills this same function, but with the disadvantage of not sharing in the gains from the success of the innovation's commercial development. A first step could consist of establishing co-financing agreements with technological funds and sharing 50/50 in the project risk. Another alternative could be to create guarantee structures backed by the party that would proceed with the innovation.

That type of provision of seed capital is instrumental for scientific ventures, like Invap,[1] in the case of the use of renewable sources for generating energy.

A successful experiment was carried out in this latter case and is discussed in the following section.

The aim, in such cases, was to convert subsidies intended for the development of innovations into long-term credit, as a means for sharing partially in the success of the implementation.

A second instrument is the development of trust systems to expand opportunities for sharing risks in the market.

Through investments of that kind, the development banking system will provide the state with a vision of the market in contexts where financial intermediaries are not seen to exist or, at the other extreme, where a few large actors are seen that concentrate market power.

1 The company Invap Sociedad del Estado was set up in the 1970s under a contract signed between Argentina's National Atomic Energy Commission (CNEA) and the Government of the Province of Río Negro. The payroll numbers more than 1,300 people, among them professionals who are highly experienced in developing technological systems and in managing highly complex projects. Today, Argentina is recognized as being an internally renowned exporter of nuclear facilities, equipment and control systems involving nuclear technology. It has also exported cobalt therapy equipment and automated systems for industrial projects. In the area of spatial technology, Invap is the only Argentinean Company qualified by NASA (U.S.) to implement spatial projects and, as such, has demonstrated its capacity to design, build, test and operate satellites.

David Shrier, managing director of MIT Connecting Science, analyzed the main challenges presented by technological disruption in the field financing to the Development Bank, during the 47th General Assembly of ALIDE.
Photo: ALIDE.

The market power of a few private actors in the financial system, in particular, often leaves the state at a disadvantage for exercising its power of regulation, with the risk of its being captured by private interests.

Investment in the development of this type of experiment on a smaller scale, assuming the costs of analyses to identify, separate and allocate risks by supplementing loan contracts with insurance, warrant, and forward contracts will make it possible to reduce transaction costs and facilitate their replication by market actors.

Further ahead, a practical case is presented of this type of experimental development on a pilot scale, in which it was sought to resolve problems of access to financing by the cotton cooperatives market through a bond issue backed by a complex structure of financial contracts.

That role goes far beyond that of the traditional mandate to carry out investments while assuring the availability of long-term credit. Interventions should be made in a spirit of generating seed capital for the growth of capital markets.

Lastly, a third instrument is the development of structured financing for large projects with a high social impact.

Our institutions should orient their efforts in the future toward mitigating construction risks in strategic, large-scale projects. To do so, they will need to allocate a sizeable portion of their project investment funds for the pre-construction stage, ensuring the technical quality of the preparatory and design studies for those projects.

The technical and professional preparation of specialized teams in the development banks will make it easier to take advantage of efficiencies in the precompetitive bidding stage by incorporating aspects in the design and implementation that will ensure the largest possible number of bidders for the project's implementation.

The very nature of the players in those markets will make it necessary to form a public corporation with technical and managerial autonomy as regards its government, equity and strict controls over its performance and governance. In that way, the necessary counterweight can be ensured in a highly concentrated private market.

A recent trend among some development banks of incorporating external and even international actors in its governance appears to be setting the course toward consolidation of that autonomy in decision-making. The participation of private capital, even in a minority capacity, may be necessary to consolidate technical independence in the decision-making processes of those projects.

Another alternative course has been the recovery of public sector enterprises for use in developing a technical capacity of their own in the design and implementation of complex projects that have made it possible to mitigate the construction risk by absorbing those risks that market actors, particularly lenders, were unwilling to cope with.

The cases of Instituto Costarricense de Electricidad (ICE) and Corporación Vial del Uruguay (CVU) can be cited as practical examples of public institutions oriented toward obtaining investments through the sound preparation, development and implementation of large, new projects.

3

Experiment for the Development Banks of the future

Each intervention should start with a description of the problem followed by the justification of a new intervention that would incorporate the classic problem of incentives, in order to promote competition and new practices capable of being replicated in the market. The objective of the policy of creating market conditions to broaden the opportunities for sharing risks is largely at the base of each of the experiences achieved.

The examples are presented from the practical outlook of having been implemented for the end purpose of arranging for investments based on an optimum allocation of risks and resources approach.

That approach presents the guiding principles of development banking based on the experience acquired, and the cases seek to illustrate the most important interventions in a practical way in order to inspire the design of innovative mechanisms for identifying and separating the risks and, as a result, producing financial contracts and instruments aimed at achieving an optimum allocation of risks among the market actors.

The experimental approach that is presented here as a guide for the future of development banking seeks to create instruments that would promote competition in the financial sector on a pilot scale, as an instrumental laboratory.

Case 1 Financing of biotechnology innovation

This case was carried out as an experiment to enlarge bank credit in to allow for the development of new technology that requires long periods to mature so that new products can be taken to the market. Innovations of that kind are generally --as in this case-- promoted by a recently established enterprise with no background whatsoever in the financial system.

The banking sector is unfamiliar with the process and mechanisms for financing new companies and innovations that are used in the private sector. Only private investors, motivated by the chance to obtain high returns, are capable of facing the larger risks and short response times required by these projects.

Lack of financing for the commercial escalation stage, once the innovation research and development (R&D) stage has been passed, makes it necessary, in many cases, to transfer the technology to the financial investor at a still premature stage, thereby reducing the opportunity to obtain a larger percentage of the value of the projected business. Capital contributions made by «angel» investors in the early stages of an innovation's commercial strategy normally involve ceding a sizeable percentage of the new company's shareholding package.

For the bank, the challenge consisted of establishing a financial guarantee structure strong enough to support a bank loan contract. The difficulty in this type of project lay precisely in the intangible value of those companies, which rested on the high quality of the workers and the promise of future income flows that had not yet passed their commercial test in the market.

Instituto de Agrobiotecnología Rosario, S. A. (Indear) applied for a loan to build a pilot plant for the extraction and purification of chemosyne --a key enzyme in the industrial production of cheese-- taken from cardamom seeds. That investment enabled the company to produce chemosyne on an industrial basis using a biotechnology process and to offer a new product in the market, with clear competitive advantages over animal chemosyne.

The possibility of granting the loan on the basis of real guarantees was rejected because of the impossibility of mortgaging the company's productive assets. Indear did not own the building, which had been constructed with the support of public funds that restricted its use to research activities and impeded it from being granted as a guarantee for obtaining a loan.

Indear had received a financing proposal for the construction of the pilot plant, which would have meant sharing the royalties of the future patent on the new product with another company by founding a new company in which Indear would hold 50% of the shares.

The bank loan was structured on the guarantee of the guarantees of two private Reciprocal Guarantee Companies (RGCs) that had been set up by Indear shareholders. That possibility demonstrated the usefulness of this type of guarantee instrument, using risk funds contributed by the private sector and created for that purpose. The principal financial innovation that made it possible to structure the financing was the design of a credit guarantee backed by the same shareholders that were promoting the innovation project.

That structure made it possible to mitigate the high risks associated with the success of the innovation's commercial scalability, with no need for new capital contributions, thanks to the access to the bank financing. In that way, the initial shareholders managed to conserve a larger share of the value of their project's future success and delayed the acceptance of new investors until a later stage of the innovation project.

The incipient success of the product in the market enabled Indear to obtain its first income since the start of the research, years earlier, as new future lines of business were opened with new actors of international prominence.

Although the bank's participation was limited to the financing of this operation, an investment fund was later structured that would be used for the temporary purchase of technologically-based shares with projected international business.

To conclude, it should be stressed that the operation did not require state subsidies. Even though the social benefits of this type of investment would have justified the state's coverage of a percentage of the loan risk, the financial structure of the operation was able to transfer the risk to the shareholders, who are probably the market actors equipped with the best information for evaluating their investment.

ALIDE was key for recovering the interest of many countries in consolidating their development banking system, thanks to its having built over these 50 years strong pillars for governance.
Photo: ALIDE.

Case 2 Credit-insurance to cotton cooperatives

The objective, in this case, was to organize a financing fund that would issue a bond backed by a structure of financial contracts among different market actors (insurance company, warehouse company, bagging facilities, cooperatives) to allocate risks and reduce the cost of the operation. Involving capital market investors is costly and, in this case, an effort was made to minimize the costs through the intervention of a development bank as financial trustee and bond issuer.

The bank played the role of a non-existent market actor: a financial intermediary among investors with relatively little specialization in the cotton sector and cooperatives. The use of market instruments (warrant, insurance, trust, bond, etc.) as a basis for the experiment would facilitate its replication by new market actors.

The principal financial innovation that permitted the structuring of the financing fund was the design of a guarantee policy to cover the risks in the event of the failure to comply with the issuing of the certificate of deposit for a given amount (warrant) of export quality cotton fiber by the cooperative. That insurance policy, which was to supplement the loan contract, covered all of the risks of the cotton production process. The fund loan contract was structured based on the ceding of the policy issued by the principal market insurer: Sancor Seguros.

The success of the transaction rested on the detailed analysis of each risk (production, processing and sale of cotton fiber in the market), which made it possible to separate each of them and design mechanisms for their mitigation. Those mechanisms, in turn, were based on the use of the market price mechanism to align the participants' incentives.

Debt securities (DS) issued by the bank as fund trustee had a local credit rating of A2.ar for an amount of up to US$ 64 million and had a participation certificate, held by the trustees, of 5% of that amount. The returns on those securities was to be variable, with a 2% margin on the market reference rate (Badlar) and a maximum interest of a nominal 18% a year and a minimum of 13%. The DSs were underwritten by banks and market investment funds and were paid off at maturity with the proceeds of the sale of the cotton.

The trust fund resources enabled the 11 cooperatives and producers to accede to the loan on market terms, thanks to the high credit rating of the transaction, which obtained the same rating as the Sancor Seguros company, enabling the cooperatives to accede to a highly competitive interest rate. Sancor Seguros, for its part, issued both insurance policies, one on the guarantee deposit and the other covering agricultural risks, which were ceded to the trust fund and which, together with the forward sales contracts, ensured a strong collateral structure for the investors.

That complex structure of insurance, sales and assignment of rights contracts proved possible thanks to the identification and separation of each risk in the chain of production activities that are needed to sow, harvest, process and sell cotton fiber. That allowed for the transfer of an important part of those risks to the private sector, Sancor Seguros, which offered clear comparative advantages of mitigation due to its record and experience in the agricultural sector.

That contract structure replaced the traditional bank requirement for mortgage guarantees, thus permitting cooperatives to accede to market financing on competitive terms after 15 years.

A key aspect to be stressed is the lack of state subsidies for an operation of this kind.

The new financial product implemented by the development bank structured coverage mechanisms to eliminate the risk to the small producer, without reducing its incentives for producing and selling in the market.

The producer does not assume risks and what is best for it is to produce and sell. As the option to produce is the most convenient, those that grant coverage (climate insurance, guarantee insurance and warrant) face a far more controllable and, therefore, viable risk. For the investor, the security is safe and offers reasonable returns.

The above also confirms that good risk management is one of the pillars of agricultural development policy in permitting agricultural producers to improve their production and marketing and increase their earnings.

The returns on those securities was to be variable, with a **2%** margin on the market reference rate **(Badlar)** and a maximum interest of a nominal **18%** a year and a minimum of **13%.**

Case 3 Insurance for the construction of wind and solar parks

The main purpose of the intervention was to incorporate long-term financing in private sector proposals, in order to improve renewable energy rate bids. As of that moment, the bank invested resources for the sector's first technical analyses, with the aim of understanding the state of the art in technology and the necessary financial capacities for serving projects of a certain size with loans that could exceed US$50 million and reach as much as US$ 100 million for a single project.

That volume led the bank to try to expand the size of its existing financing lines and obtain new, long-term lines (of between 7 and 10 years) from international lending institutions.

The key challenge to be met to implement those financings was the analysis of the risks involved in building wind and solar parks, while the main objective was to separate those risks into parts so that local insurance companies could be capable of assuming those risks, even if in part.

The work of the bank's team consisted, then, of helping the insurance companies structure guarantee contracts that would allow for the issuing of a global policy to cover the risk of building or starting up the projects.

With the backing of the global insurance policies that were able to be issued, the bank financed 80% of the construction cost of the country's first solar parks in an amount of over US$ 20 million and contributed another US$ 80 million to co-finance the construction of wind parks that reached total investment figures on the order of some US$ 400 million.

Toward an approach of risk allocation-based interventions. Those examples of interventions inspired on a resource allocation and risk management approach point up the value of experimentation in financial structuring. That vision goes beyond the long-term provision of credit and incorporates aspects of the insurance used to separate and mitigate risks.

That analysis uses as its starting point an understanding of the market conditions that must be promoted to expand opportunities for sharing risks.

An optimistic prospect of promoting competition in the markets

That vision of the development banking system of the future concentrates its action on expanding opportunities for sharing risks by using the market mechanism to identify, separate and allocate risks.

Through its use, an effort will be made to alter the situation existing in the financial markets of many of our countries in the region, due as much to the lack of intermediaries and financial products in the rural environment as to the excessive concentration of market power in a few actors in the cities.

In both cases, losses of efficiency can be seen that can be improved through this kind of experimental intervention by the development banking system in the future. Specialization in promoting new market products adapted to each particular context will tend to broaden the possibilities for sharing risks and, definitely, achieving greater social benefits.

For that to be accomplished it will be necessary, as in the case of the fund for cotton that was presented in previous paragraphs, to promote access to financing in partnership with market actors specialized in covering specific risks. That was the case of establishing a strategic alliance with the country's top agricultural insurance company to develop a new product: the investment fund in debt securities backed by guarantees and agricultural insurance contracts.

The results of the experiments presented highlight the strategic importance of combining development bank loans with insurance contracts in the future.

Development bank specialization in risk management in order to structure collateral and make monitoring mechanisms effective will be of vital importance for improving the situation of small producers and cooperatives, which often find themselves captured by the unfavorable financing of their production and/or marketing chains. The high degree of uncertainty and problems of information are also particularly important in the rural environment.

The bank financed **80%** of the construction cost of the country's first **solar parks** in an amount of over **US$ 20 million** and contributed another **US$ 80 million** to co-finance the construction of wind parks that reached total investment figures on the order of some **US$ 400 million.**

The interventions of development banks as «second floor » institutions that provide long-term funding to the banking sector do not appear to have promoted competition, as speculated. Those lines frequently suffer from poor execution as a result of the high perception of risks of non-recovery of small company loans by commercial banks. Problems of informality and little demand for credit are also part of the explanation.

In the future, the development banking system should concentrate on direct and not overly large interventions, unless needed to develop market instruments that can later be replicated by private initiative.

Development of the innovation and of the new technologies oriented toward mitigating the impact of climate change on large projects also reveal opportunities for improvement that can be contributed by development banks. As shown in cases 1 and 3 presented above, the development of financing that targets entrepreneurs and of insurance contracts for building large solar and wind projects are acquiring major potential.

Even so, in some countries of our region, we are facing a particular challenge that is a product of our own history. This is a political aversion to measures of this kind for promoting competition, even though promoting even minimalist interventions will call for great political daring on the part of development banks to carry out experiments of this kind. Even so, the demonstrative effect achieved in the cases discussed create confidence in the role of our institutions in laying down this small groundwork for a change in political thinking toward the future.

Toward an integral mission: the development bank as a public corporation

This special role in the future will require consolidating development banks as public corporations, with accountability and governance with mandates independent of the political cycle. The institutional format of the development bank of the future should be similar to that of other market actors, without regulatory subsidies or featherbedding, except in particular cases, sectors or types of financing that so require them, or in given situations like crises, for example. This means a development bank with regulations, but with its own particular characteristics, which does not mean being free from the constraints of regulatory norms, and, furthermore, that seeks to produce its own income in order to maintain its professional status and the continuous improvement of its actions.

Those corporations will give the state an impartial vision of the market situation and, if necessary, can take an active part in promoting greater competition.

It may also be necessary, as the case may be, to promote new regulations or implement subsidies for small producers or new enterprises; even for the preparation and design of large-scale projects, as a way to incorporate mitigating measures for climate change risks.

As a public institution that acts according to the rules of the market, it constitutes a guardian of the fiscal contribution to risk mitigation. Its critical knowledge of the costs, instruments and actors of the market make it a key piece in expanding opportunities to share risks in development projects. The possibility of eliminating revenues in the financial sector will bring important social benefits and also benefits in terms of productivity.

And for that reason, the integral mission should incorporate certain essential elements: 1) governance and transparency, above all, 2) specialized professional expertise, 3) political capacity (boldness) to implement successful experiments and learn from its mistakes, and 4) sufficient financial capacity (seed capital) to replicate the financial product in the market.

It is difficult to guarantee the presence of those ingredients in our development institutions. ALIDE has been promoting the first two of those capacities among its members for the past 50 years. The features present in our markets make the task of consolidating the last two of those capacities difficult. The concentration of power in only a few actors in the private sector makes the task an uphill effort. At the other extreme, there is a risk that development institutions which, in having attained a large size, have been able to consolidate their political and financial capacities --I am referring to 3) and 4)-- , end up neglecting the first two.

Size in the market

Their relatively small size turns into a strength: first, to avoid becoming the target of interest groups; and second, because, in order to develop new products that will

expand the opportunities for sharing risks, it will be necessary to be equipped with highly specialized professionals, more than with a financial capacity.

The professional team will earn the highest credit rating in the market, supplementing the fiscal contribution with the institution's own capital. That necessary technical autonomy will bring with it greater credibility among market actors.

In some cases, it would constitute a gradual step in the conversion of a development bank into a public capital investing institution with a more comprehensive mission focused on risk management. That has been the case in the developed countries.

Experience in the world of promoting domestic competence gives us the mirror in which, like ALIDE, we will be able to view ourselves in the next 50 years. Covering that course, in each particular case, will call for inspiration and a great deal of craftsmanship.

Implement successful experiments

Only by implementing this kind of successful experiment, with palpable benefits for society, will we be able to fight the current trend toward budget handout measures.

Private initiative in our countries, for its part, rarely ventures to try out new fields of activity. Entrepreneurs, particularly in the case of larger businesses, usually perform very well in regulated markets. The promotion of instruments to mitigate risks in innovation projects, as in the case of Indear, is critical for obtaining productivity gains from applied scientific research.

Returning to the foundations for development will also require our member banks, particularly those that are able to take deposits, to once again promote local

cooperative saving instruments. Those experiments, based on market forces and instruments, should be used to promote the attraction of local savings. Here, the traditional role of providing long-term resources to financial intermediaries in the market will not be enough. The role of the development banking system should be expanded to take in the creation of new instruments for attracting savings with which to finance local projects –something like establishing the seed for a small local capital market.

That path will mean making a strategic change in course. The very resource and risk allocation approach should be converted into the insurance or guarantee for the local institutional investor. Recovering the effective mechanism while familiarized with investment financing techniques will become the first step toward developing those markets. Expanding the range of financial intermediaries of that kind, as shown in the case of the bonds for financing cotton in an Argentinean province, offers our banks a great potential area for action.

5 Conclusions

Under certain critical circumstances emphasized at the beginning, the development banking system, in the future, will center its interventions on bringing about investments in projects of a collective nature (public-private), with long fruition periods and uncertain returns (common to the innovation process).

It is quite possible that those projects will not be of interest to the private sector or that their implementation will tend to be delayed in time.

In those particular cases, the intervention of the development bank as a public investment bank has the potential to accelerate the processes by developing projects, at the pilot scale, that are able to produce a strong impact through externalities and the capability of being replicated by market actors.

This challenge requires, in addition to vision, mission and strategic corporate planning on the part of the state in order to consolidate long-term institutions that are capable of assuming an entrepreneurial role in the economy. Those banks would, on behalf of the state, take on risks that are uninsurable in the market by allocating part of their venture capital to carry out uncertain investment projects with the potential to produce a strong social impact.

Those institutions would seek to achieve technical and financial autonomy, so as to enter into partnerships with market actors and with the government for the design and replication of new tools and financial regulations for risk management in projects that would promote higher levels of private investment, in order reach the region's maximum development potential.

Those institutions would enable the state to recover, via returns on investment, public resources that are used to promote development and that are frequently assumed as a fiscal expenditure.

In time, those banks, by creating trust or autonomous equity investment funds, would bring about a significant change in public accounting to facilitate the appropriation of profits (needed to ensure the financial sustainability of those institutions) and their possible reinvestment in the same sector.

Those reflections have the added value, bias included, of being based on the experience acquired during my work at the Argentinean BICE (Comercio Exterior, S. A.) investment bank from 2009 to 2014 and highlight, above all, the importance of using the risk allocation approach in the future actions of the development banking system.

Behind the apparent simplicity of the loan contracts, the analysis of specific risks reveals a far more complex situation consisting of diverse interactions among different actors with a market share.

A first lesson to be learned from this approach is the need to become aware of the importance of understanding the operation of the market in order to design the intervention. It is also critical, insofar as possible, to use existing instruments (like the warrant, in the case of the cotton) for backing the design of new contractual relations within the financial structure of the intervention, in such a way that they aim to transfer the risk to the party that seeks the largest return.

A second aspect to be stressed is the need to coordinate the design of the intervention with other market actors. Sector specialization of given market actors (agricultural insurance companies) or public agencies (Fontar-Fondo Tecnológico Argentino) is of critical importance for the correct understanding of the risks associated with the investment. Strategic alliances for jointly undertaking the study and implementation of new financial instruments will largely help to avoid oversizing the intervention and other typical «government failures». Market discipline will make it possible to define the intervention and facilitate its replication by the market.

The development banking system has passed through various stages in the region and this fact has frequently been pointed to as being part of the problem. I conclude that we have learned from the mistakes of the past, largely through actions promoted by ALIDE.

The specialization and high technical profile of the executives of our institutions is a necessary condition for advancing the type of risk allocation analyses promoted in my reflections. Today, this matter does not seem to be a problem, but there is always space for improvement. Development banks are now staffed with highly qualified personnel and have reached levels of efficiency and profitability comparable to those of private banks. Furthermore, in many cases, the highest standards of corporate governance have been introduced, dispelling the specter of undue political influence in bank management.

Many of those principles derived from the theoretical framework for risk allocation coincide with the development banking pillars promoted by ALIDE.

In that connection, ALIDE was consolidated as the encounter with a renewed interest in addressing this challenge, our space to recuperate, learn from successes and failures and, also, to reconfirm that it is too soon to claim victory, for the risk of the relegation of autonomy and a technical vision by the political will of the moment has not yet disappeared.

Stated more simply, the role of a professional and specialized development banking system takes on special importance for the future, for promoting interventions that will make it possible to leverage, several times over, the public resources invested in those institutions.

The conclusions of the analysis of my reflections demonstrate that the impact on development should be gauged not only in terms of a bank's size. Even a small, professionalized and experimental institution can achieve the objective of separating and transferring risks to the private sector most effectively.

The challenge of implementing those experimental innovations in the market will surely call for a greater financial capacity, in order to provide the seed capital for developing this or any other instrument.

Technological changes and artificial intelligence to boost productivity

Technology is nothing.
What is important is to have faith in people,
that they are basically good and intelligent,
and if you give them the tools,
they will do marvelous things with them.

Steve Jobs (United States, 1955-2011).

Overview of technology in the development Banking System

The opinions of experts in recent years regarding the entrance into an era of innovation, --known as the fourth industrial revolution,-- as a result of the convergence of different branches of knowledge: robotics, nanotechnology, biotechnology, information and communication technologies, artificial intelligence and other latest generation technologies that are working a complete change in the economic sectors, are making themselves heard with increasing insistence.

It is here that development banks have a very broad field --, but one filled with challenges,-- for developing innovative instruments and programs to meet the needs of the people, projects and territories they are mandated to serve.

This document centers on three aspects on which the development banking system is increasingly setting is sights to keep track of the processes: innovation and technological development, infrastructure, and the provision of services via digital means. These three fields, in turn, call for actions to be taken in other areas, such as education, institution-building, and public policy, among others, that would make investment possible with financings, mainly of a long-term nature --an area in which the development banking system has ample experience. However, the public resources provided by those institutions and by public budgets are insufficient to cover the volume of investment needed, making it necessary for the private sector to participate, at well.

The aim is not to continue using a development model that is at the mercy of developments in raw materials markets, of products with little added value or of traditional sectors. On the contrary, what is sought is a model that would incorporate technological changes and enable the countries of the region to enhance their productivity and be more competitive through the structural transformation of the Latin American economies --in other words, environmentally sustainable equitable growth.

This document is broken down into five parts. The first offers brief comments on the technological changes and some areas on which public policy should be brought to bear. The second analyzes the technological change in and structural transformation of Latin America and the Caribbean, with the aim of improving its productivity. The third reviews the action taken by the development banking system to support productive change in the region through different innovation and technological development initiatives. The fourth examines digital technological innovation in the financial industry at the service of inclusion, and opportunities for the development banking system and the bankarization process, and the fifth and final part sets out some conclusions and considerations.

1

Latin America and the Caribbean in the fourth Industrial Revolution

Latin America and the Caribbean (LAC) have made notable economic and social advances in recent decades. Even so, the economic performance of the past two decades --0.5% in 2015, a slowdown of 1.1% in 2016 and 0.9% in 2017-- pose enormous challenges for maintaining and continuing to produce those results, particularly the reduction of poverty and of inequality and the growth of the middle class.

Along this same line, it should be explained that the expected growth rates differ enormously among the region's countries. It would appear that the outlook for Central America and the Caribbean is more promising because of their ties with the United States economy, while Mexico's situation at the moment has been affected by the assumption of the new government administration in that country and the renegotiating of the North American Free Trade Agreement (NAFTA). In the case of the rest of the region's countries, however, the recovery of raw material prices offers signs of a better performance.

From that perspective, all of the forums or high-level meetings converge around a single point: in order to return to a course of consolidated growth, a new wave of structural reforms is needed, particularly to cope with a series of social, economic and institutional reforms that are closely interlinked: on the one hand, the development of human capital, whose key point is the quality of education and, on the other, the transformation of the state's role with a clearly-defined relationship between it and the market. The state has always served as the market's invisible hand, but it must also be the visible hand that ensures solidarity, equity, justice and the playing rules

(Segib, 2016). Economy-wise, better and more sustainable infrastructure is needed; the traditional model should not be expected to continue operating, but, rather, a network should be established that would interlink physical objects by taking advantage of information technologies --by way of example, that the structures of a project should behave in a particular way according to the climate or the frequency of their use.

The aim is not to continue using a development model that is at the mercy of developments in raw materials markets, of products with little added value or of traditional sectors.

It is also considered that the region should increase its productivity, diversify trade, enhance the climate for business and expose its enterprises to more domestic and foreign competition. In that connection, the diversification of trade and the revolution in productivity are two sides of the same coin. In effect, knowledge, technology and innovation will take over the space occupied in the world today by raw materials after this crisis passes (Segib, 2016).

Even so, the opinions voiced by experts are proliferating with regard to the entrance into an era of innovation --known as the fourth industrial revolution-- resulting from the convergence of robotics, nanotechnology, biotechnology, information and communication technologies, artificial intelligence and other latest generation technologies, which are working a complete change in the economic sectors with impressive speed.

It is a revolution based on the Internet of Things (IoT), where everyone has access to information all the time and everywhere. It offers the possibility of collecting and analyzing data massively and by automated means (Big Data), for decision-making and implementation in real time. The scope and rate of innovation is expected, over the next few years, to transform the way we produce, distribute and consume. In order to take maximum advantage of its benefits, measures should be taken to enable us to prepare our economies and societies.

As a result of all of the foregoing, the public policy agendas of various countries have started to focus on technological industrialization, the generalized adoption of ICTs and the development of networks of advanced telecommunications infrastructure. We undoubtedly are facing a new era that calls for an important budgetary effort by both business and state to confront a capital-, infrastructure-, and R&D-intensive innovation process. This revolution is forecast to have a more reduced impact on the developed economies than on the emerging markets, --especially those of Latin America and Asia--, which will be affected by the reduction of the competitive advantage created by cheap labor. (El País, 2016)

In short, it is essential for the region's governments to promote the accessibility and affordability of the new technologies, in order to prevent the emergence of new disparities in income, capacities, opportunities, productivity and access to information and knowledge, inasmuch as the link between innovation and development, new products, new processes and new forms of organizing production works a quantitative and qualitative change in the structure of the economy and of society. But the process of producing, disseminating and applying new technologies or innovations is neither deterministic nor linear. Public policy and the institutions that support technology and innovation play a key role. As a result, in order for technological change and structural transformation to take place, it is necessary to have qualified human resources and training and research institutions par excellence, companies that develop innovative projects and a production structure that would demand and produce knowledge; and also institutions supporting investment in innovative projects that would support coordination between the agents and the widespread dissemination of the new technological models.

2 Latin American and Caribbean technological change and structural transformation

The confluence of globalization with the invasion of new technologies, of exponentially growing technological development, makes it necessary to speed up the transformation and structural change of the region's economy. In that connection, the region should undertake a new period of structural reform in order to adjust to a more competitive world with slower and more volatile growth rates and in which raw materials will not be the only or the main driving force for growth. With the changes in conditions that favored LAC in recent years, the region will have to rely on its own means to stimulate growth. And those means are, to tell the truth, only one: productivity. In that area, investment in human capital and in infrastructure (the region invests only 3% of its GDP) is undeniably a key element for gaining in competitiveness and productivity. Strengthening the financial system is extremely important because it will make it possible to support opportunities for investment.

a) Productivity

According to an Organization for Economic Cooperation and Development (OECD[1]) report, the growth of labor productivity in many countries of the region over the past decade barely reached that of the advanced economies and was insufficient to significantly reduce the gap in living standards. In that connection, the recommendation of that organization is for competition policy to strengthen the links between education and the labor market through better technical education programs and by providing guidance on the skills demanded by the labor market. Resource allocation is also deficient, for both capital and labor are allotted to companies and sectors with very little productivity, and their reallocation to other, more dynamic sectors is very slow. As a result, the most innovative and productive enterprises fail to attain the necessary scale for operation in global markets.

1 OCDE, 2016.

Innovation-wise, the report compares how the OECD companies were able to raise their registered patents from 50 a year per one million inhabitants in the nineties to 130 at the beginning of this decade, while in the region, over the same period, the rate rose from 0.3 to 0.9 patents per million inhabitants. The data also reveal that the Latin American countries lag behind in spending on R&D and other investments associated with innovation, thereby producing relatively weak innovation ecosystems.

Insofar as the business fabric is concerned, the region is known for being made up primarily of SMEs that account for roughly 70% of the employment, but generate only 30% of the gross domestic product (GDP), a level far behind the average attained by the OECD countries. That shows up the fact that there is a greater tendency to operate informally, meaning that companies do not grow and that they avoid tax burdens, which, in turn, keeps their employees from acceding to labor benefits. According to the International Labor Organization (ILO), over 127 million people (47% of the labor force) in the region have informal jobs, which means that they remain uncovered by labor law and do not pay social security or taxes.

Informality affects some sectors more than others, above all in areas like construction and agriculture and among female household workers. Although informality has been reduced considerably in recent years --it dropped from 65% in 2000 to 47.7% in this decade--, that is still insufficient and it runs the risk of rising in keeping with the slow economic growth.

In order to sustain that growth, LAC must increase its productivity and adjust its production structures to the new circumstances. For some countries, it will be essential to improve the logistics chain, while for others their infrastructure must be modernized to bring it into line with that of the global market. The quality of education must be improved in most of the countries. For many others, increasing their competence in providing services will be of key importance.[2] In all of them, the state must be more efficient in guaranteeing and providing their citizens with the same opportunities and services.

b) Competitiveness

As can be noted in the World Economic Forum's latest Competitiveness Report for 2016-2017, the areas in which the region is in greatest disadvantage are: infrastructure, skills and innovation. The region urgently needs to confront the challenges to its productivity in order to boost its competitiveness, in the light of its slower growth. In that connection, as recorded in the latest reports, the top ten positions were occupied by the same group of countries, which rotated positions

2 Infolatam, 2012.

with each other in some cases. Among the LAC countries, Chile and Panama are the best positioned. Chile rose two rungs to take the 33rd position, while Panama climbed eight spots, to assume the 42nd. Brazil, for its part, dropped six rungs to the 81st position and Venezuela ranked last (130th position).

The 10 most competitive economies in Latin America

Chile: 33	
Panama: 42	
Mexico: 51	
Costa Rica: 54	
Colombia: 61	
Peru: 67	
Barbados: 72	
Uruguay: 73	
Jamaica: 75	
Guatemala: 78	

Source: Informe de Competitividad Global 2016-2017

c) Infrastructure

Today the region invests an average of about 3% of its GDP in infrastructure, far from the 5% estimated as needed to close the gap and a low average when compared with regions like East Asia and the Pacific. In China, the investment was 8.5%, in Japan and India, 5%, and approximately 4% in other industrial economies (Australia, Canada and South Korea). LAC's investment in infrastructure amounts to 0.8% of GDP less than that of the United States or the European Union, regions with far more developed capital endowments and that allocate the greater part of their investment to infrastructure maintenance. (McKinsey Global Institute, 2013)

Infrastructure problems hold back not only the capacity to grow, but also to be competitive and more productive, because deteriorated and poor quality infrastructure produces related problems, like deficient logistics, high transportation costs, and low port and customs efficiency. Multiple investigations by the Inter-American Development Bank (IDB[3]) have shown that a shortage of infrastructure is one of the greatest obstacles to trade. By way of example, despite the geographic proximity between the United States and Latin America, sending a container filled with manufactures to the northern countries costs twice as much as its competitors in East Asia have to spend on sending a similar container that must cross the world.

Trade between Asia and LAC is also filled with difficulties. The huge distance separating the two regions makes it essential to have efficient infrastructure and integrated logistics in order for that trade it be profitable. Transportation costs today between the LAC countries and their Asian trading partners are almost nine times higher than the equivalent cost in terms of tariffs.

The approach to the investment gap necessarily centered on the need to obtain more resources. Closing that gap, however, should not --and, in fact, cannot-- be a matter of only increasing spending. There are other ways to reduce and even close that gap, like ensuring that the expenditure is well oriented and efficient. In that connection, the World Bank (WB) calculates that in the case of electricity alone, distribution and transmission losses could be reduced by between US$8 and US$9,000 million, and by between US$23 and US$24,000 million if the investment model of the past is changed.

Furthermore, the private sector can be highly useful in reducing the service gap, but must not be viewed as a substitute for public investment, for it does not mobilize enough capital. The WB database on private participation in infrastructure (PPI) reveals that the investments have varied between 0.5% and 1.2% of GDP per year since 2006.

Therefore, in order to improve the efficiency of public spending and involve the private sector, it is necessary to establish sounder institutional, regulatory and legal parameters, more transparent contracts and innovative financial structures that make projects less risky and improve returns on investment. In addition, a long-term approach is needed that will go beyond that of the governments.

d) Human capital

In Latin America and the Caribbean, over the period 2001-2016, there was a moderate increase in access to preschool education, which rose from 56% to 66%

3 BID, 2013.

on average, while coverage of primary school education bordered on 95%. Even so, those improvements in coverage are still insufficient in regard to preprimary and secondary education (at ages of between 12 and 15 years), where access stands at 70% and upper secondary, at ages of between 15 and 17, to which only 40% accedes.

This last figure indicates, above and beyond the advances made in education in LAC, that quality continues to be a distant aspiration, above all if broadly considered --in other words, when social conditions, inputs, teachers, school achievement and academic results are included.

The **2015 PISA** assessment of young people **aged 15** in **72 countries** found that almost one-half of the students showed evidence of **low levels in reading (46%)** and in **science (50%).**

Despite the increased investment in education (LAC allocated over 4% of GDP), there is consistent proof of inadequate development of academic, technical and socioemotional skills. One of the international PISA (Program for International Student Assessment) assessments places the region far below the average obtained by the developed countries. The 2015 PISA assessment of young people aged 15 in 72 countries found that almost one-half of the students showed evidence of low levels in reading (46%) and in science (50%). In the latter case, if compared with the OECD countries, the low level corresponded to only 21% of the children assessed. Generally speaking, 50% of the students do not possess the knowledge or skills needed to participate fully in society. If their peers outside the educational system and overage students still in primary school are included, the total percentage with low performance scores would rise to 66%.

In that way, according to PISA 2015, within the global ranking in science led by Singapore (top position), Chile leads the region (44th) among the 72 countries participating. It is followed by Uruguay (47th), Trinidad and Tobago (53rd), Costa Rica (55th), Colombia (57th), Mexico (58th), Brazil (63rd) and Peru (64th). The Dominican Republic closes the global *ranking*.

e) Innovation

As mentioned thus far, the region's deficient productivity and competitiveness parallels its deficit in innovation. While it is true that spending on R&D rose over the period 2001-2016, --the region is, after Asia, the world's second strongest growing region in investment in R&D,-- it is also true that it is still far from reaching the figures attained by the OECD countries and Asia. Investment in R&D in the region is on the order of 0.8% of GDP (according to IDB data for 2011), which does constitute an advance compared with the 0.48% of 1990 and the 0.57% of 2000. In any case, much remains to be accomplished in order

From that perspective, all of the forums or high-level meetings converge around a single point: in order to return to a course of consolidated growth, a new wave of structural reforms is needed.
Photo: ALIDE.

to catch up with or, at least, achieve similar figures to the United States' 2.8%, South Korea's 3.7%, Finland's 3.9% or Israel's 4.3%.[4]

At the entrepreneurial level, the situation is not very different. According to the World Bank report,[5] even though the region leads the emerging economies in entrepreneurship, it is positioned at the end of the line in innovation, a result that even the multinational corporations share. The investment made in R&D by Chinese multinational corporations is 34 times larger than that of the multiLatin manufacturers, with the exception of Brazil; and the multinational corporations of the most developed countries invest 40 times as much.

In short, most of the region's countries still lag behind in terms of competitiveness in areas as important as infrastructure, innovation and productivity, which is the main obstacle to equitable economic growth. In order to enhance their competitiveness, the region's countries need to work in key areas that are considered growth sectors in the highest income countries: infrastructure, investment in R&D and integration. Innovation is closely tied in with education, employment, dissemination of new technologies, competitiveness and equitable economic growth. Therefore, in order for the region to be more competitive, long-term structural reforms must be promoted to spur productivity and, with it, entrepreneurial talent that is crucial for improving the people's wellbeing, reducing unemployment and building up greater strengths to face future economic crises.

4 Llorente and Cuenca, 2015

5 World Bank, 2014

3

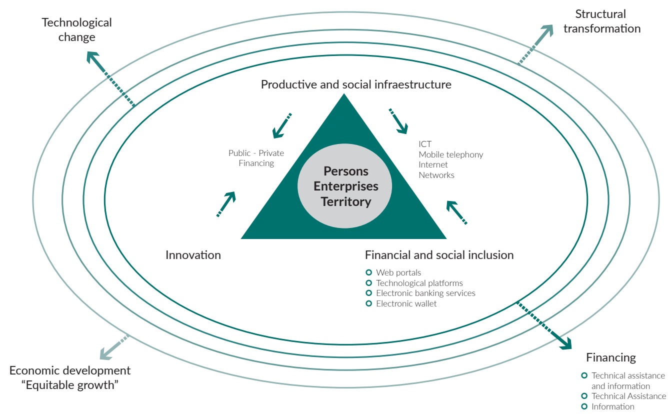
Development Banking activities to promote productive innovation

As the Economic Commission for Latin America and the Caribbean (Ecla) points out, the relationship between innovation and development undeniably alters the structure of the economy and of society quantitatively and qualitatively. But the process of producing, disseminating and applying new technologies or innovations is not deterministic or linear. Public policy and institutions that support technology and innovation play a basic role.

Therefore, in order for a technological change and structural transformation to take place, it is necessary to add to the factors for enhancing competitiveness --infrastructure and qualified human capital-- companies that implement innovative projects and a production structure that requires and produces knowledge, in addition to institutions for promoting investment in innovative projects that support coordination between economic agents and the dissemination of new technological developments. In that connection, evident failures in the markets for innovation, research and development projects and the lack of positive externalities determine the need for the state to play a more active role and for greater public-private interaction.

Each state continues to be a complex structure. It is possible to identify specific multiple policies that have an impact on competitiveness, whose responsibilities are broken down into a broad range of organizations and programs. As a result, there are specific policies with effects on competitiveness. Among the most important

Productive transformation:
Development Banking and financing in an age of technological changes



of these are: fiscal and public financing policy; monetary and exchange policy; tariff policy; trade agreements; infrastructure investment policy; export promotion policy; technological innovation policy; human resource development policy; sme modernization policy; foreign investment attraction policy; sector policies and government procurement policy.

It is in this conceptual framework that development banks should continue to play an important role by offering a series of credit lines and programs designed to meet the financial needs of the potentially profitable actors or economic initiatives that have problems in acceding to the formal financial market. Those are instruments that, in some cases, have involved direct or indirect mediation by those institutions to help surmount the effects of market failures or the absence of markets.

In general, development banking activity to enhance competitiveness should continue to center on several aspects, among which the following can be emphasized: efficient mobilization of financial resources and capital; human capital improvement; support for the supply of infrastructure services; creation and assimilation of new knowledge and technology; creation of more effective institutions for supporting private production activities, and productive and sustainable natural resource management.

At present, 81% of the development finance institutions provide support to a wide range of competitiveness-related activities. Some figures stand out: 68% support productivity enhancement activities, 55%, the provision of infrastructure, 23%, educational financing and 15.4% boost innovation.   In that way, some of the experiences of those institutions in areas of operation for improving competitiveness and productivity are reviewed in order to provide a general overview of initiatives to support competitiveness implemented in the region in recent years and to provide an understanding of the support structure of those enterprises.

It is essential that in markets as competitive as those that exist today, companies continuously improve their processes. For that reason, the development banking system --one of the principal public policy instruments responsible for promoting innovation in the production sector-- seeks to help enhance the competitiveness of national economies by promoting and facilitating company innovation and incentivizing entrepreneurial development. The effort centers on serving the needs of the users and helping them at all stages of the innovation cycle.

4

Artificial intelligence as the driving force for innovation and productivity

The potential applications of artificial intelligence (AI) --understood as being the capacity of machines to perform processes-- are infinite in sectors like transportation, medicine and industry, as well as in finance. Little by little, the start of a revolution in this field can be perceived. Thus, it is particularly attractive at moments like the present, with a marked reduction in the capacity of the traditional production factors of capital --the marginal rate of capital efficiency has been declining for the past 50 years-- and of labor. In that context, AI is viewed as being a third factor of production and could go beyond the physical limitations of capital and of labor to open up new sources of economic growth.

According to Mark Purdy and Paul Daugherty, «AI, as a new factor of production, opens at least important routes to growth. First, a new virtual labor can be created; this is what we call 'intelligent automation.' Second, AI can complement and enrich the knowledge and skills of today's labor and physical capital. And last, as in the case of previous technologies, AI can boost economic innovation. In time, all of that becomes the catalyst for a wide-ranging structural transformation. Economies that use AI not only have a different way of doing things, but also do different things.»[6]

Estimates made in 10 developed countries indicate that AI could double the GDP growth rate and raise the productivity of labor from 11% to 37%.[7]

In regard to our region, Ovanesso and Plastino (2017), use 2035 as «the year of comparison,» considering that «time is needed for the impact of a new technology to become better reflected in the economy». By their estimates of Argentina, Brazil, Chile, Colombia and Peru, AI produces the greatest economic benefits in absolute terms for Brazil, that will culminate with an additional US$ 432,000 million in gross value added (GVA) in 2035. That would produce an impetus amounting to 0.9% for that year's growth. Chile and Peru could increase their GVA by 1%, thanks to artificial intelligence. In the meantime, Colombia could experience an additional expansion of 0.8%.[8]

More global calculations estimate that the world economy will be US$ 16 billion larger in 2030, thanks to AI, which is more than the current production of China and India combined.[9]

Improvements in labor productivity will represent over half of the economic gains produced by AI from now until 2030, while the increase in the consumers' demand, as a result of improvements in the product, will supply the rest.

6 Purdy and Daugherty, 2016.

7 Mark Purdy and Paul Daugherty, 2016.

8 Ovanesso and Plastino, 2017.

9 PWC (2017).

The regional gains will be felt most strongly in China, whose GDP will rise 26% in 2030, followed by the United States (14.5 %). Overall, the two countries account for almost 70%, or US$ 10.7 billion, of the global impact of AI. Europe and the developed countries of Asia will also benefit significantly (from 9% to 12% of GDP in 2030), while the developing countries of Africa, Latin America and Asia will experience modest gains (less than 6 %).

The authors of the report claim that the benefits of AI will be experienced differently in all of the sectors. Retailers, financial services and the health sector will all be rewarded as productivity, the value of the product and consumption improve.

In that scenario, there are questions of vital importance to be asked: How can artificial intelligence applications be confronted and promoted in Latin America and the Caribbean in order to enhance productivity and economic growth? How will income distribution be affected? What opportunities will there be for people in the lower-income strata, above all those who do not have the skills needed for the new type of jobs? What should the role of the state be? How should the activities of development banks be oriented and what will their role be? What are the possibilities, trends, and development potential of AI in the financial industry: blockchain, fintech, big data, implementation of local trade circuits using virtual currencies and their application in rural zones?.

Insofar as the business fabric is concerned, the region is known for being made up primarily of SMEs that account for roughly 70% of the employment, but generate only 30% of the gross domestic product (GDP), a level far behind the average attained by the OECD countries.

Banking and digital technology

In Latin America and the Caribbean, there are more mobile telephones than bank accounts (WB) and over 344 million people --55% of their population-- are now interconnected with the Internet.[10] There are also more fixed broadband Internet subscribers than in any other region of the developing world, aside from East Asia, the most populated area of the planet.[11] The widespread growth of information and communication technologies (ICTs) is also boosting electronic commerce, making it possible for more ventures to show growth and increase their productivity by acceding to new markets. Furthermore, ICTs offer financial institutions more efficient systems and more accessible services, so that people can make use of them at all times, from any spot and through their electronic device of choice. According to GSMA, the global association of mobile operators, within five years, Latin America and the Caribbean will occupy the second ranking position at the global level as to the intelligent telephones installed base, after only Asia. At present, Brazil is the principal market for intelligent telephones in the region --with 89.5 million connections-- and the fifth largest in the world (El País, 2017). Those figures will continue to rise, in the degree to which the speed of Internet improves and the most advanced infrastructure

10 Internet World Stats. Data of November 30, 2016.

11 World Development Indicators (World Databank, 2016) of the World Bank.

is introduced into the region. The velocity of technological change today has turned into one of the most disruptive forces in history.

In that way, the region has become fertile ground for disruption by fintechs (financial services companies that use latest generation digital technology and associated tools like Big Data to offer innovative products and services). According to the Latin American Private Equity & Venture Capital Association (Lavca), the sector attracted 40% of the total invested by private Latin American and foreign capital funds in information and communication technologies during the first half of 2016, compared with 29% in 2015.

CAF-Development Bank of Latin America maintains that «part of the financial world is still unsure today whether, in all truth, one can speak of disruption in the banking industry, inasmuch as fintech companies still account for a very small share of the banking business (1%) in the United States». Greg Baxter, Citibank Digital Strategy chief, warns, however, that we are just beginning the disruption cycle. In his opinion, fintech companies' share of the market will continue to swell until it reaches an inflection point, on a date still to be determined. As of that moment, financial institutions that have not yet converted will see their growth slow and then begin to decline. «The time that will take will differ across the world, but the trends will be consistent: traditional banks that adapt will prosper and those that don't will have problems.» (Citi GPS, 2016)

Citi estimates that that market share will rise to 17% in 2023 (Citi GPS, 2016). The disruption rate will differ by country, depending upon the rate of development, but, particularly, of the interaction of the various forces at play, among them consumer habits, level of penetration of mobile telephones, particularly intelligent phones, level of Internet penetration and speed of data transmission, percentage of bankarized population, and government regulations.

Even so, it is expected that, far from there being a confrontation between fintechs and banks, it is more likely that synergistic relationships will develop, for they need each other, insofar as both infrastructure and specialized services and financing are concerned. Collaboration between the two sectors today is growing progressively closer, but still continues to be far less than it should. An example is the participation of WhatsApp in the transfer of money.

Digital technological innovation at the service of financial and social inclusion: opportunities for the Development Banking system

The trend that can be seen in banking today is toward the integration of all channels that exist in the market, the so-called omnichannel;[12] this is due to the fact that innovation starts off by migrating from manual to digital. The channels used by banking are moving away from physical integration with customers: there are less transactions in the agencies and more interaction over digital channels. As a result, the new information and communication technologies have served as an important supporting element for the development of financial products that, operated through digital platforms, make it possible to massify loans, route supports more accurately, provide service in real time and at a low cost, provide a series of services --training, information, credit, technical assistance and guarantees-- , provide timely service regardless of the distance, and interlinkage and business transactions among customers. For that reason, development banks have frequently been pioneers in the adoption of those tools.

Development banks should continue to play an important role by offering a series of credit lines and programs designed to meet the financial needs of the potentially profitable actors or economic initiatives.

The role and responsibility of those institutions has been to facilitate mechanisms and actions favoring financial inclusion. As can be seen in Table No, 1, 30.6% of the development banks offer electronic banking services and 14.3% offer products via technological platforms that facilitate the expeditious development and distribution of new products for MISMEs.

Table N.º 1

Digital technological innovation at the service of financial and social inclusion

Platforms	%
Electronic banking services	30,6 %
Electronic platforms for SMEs	14,3 %
Web portal (business network environment)	8,1 %
Electronic wallet	6,5 %
Virtual payments platform	3,2 %
Electronic factoring	4,8 %
Applications	6,5 %

Source: ALIDE, 2017.

12 We understand omnichannel to mean the strategy and management of channels that is aimed at integrating and aligning all available channels in order to provide customers with the experience of being a homogenous user through their use. (Deloitte, 2015)

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