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CRITICAL ASPECTS OF DEVELOPMENT FINANCE IN THE FRAMEWORK OF THE 2030 AGENDA

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TECHNICAL DOCUMENT

CRITICAL ASPECTS OF DEVELOPMENT FINANCE IN THE FRAMEWORK OF THE 2030 AGENDA

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Introduction

The First Meeting of Chief Economists of Latin American and Caribbean Development Banks: "Critical aspects of development finance in the framework of the 2030 Agenda" was held on September 19 and 20 in the city of Belo Horizonte, Minas Gerais, Brazil. Organized by Banco de Desarrollo de Minas Gerais (BDMG) and the Latin American Association of Development Financing Institutions (ALIDE), it enjoyed the sponsorship of the Inter-American Development Bank (IDB).

The meeting was divided into two parts. In the first, the Roundtable of Economists discussed the role of development finance institutions in achieving the priorities of the 2030 Agenda for Sustainable Development. At the strategic level, the discussion focused on current trends affecting the region's economic process.

With these subject areas as a starting point, the participants addressed issues like climate change and risk management; sustainable infrastructure and territorial development; economy 4.0 and digitalization in the banking sector, and financial inclusion and impact measurement.

The second part consisted of the Conference of Development Technicians and Experts, where knowledge and viewpoints were exchanged with regard to strategies for development finance; digital transformation and the impact of the new technology on development banks; and challenges of impact measurement in development banks and its connection with the 2030 Agenda.

In this second part, the conclusions and discussions of the meeting of chief economists served as an input for a wide-ranging exchange of experiences in regard to the fundamentals of development finance.

This document gives a detailed account of the principal ideas and results of both the Roundtable of Chief Economists of Latin American and Caribbean Development Banks and the Conference of Development Technicians and Experts.

1

Overview, Lines of Action and Future Challenges Confronting the Development Banking System

1 Overview, Lines of Action and Future Challenges Confronting the Development Banking System

- A change is taking place in the focus of attention of development banks. It has moved to new areas of action, like support for environmental protection, the generating and use of renewable energy sources, support for SMEs, and promotion of innovation. An essential part of these changes involves coordinating the strategy for ecological and social transition, aligning themselves with the SDG, and orienting their operations towards a clean economy and poverty relief. At the same time, the old challenges continue to exist and add to the new ones: the mission to complete the markets and complement the gaps left by commercial banks through service to customers that have been excluded. Their importance in adding value to the customer goes beyond merely offering simple loan products. Instead, it targets activities that enable them to diversify and increase their revenue, while at the same time producing an economic, social and political impact --in other words: offering advisory services, a product mix, and counseling for the best possible use of the funds loaned. They also offer consultancy and training services, technical assistance, promotion or formation of cooperation networks, and facilitation of business among their customers. Some development banks structure financings, create new channels for raising private funds, and produce and disseminate technical know-how, as well.

- The banking sector is confronting a changing environment in which customers increasingly demand more and better services more rapidly, safely and efficiently and with a minimum degree of direct interaction with the business. The very banks themselves, in turn, need to undergo modernization in order manage their risks more effectively, broaden their coverage, incorporate new products or services, reduce costs, and shorten service times, among other things. In order to accomplish this, they must continuously transform themselves technologically by developing interfaces and technological services that will enable them to establish an efficient link with the final customer. In that effort, banks must revise their operational practices in order to eliminate inefficient processes and procedures that raise their costs and limit their possibilities for development; automate everything that proves to be feasible and efficient and that will result in better customer service; make a diagnosis to evaluate the obsolescence of their software; and integrate their various customer databases into a single platform, with a view to creating the concept of "the bank's universal customer," a single information source containing all of the customer's businesses, products and services.

- Given the diversity of situations and conditions existing in Latin America, the challenges facing development banks are also very diverse. They are not homogeneous. There is no single model; these differ from country to country. Their operational configuration depends upon each country's individual nature and environment. No standard proposal exists for all countries in the region that could serve as a universal recipe for financing. The most appropriate intervention will depend upon the country's targets and goals and the socioeconomic environment, culture, and predominant social values. While some countries finance development using an integrated system made up of a combination of wholesale and retail banks, others employ only public multisector or specialized retail banks or retail banks that operate through private intermediaries. That diversity of models is broadened further by an examination of the way they obtain their funding, in order to be able to channel resources towards the financing of the production and social sectors.

- The development banking system has the great opportunity to become one of the leading actors in effecting the change from the traditional model of direct financing of public projects to a new paradigm based on fund raising and making the best use of capital in a context of dwindling availability of foreign capital and fiscal restriction in the Latin American and Caribbean countries. In order to accomplish this, capacities must be built that would permit those banks to evolve from being traditional lenders to modern institutions with financial engineering: banks that would make use of state-of-the-art instruments to raise private funds and that would seek innovative financing sources in order to optimize the use of their capital; banks that would employ risk distribution mechanisms: syndicated loans for project finance, strengthening of credit and its guarantees, of products of export credit agencies, co-investment in venture capital and private equity funds, etc; banks that would promote competition by helping non-bank financial institutions target specific segments; and that would improve coordination and resolve other problems and assume direct risk only when no market has been developed.

- Since about 2014, Latin American development banking assets and outstanding loan balances have been declining year-by-year. Considering the fact that we are currently in a phase of declining economic growth, the opposite could have been expected. Public resources are not flowing towards those financing institutions. On the contrary, in some countries they have even been forced to reimburse the public treasury. For that reason, more attention has been given to attracting funds in capital markets and entering into financing agreements with bilateral and multilateral banks. Also to taking advantage of the development of new markets, like the green bond market for financing green projects or ones related to climate change. Furthermore, they are in the process of moving, or must move, towards a development banking model in which, more than lenders, they serve as facilitators. Or they use instruments that facilitate access to, and at the same time increase, fund raising possibilities by, for example, making fuller use of the provision of loan guarantees to back the issues of companies or financial intermediaries. This is complemented by technical assistance services and information, among other things.

- The financial sector has achieved significant growth over the past three decades, but even so there are market failures and shortcomings that work against specified projects, regions, enterprises and sectors. This makes inclusion more difficult and calls for, among other things, a certain degree of state presence with public policy measures that would permit the expansion of access to credit and to financial services. Financial inclusion and integration go beyond the inclusion of people; they must also consider the smallest businesses; new activities or products with which the financial market is not well acquainted; projects with high social returns, and distant localities or territories without a financial offering, lacking infrastructure, and with fragmented populations, that are viewed as not being very profitable or as highly risky.

- Financial inclusion demands important changes in product design in order to consider the needs of those sectors or projects, as well as the use of alternative distribution channels and risk evaluation methodology in keeping with those changes. The development banking system seeks to reinforce the supply of innovative and inclusive financial services under a service ecosystem that will make it possible to reduce the inequality gap. It is for that reason that technology improvements are being implemented, like web platforms, electronic banking services, mobile applications, and virtual evaluations, among others. Such innovations make it possible to reduce times and costs, to get closer to the target public, and to include those sectors that are self-excluded from the system.

- It is not only a matter of funds, but also of quality projects. It is important to develop the demand for credit and support for the design and execution of high-quality and bankable projects. This is a necessary precondition for the success of available financing lines in the development banking system. In many sectors, entrepreneurs/customers lack the capacity, knowledge of business opportunities and necessary expertise for creating projects that can be financed, such as, for example, sustainable or infrastructure projects. As a result, the importance of supporting the structuring of projects eligible for financing, --in other words, pre-investment,-- must be underscored. In that way, financial instruments can be applied to produce the desired impact. In order to promote the investment, it is important to undergo institutional structuring by setting up an area dedicated to these matters. There are several possible ways to spur that demand, but, in general, the following are considered crucial, to wit: (a) on the one hand, to integrate the technical support needed for project structuring into the credit lines, and (b) to provide additional, condition-free technical assistance for promoting programs and developing basic structures/methodology. Helping customers acquire the capacity to propose and structure new projects capable of being financed can help increase the demand; but it is important that the assistance be linked not only to a financial obligation. In order for those actions to be effective, it is necessary to identify the characteristics of the customer and of the sector. A more precise definition of the installed capacities will result in a better understanding of the concrete needs to be covered. Furthermore, the identification of market failures will make it possible to reduce the investment risk, guarantee the effectiveness of the programs, and identify new opportunities.

- The development bank beyond its financing function. Development banks are aligned with public policy in that they advise and orient governments in the event of possible shortcomings of the private sector. They also act as identifiers of investment, trade, and business opportunities and serve as suppliers of public goods. In performing new activities with a future projection, they create innovative financial and non-financial instruments. The reason for this is that often the problem is not one of a lack of capital. It stems, rather, from a scarcity of suitable instruments for raising funds and channeling the investment, a lack of trained human resources with a profile appropriate to the needs of the companies and of the very state, and an institutional structure that makes it possible for public policy implementation instruments to avoid coming up against barriers to their effectiveness that would limit the countries' economic development. The fact is that in order to achieve greater development, it is necessary to facilitate access to resources and their use by national economies.

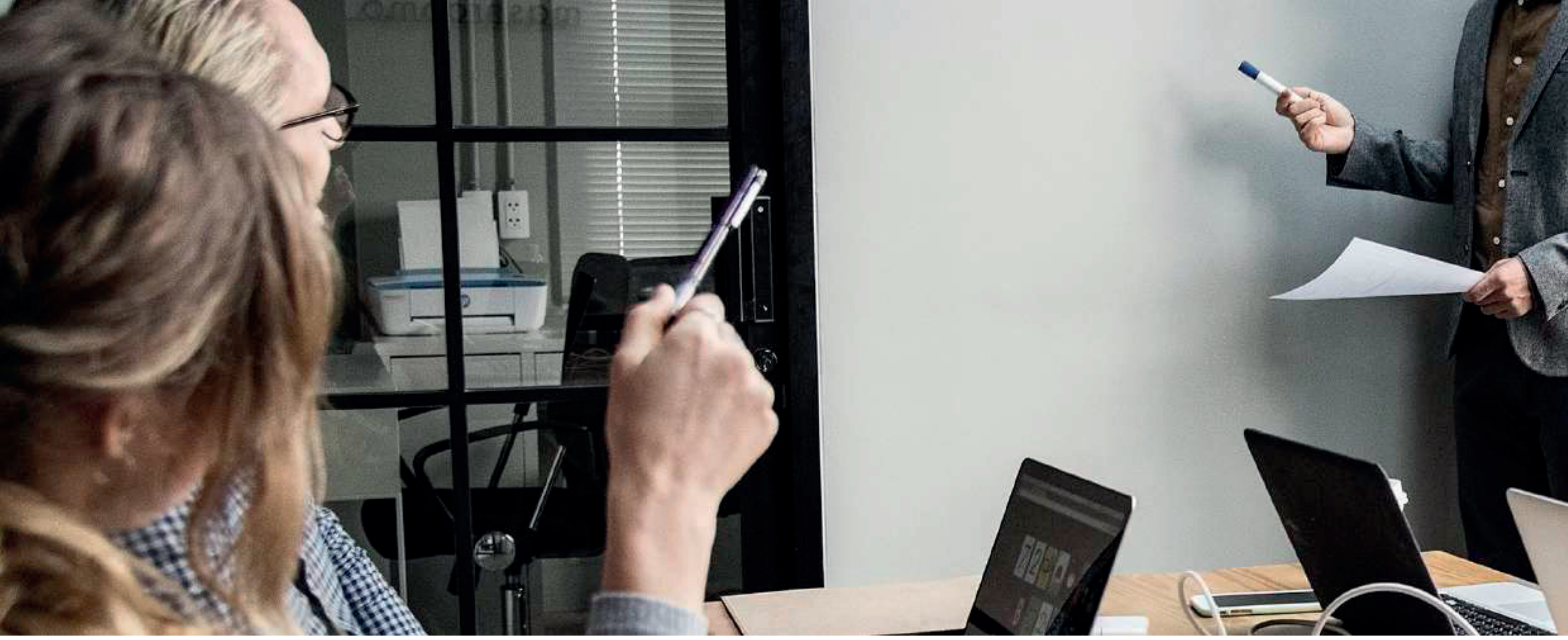
Generally speaking, the non-financial contribution, expressed in terms of services provided by development banks, is demonstrated in the following: 1) advisory services: This means maximizing knowledge existing within the bank (minimum marginal costs), providing technical assistance to the customer in order to make his/its business sustainable, and helping companies to structure specific projects; 2) platforms and network management: Enabling networks to be created among enterprises of different sizes, facilitating joint business transactions, creating opportunities for cooperation, and taking advantage of synergistic relationships among innovative enterprises; 3) risk mitigation: Mitigating regulatory, project, economic cycle or policy risks; 4) establishment of standards: helping projects and customers to achieve higher standards, promoting better policies and providing expertise on environmental, social, and governance standards and on best practices in integrity and acquisitions; also providing customer support in order to improve project impact and performance; 5) knowledge, innovation and capacity-building: Inasmuch as expertise, innovation, knowledge and/or capacities are fundamental for producing an appropriate impact, support for capacity-building should be provided by bank or external experts; and 6) economic analysis: Compiling and evaluation of information (data, policies and statistics) on the economy, government institutions or social services systems.

- Combination of different financing sources. Financing a development agenda, particularly one for investment in infrastructure or environmental projects that call for a large volume of resources, requires capital that states and regional financing institutions lack. For that reason, it is necessary to form a partnership with the private sector for the purpose of raising capital and obtaining the necessary technical expertise. The challenge for development financing institutions in this regard is to build up their planning areas and supply the long-term instruments needed to finance and structure the projects. With this aim in mind and faced by a global economic situation that promises to be unfavorable, it is highly important for regional and multilateral financing organizations to join together in raising the long-term funds required. They must also act actively, design projects, form knowledge networks without worrying too much about using highly sophisticated financing structures, raise funds in the capital markets, create instruments that are more functional and can later be transferred to the private sector while maintaining an impact on development, distribute risks with the investors, and promote investments in sustainable development in areas like renewable energy sources, energy efficiency, and intelligent cities, among others.

- The new communication and information technologies have served as an important supporting element for the development of products that, operated via web platforms, make it possible to massify loans, target support activities more accurately, offer low-cost services and rapid service in real time, provide a series of services --training, information, credit and technical assistance, and guarantees-- and timely service regardless of the distance, and link up customers so they can do business with each other. Stated otherwise, customers are linked up not only with the bank, but also with each other, while acceding to financing and doing business. Favorable conditions must be created and the necessary incentives provided to induce bank and non-bank financial intermediaries to innovate markets, products and processes. These will make it possible to move ahead without interruption and complementary to the private agents in reaching the goal of greater financial inclusion. As one way of reaching sectors that demand small loans or that are located at a greater geographic distance, and of reducing risks, development banks have agreed to establish partnerships with non-bank financial intermediaries.

- Digitalization is the future, an opportunity and a precondition for competing and should be incorporated by all enterprises, regardless of their size. Profit today no longer comes from physical capital, nor is it a benefit to be obtained from low wages. Rather, it derives from the intangibles associated with the use of that physical capital and of the digitalization of the processes, which have a strong impact on employment and social issues. Furthermore, investment flows are shifting toward countries that possess connectivity infrastructure and the necessary conditions for using the new Internet technology. LAC has a serious problem in this area. Despite the progress made, only 30% of the population has access to 4G technology, while the rest, or 70%, operate at the 3G or 2G level, and another population segment has very little access, thus losing the opportunity to benefit from the new technology. That is another sector where new investments are urgently needed.

- Complementarity with the rest of the financial intermediaries. Characteristics and actions must harmonize with each other, insofar as the surrounding environment and development policy are concerned. Therefore, in referring to a development financing system, the development banking system should be included with a role of its own. At the same time, it should also meet the need to work together with commercial banks, capital markets and other financial and civil society agents. This means having a greater vocation in the future for cooperating in sharing-



experiences and preparing joint and coordinated activities among the banks, in order to take advantage of combined efforts. The development banking system --particularly wholesale development banking-- can play its financial role. But it should not act on its own, but as part of an organic set of measures and actions, complementary to those of the private sector, in order to ensure the sustainability of financial and investment flows.

- Catalyst of private sector resources. The development banking system can perform the function of catalyst in acting as an instrument for the creation of markets and financial instruments. Oriented initially toward its own customers, it would be called upon later to get involved with traditional commercial banking. In that way, it would incorporate into its activity enterprises that earlier would not have qualified to accede to its services. Therefore, both types of financial institution would be interlinked, with a relationship of complementarity between their financial functions.

- Assume risks. Here are some more immediate specific actions that development banks could undertake within the new public finance model: a) Monitor the government and the corresponding public-private partnerships (PPP) in their efforts at innovation in regard to the adoption of financial engineering techniques for raising funds for the country; support subnational governments in everything relating to the financial structuring of PPP; act as an adviser to the government in all matters concerning the design and implementation of the credit improver or risk reducer facility. In order to attract international investment, particularly institutional investment, it is important to have appropriate investment vehicles available; provide support for creating negotiable instruments deriving from project finance; and have access to an array of negotiable instruments that could be drawn on at the regional or subregional level.

- Balance between economic and social goals by, on the one hand, doing something that is important and, on the other, doing something that is sustainable. In the past, development banks started doing things they were unable to maintain over time, sometimes boosted by generous policies and other by excess willfulness. In order to fulfill their role appropriately, development finance institutions should arrive at a balanced design enabling them to reconcile their promotional work with the preservation of their economic and financial soundness. This is, most likely, the basic point that should be borne in mind when analyzing the function of the development banking system in a globalized world and in the framework of open financial systems. It is a well-known fact that a financial system that manages its risks using market criteria and that is also subject to strict supervision aimed at minimizing those risks, is biased against more "expensive" agents with a relatively larger risk. And these are precisely the segments targeted by development banks. In seeking to correct this market failure, it is important to avoid falling into the opposite bias, with which the financial system would conspire against the future viability of development banks.

- Evidence can be found in different development finance institutions in the region, of an ongoing effort, backed by the necessary political will of the respective governments, to reconcile the promotional and development functions assigned to them with their financial self-sufficiency. This is important because they cannot count on receiving financial assistance from the state to build up or replenish their capital or enhance their lending capacity. As a result, they must turn to the market as their natural source of funds and to their profitability to meet their capital needs. There is a widespread conviction and reaffirmation that financial sustainability is a basic principle that should govern the management of development financing institutions. It is thought that in doing so,

they will avoid having to appeal to the state for equity capitalization, except in particular situations requiring an enhancement of their lending capacity, such as during crises. It should be added that development finance institutions, unlike other financial institutions, must earn a return on their assets as they progressively reconcile their lending activity with the accomplishment of their social mandate.

• Access to a demonstration effect by building on the foundations of a learning process, of experimental innovation, to undertake "in the laboratory" interventions capable of being replicated on a larger scale in the market. Under that system, development banks could supply long-term capital so as to avoid a project's critical technical risks. In that way, they could attract more private funding to back the repayment of the financing. In exchange for that contribution, banks would charge a risk premium in order to attain a minimum degree of profitability with which to ensure their financial sustainability. If successful, the commercial escalation could be boosted by private capital investments in which they could conserve their share. This would enable them to recover their initial investment and, if possible, produce surpluses.

• Limited existence of subsidies, which in any case would be targeted and specified in national budgets. When development banks serve as the vehicle for channeling state subsidies to sector projects, sectors or programs, these should be specified and duly budgeted in the public accounts. The reason for this is both transparency in the tax administration and to avoid contaminating the banks' financial statements. Subsidies granted by the state should be based on the principles of transparency and of competition for the few resources available. Hidden and untargeted subsidies and those that are not valued should be minimized. Even though development banks have progressed a great deal in that regard, during crises they are more prone to relax those practices.

• Development banks should create very clear sustainability, transparency and accountability mechanisms. They must operate with extreme transparency in order to be a part of public policy. They must also ensure the stability of their professional and technical personnel and provide them with internal learning possibilities. That learning process requires stability over time; otherwise the banks run the risk of losing what has been learned if changes occur too frequently. That means having good corporate governance, which in the case of development banks, unlike private commercial banks, means that goals and requirements are broader because they also include: a) guaranteeing long-term solvency, in order to minimize the fiscal cost and the cost to the taxpayer (final shareholder); b) clearly defining the institution's mission and ensuring its compliance (avoiding actions that are outside its mandate); c) avoiding political interference; d) eliminating conflicts of interest with stakeholders; and e) guaranteeing a separation between the formulation of public policy and state ownership policy.

• On another note, it should be stressed that one of the problems faced by Latin American and Caribbean development banks in the past was their attempt to resolve all of the problems. Development banks are able to manage some instruments, but not all of them. The contribution that banks may make is important, but it is not limitless. For that reason, the actions of development banks should be encompassed from now on within a broader strategic framework. This framework needs to include the regulatory aspects and the supply of non-entrepreneurial development services. We should think of the development banking system not in terms of its limited niche alone; it should extend, as well, to the development challenge in which those institutions represent and are part of the solution, but are not the only variable involved.

2

Critical Aspects of Development Finance in the Framework of the 2030 Agenda:

Visions of development finance experts

Visions of development finance experts

- For Sérgio Gusmão, President of Banco do Desenvolvimento do Minas Gerais (BDMG), it is clear that in the vision of development financing institutions there can be no development policy without social legitimacy. Development is such only if it encompasses all of the dimensions that make human society viable. The goal of all of its strategies is the 2030 Agenda for Sustainable Development, which takes in the economic, social and environmental spheres and includes eradicating poverty, putting an end to hunger, attaining food security and better nutrition, and promoting sustainable agriculture; guaranteeing a healthy life and promoting the wellbeing of all people; guaranteeing an inclusive and equitable quality education, and promoting continuous learning opportunities for everyone; achieving gender equality and empowering all women and children; guaranteeing the availability and sustainable management of water and sanitation for all; providing access to affordable, reliable, sustainable and modern energy sources; promoting sustained, inclusive and sustainable growth, full and productive employment, and decent work; developing resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation; reducing inequalities; making cities and human settlements inclusive, safe, resilient and sustainable; guaranteeing sustainable consumption and production; fighting climate change and its effects; conserving and using oceans, seas and marine resources in a sustainable way in order to achieve sustainable development; protecting, restoring and promoting the sustainable use of terrestrial ecosystems; promoting peaceful and inclusive societies for sustainable development; reinforcing the means of execution and reviving the world partnership for sustainable development. With this aim in mind, development banks (DB) are on the alert in order to activate resources and experiences that will allow them to play the role that is rightfully theirs as financial policy instruments of the Latin American and Caribbean countries.

- As a result of the experience acquired at the Inter-American Development Bank (IDB), Juan Antonio Ketterer, Chief of the Connectivity, Capital Markets and Financial Institutions Division, underscored the fact that the borderline between risks and returns is the defining element for private sector participation by means of investment in the projects needed for the region's development. It is important to note that fact, so that the private sector is able to finance. The IDB is spurring the maximizing of public resources and getting the private sector to come in and share in the financing of investment. For the IDB, what is most important is the transfer of financial technology. With this assured, things can be changed and resources maximized by attracting private capital. The bank is progressively lending less, as it places more emphasis on transferring technology. In that way, the few public resources available can be optimized and their use to attract private financing maximized.

- With a more global and strategic analysis, Marcos Troyjo, Special Secretary of Foreign Trade and International Affairs of Brazil's Ministry of Economy, pointed out that Latin America and the Caribbean need to learn how to take advantage of the circumstances and put their internal competitive edge into play. At the same time, DB will have to be more expeditious in assisting enterprises. The world is undergoing a change in operating system and in ways of doing things and of relating to each other. He went on to state that since the end of the '80s, we have been entering a deepening globalization, oriented by the market and by representative democracy. Even so, since the crisis of 2008, we have been travelling a course of "deglobalization risk," with the establishment of multiple focal points within the global economy.

- Dr. Marcos Troyjo went on to state that the countries are adopting restrictive commercial and industrialization policies that are reflected in the trade war between the most important countries in the world. It appears that a new period of global economic acceleration will survive with five characteristics: 1) a rebalancing between the G7 --made up of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States--, mature economies, and the emerging economies of E7 --Brazil, China, India, Indonesia, Mexico, Russia and Turkey--, with the economic center migrating towards the Pacific. GDP, measured by the purchasing power parity, is already seven times greater in the emerging economies. There is also the possibility that China will outpace the United States in the next few years; 2) the epicenter of the global economy in the Pacific is not only China, but Asia itself. China is already disputing the leadership in patents; it is no longer an exporter of products with low labor costs. Capital is also migrating towards China's neighboring countries. India, the most heavily populated country in the world, for the fourth straight year will greatly outperform China economically. Asia, for its part, will achieve growth of more than 5% per year over the coming decade. Furthermore, those are countries that today have low incomes, but as these rise, the demand for food and domestic infrastructure will grow accordingly. As a result, the map showing global demand for commodities, including agricultural commodities, is going to change. It is India that will demand more in the future, as it requires more calories and food products. 3) World dynamics revolve around G2 (China and the United States). The former is creating a world of multilateral development organizations, while the United States is rethinking its role in the global system. 4) The economy 4.0 initiative is not a revolution in manufacturing; that division among sectors will disappear. The best description of it is that the world has started to live a type of capitalism in which knowledge of, and leadership in, innovation are the most important factor of production.

- The trade war has many costs and, in the future, these will not be the most important elements of production dynamics because the objective of a war is to destroy the adversary. The two great competitors of the present, China and the U.S., are each other's most important trading partner; they are interdependent, particularly in regard to trade and to foreign direct investment (FDI). They are adjusting their positions; they are not at war; they are disputing technological models, intellectual property, and labor, among other elements.

- Paulo Brant, Vice-Governor of Minas Gerais, stated that economics turns dreams into reality and that its goal is the development of human society and making it viable. To his way of thinking, development does not need to be described; it only needs to encompass all of its dimensions. In that regard, the state has a crucial role to play in development and it is clear that it needs to play a more strategic role in bringing it about.

The Importance of LAC Coordination in order to Promote Development

- Otaviano Canuto, chief economist of the Center for Macroeconomics and Development; Senior Fellow of the Policy Center for the New South, United States, commented that economic integration flows along parallel lines as a course towards development: 1) economic integration is a venue offering opportunities for gains in scale and in scope; also gains in integration and negotiating power between countries; and 2) history and geography are important as determining elements of this spatial coordination. Latin America and the Caribbean (LAC) have evolved trade-wise, casting off the isolation that was their distinguishing feature in past ages. Almost 64% of interregional trade today can be attributed to preference agreements signed in the region and to success in overcoming inward-oriented initiatives. A case in point is the rapprochement between Brazil and Argentina. Even so, by another token, he added, subregional agreements proliferated and preferential trade agreements did not prove to be useful in bettering the competitiveness of the region's enterprises. Strictly speaking, the proliferation of highly similar preferential agreements led to a tariff differentiation network that still does not allow for gains in scale and in scope. They do not yet add much to these economies with similar characteristics, that join up with like countries. In practice, this is not integration, unlike the cases in other regions of the world where mega-agreements have emerged.

- Free trade agreements do not take away from the value of the Trans-Pacific Partnership (TPP) Agreement or from the agreements with the United States. A free trade agreement should not be signed at the expense of bilateral or other types of agreement. In the case of Asia, a de facto production and trade agreement exists, as does an initial integration in production chains and it is from those that trade agreements stem. Asian countries underwent a factor organization process that was the opposite of that followed by European countries; in fact, they started off with the de facto integration of production and trade. When shared economic interests began to emerge, the countries sought to frame those interests within, and to complement them in, the commercial and political agreement.

- LAC has wasted opportunities to gain in scale and in scope because it has failed to further develop its trade integration in comparison with the agreements finalized in Asia. Mercosur is a half-baked copy of the European Union. The project for the European Union was born of the project to turn the Eurozone into an optimum monetary zone. On paper, we have a customs union with so many exceptions that it is less integrated than a full-fledged customs union. We must evolve toward a truly free trade zone.

- LAC has been exposed to price and supply shocks and their consequences have failed to be reversed. LAC was affected, first, by the wage shock, pushing millions to enter the global labor market as a result. This price shock in the labor factor was instrumental in the loss of productivity of the region's manufacturing industry. Another important price shock was the drop in the price of capital, with the systematic fall in long-term interest rates -- even after the global financial crisis. Today there is a noticeable decrease in funds for the emerging markets, but that does not alter the characteristic of the global economy: a large volume of resources exists, in search of profitable investment alternatives. The third price shock was the drop in commodity prices. The demand for natural resources will continue to grow. All that LAC needs to do is to create the necessary conditions for success. We are witnessing an ebb in the fragmentation of production processes that has to do with the absorption of the millions of workers who


La ENVIPE 2013 permite conocer que entre los motivos que llevan a la
población víctima de un delito a no denunciar, están las circunstancias
atribuibles a la autoridad, como considerar la denuncia como una pérdida
de tiempo y la desconfianza en la autoridad, con 61.9%.
ESTADOS UNIDOS MEXICANOS
12.4
87.1
37.7
61.9
Del total de las denuncias
refiere que en el 53.2
2011, esta cifra fue
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have been incorporated, together with the appearance of new technology clusters. Some of the processes that changed in the search for manpower are being reversed, but that trend is not widespread. Manufacturing will become easier if modern infrastructure --telecommunications, software-- is made available.

Development Finance Strategies

• Ángel Cárdenas, Director of the Southern Region Projects Bureau of CAF-Development Bank of Latin America, stressed that today's scenario requires the incorporation of from US$1 to US$1.5 billion worth of infrastructure. The region, however, invests a maximum of 2% to 3% of GDP. A strategy is needed to find good projects and the resources required for their financing. The CAF orients 70% of its loans toward infrastructure finance, such as urban transport (metro) because the institution recognizes it to be the major factor of leverage for the development of cities and of highways (logistic integration corridors). It has also focused on energy and telecommunication projects. The bank has started to work with national governments and within the countries on securing access to Internet (telephony/digital infrastructure). With a view to reducing the digital gap, it backs strategies for digitalizing enterprise technology through deployment of a digital network by means of digitalized economic transformation with the industrial sector and enterprises.

• Juan Notaro, President of the Financial Fund for the Development of the River Plate Basin (Fonplata), stated that the operation of Fonplata is complementary to that of Latin American national and regional development banks. Operationally, it complements the financing of US$50 to US$60 million dollar major investment projects within the countries in areas capable of producing a major impact, such as sustainable infrastructure, urban development in small and medium-sized localities and isolated and border areas, clean energy projects, and highway corridors. The bank seeks expeditiousness and is flexible in responding to different governments in the case of climate emergencies. It supports infrastructure with an approach toward logistic integration and 70% of its portfolio targets that sector and energy. He also referred to the fact that Fonplata and the IDB are partners in supporting integration, development of border controls, communication, housing, sanitation, access to water and medical clinics.

• Martin Schroder, Director of KfW, the German development bank, stated that their efforts center on sustainable development and the sustainable development goals (SDG). The bank considers that development financing institutions should consider themselves catalysts for development-oriented change. The KfW today focuses its activities for the most part on Africa; it heavily supports the governance of the states and projects relating to the climate and environmental conservation. From the European outlook, LAC's problem is one of conserving its important natural resources, its tropical forests and its energy efficiency. In the case of KfW, its agenda is determined by the German Ministry of Cooperation and emphasizes the SDG approach, the climate agenda being one of the goals.

• Pauline Sebok is head of SACE, Brazil, the Italian export credit insurance agency that backs the projects of importers of Italian technology and infrastructure. She stressed that Italy produces and exports advanced technology and that the agency provides financing in order to ensure the importation by third countries of articles produced by its industry. It operates in 198 countries. While the equipment and machinery come from Italy, SACE enters into the financing of exports. In Brazil's case, Italy exports €4,000 million euros' worth a year, ranging from trains (metros) to equipment (machinery for leather and textile manufacturing). Centering its efforts on the acquisition of long-term technology, SACE covers the risk and the bank finances the accounts collectible as a guarantee. It offers exporters insurance to cover the export risk and discounts collectible from the exporter. It also works on the acquisition of enterprises because it supports Italian companies with capital to invest in other countries.

• Philippe Orliange, French Development Agency (AFD) Regional Director for the Southern cone, underscored the fact that development banks were not responsible for the financial crisis of 2008; rather, they helped to resolve the problem. Development finance is changing and the problem lies in channeling the available funds toward resolving climate problems. Sustainability is essential, making it a mistake to think that there will be space in the future to finance what is not sustainable. Investors and consumers are going to look for that more and more with each passing day. They will demand sustainability and alignment with the SDG and the Paris Agreement. Development banks are taking on an increasingly important global role in the international scenario in the area of ecological transition. Alliances and partnerships can make the development banking system operate more efficiently at a stage characterized by considerable fragmentation and unnecessary complications, in which the system does not yet function coherently. One of the keys to ecological transition is holding the leadership and that is within the possibility of the development banks. Many banks limit themselves to making only

one kind of disbursement, like sovereign loans to the states. There are many windows for financing on a non-reimbursable basis, but these are fragmented, with a complex system of governance. Partnerships are still at an embryonic stage and that situation must be improved. Space is available for coordination between LAC development banks and European banks. Holding the suggested leadership constitutes a challenge for implementing the type of development that we believe must be furthered.

The future of development banks

- Enrique García, former president of CAF – Development Bank of Latin America, underscored the fact that the region has lost relative importance at the global level, although with a certain degree of satisfaction on the part of its leaders, at a moment in history that 4.0 competitiveness is challenging the economy. When basic commodities were booming, all of the presidents were delighted. Chile was the country best positioned in the region, but today is still far from meeting that challenge. Per capita income continues to be very low in Latin America and its share of world trade has declined. In comparison with successful emerging countries like China, Singapore and Korea, it is behind, it is lagging behind. It needs to espouse a holistic vision for development: productivity growth and other matters. Development banks need to reinvent themselves, direct finance must be reduced and their role must be altered to act as a catalyst, with the environmental issue at the forefront. In addition to participating in infrastructure projects in their earliest stage, they must seek to penetrate international capital markets, to work on providing insurance. Development banks have the capacity to repurchase portfolios and to demonstrate that in striving for a competitive and sustainable role, inasmuch as all of these are of key importance in this process and in the search for innovative elements.

- At different moments in time, the question has arisen as to whether global development banks are important. They are viewed as being traditional, but they have been operating proactively. Regional organizations like ALIDE are important for coordination purposes, because they serve as a good forum where development finance institutions can discuss issues and update their information. The interrelationship and association among institutions is highly important, including the transmission of technology and practical knowledge for influencing public policy. On the other hand, in order to be successful, the human resource policy of financial institutions must be altered to give less weight to when a financial executive was approved and more to strengthening the capacity to create know-how and to promote groups capable of exerting an influence over public policy.

- Latin Americans tends to look to the extremes, rather than to the intermediate points. A comprehensive, holistic approach to problems is needed: there must be a macroeconomic (micro) balance, as well as efficiency and a social and environmental policy must be boosted. Avoiding the extremes and reaching a balanced and pragmatic consensus are key for Latin America and the Caribbean. Governments tend to focus on the short-term and forget that comparative advantages can be obtained from a long-term vision (education, infrastructure, environmental conservation). The issue is not economic; it is political and democracy should lead us to generate a consensus on essential matters. Likewise, economic integration is not an issue to be politicized, which is what happened in the case of some integration initiatives; it is necessary to make the most of its dynamic competitive advantages, to develop the skills and to build a consensus on issues of critical importance to the region. This may be the worst moment for Latin America's integration. The role of development banks in all of this process is to influence the thinking and construction of the future, with a thought to developing programs involving the production of knowledge and a change in mentality, particularly on the part of youth.

Digital finance and new financing technologies

• Marcelo Porteiro Cardoso, Superintendent of Digital Operations and Channels of Banco Nacional de Desenvolvimento Econômico e Social (Bndes), mentioned that the bank has a clearly established route for providing assistance to SMEs and for portfolio management through partners or allies. Even so, a gap still exists in access to credit by this segment; the flow of loan funds is important and the bank's role is to leverage and provide the necessary financing conditions so that other banks and partners with a smaller capacity to obtain funds can do so in greater amounts. With this aim in mind, the digital approach adds value to a family business, inasmuch as, while access to credit continues to be the most important element, responsiveness also counts. Along this line, Bndes digitalized the relationship with the database of operators and with its online BNDES platform. These are designed for microenterprises being strengthened through Open Banking and the fintech platform to provide support for small enterprise management. The challenges of, and prospects for, digital transformation involve a transformation in culture and the increased use of big data and data mining.

• Rosine Kadamani, Co-founder of Blockchain Academy, Brazil, in turn, pointed out that it can be highly profitable to automate processes by means of the new technologies. The aims should be in line with the broadest public policy goals and thought should be given to how technology can be used to attain them. At the same time, she asked herself how development finance institutions are preparing themselves for digital transformation, considering the new modality for transferring securities over the Internet --in other words, by using blockchain. Innovation is disruptive means having the capacity to survive and is created by the processes; it is recommended that decision-makers listen to the younger people, who are more connected with those processes. Clearly, opportunities and risks for digitalization exist. Incorporating those technologies gives rise to a cybernetic exposure process that is already underway. Bitcoin is an opportunity; it was born as a commercial Internet tool and banks today are heavy users. There is a great deal of money in the world and in order for it to flow, the legal aspect is secondary. Investment in innovation comes first, then its regulation must be considered. An exchange of opinions should ensue to ponder the substance of those technologies and the changes they produce, which are taking place regardless of the will of the people and of the institutions. In the face of this, the choice stands between acting as passive agents, merely as consumers, or playing an active part in the assimilation and promotion of development using those new technologies.

• Bruno Diniz, Head of Fintech in the Brazilian Association of Startups, stated that technology is a means for delivering financial products. Paypal, the U.S. company that operates an almost worldwide online system of payments, was the first of its kind. It was followed by other models, such as those that made person-to-person loans through the Internet. In many cases, the entrepreneurs who created those companies were former banking executives who had lost their Jobs in the 2008 crisis and started to create financial enterprises of this kind. Each new technology opens up the possibility for delivering a new product. Financial experience with those business models is beginning to be compared with models of companies like Airbnb and Uber, among others. The large technological companies are also reaching the financial market via the Internet, as in the cases of Amazon, Google and Facebook. Global investment in fintech has grown exponentially, but Latin America lags far behind in that area. Although digital loans through fintechs represent only 5% today, their number is rapidly increasing.

Impact of the Development Banks and their Connection with the 2030 Agenda

• The sustainable development goals (SDG) are a new language to which development banks must adjust. It requires the use of metadata to evaluate the impact of the loans granted. Qualified teams are also needed, together with the internal capacity to establish loan portfolio metrics or indicators. Development banks have a role to play in SDG 17 --Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development-- that will give them a major opportunity to become a leading player.

• Cláudia Prates, Director General of the Regional Office of the Americas of the New Development Bank (NDB), the BRICS group bank (Brazil, Russia, India, China and South Africa), stressed that investment in infrastructure is essential for development and, as a result, for the reduction of inequality. The bank is taking advantage of opportunities to raise funds for environmental finance. With that aim in mind, in 2016, it brought out a green bond issue for approximately US$450 million in the Chinese market.

• Maria Netto, Lead specialist for financial institutions of the Inter-American Development Bank (IDB), noted that great pressure has been brought to bear by both investors and regulators with regard to the issue of sustainability. She likewise pointed out that public banks are public policy instruments with government mandates to contribute to the SDG. As for the IDB, she commented that it has supported several green bond issues in Latin America. It is also working hard with the so-called laboratories for financial innovation, like the one implemented in Brazil to create innovative financing solutions. The intention is to leverage private resources for projects with social and/or environmental additionality. Also to contribute towards meeting national targets associated with the Sustainable Development Goals (SDG – 2030 Agenda) and the commitments to cope with climate change risks (Paris Agreement).

• Resources are needed to deal with climate change, and the banks still finance 28% of GDP in the Latin American and Caribbean region. Public banks, if strategically used, should be a branch of government to bring in private enterprise. These financial institutions have been working on many fronts in the region. There they have to face up to different challenges, such as, for example, how to keep focused (they cannot handle 17 SDG) or to develop the institutional capacity to interact with and help the government to achieve its goals. Transparency is important with the SDG for budgetary reasons. If a development bank wishes to issue bonds in order to raise funds for activities relating to a particular SDG, it must show that it was able to classify the portfolio and to make innovative investments. Public banks may likewise play an important role, as the IDB does, by offering a set of tools to assist with development, risk management systems or new ways of structuring the financial offering.

• With respect to impact measurement, Victor Pina, Head of the Bndes Department of Effectiveness Evaluation and Promotion, stressed that it is important for communicating the results appropriately. Also for being socially justified to be a development financing institution, as guaranteed by its performance. In that way, banks will have evidence of the net social benefit to be gained by granting a financing. This requires them to build simple and comparable social indicators. A platform of available data for systematic measurement of the impact of their efforts will also be needed. He emphasized that Bndes continuously monitors its operations, evaluates their impact, and uses and disseminates the information produced. The major challenge is to have simple indicators that can be evaluated. This can only be done if the targets are clearly established, partnerships are formed and the most important aspects of the impact are assessed, because this is often costly and cannot be done rapidly and thoroughly at the same time. The use of external evaluators is recommended, for they will give the process independence and credibility. Senior management should use the results of the impact assessment for decision-making and in orienting the bank's efforts.

ALIDE

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