

BANCA & DESARROLLO

JANUARY-MARCH

2021

INNOVATION, LINCHPIN OF THE CHANGE

DEVELOPMENT BANKS
WAGER ON INNOVATION
TO RECOVER GROWTH

DIALOGUE WITH:



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Letter from the President

The year 2021 opened with a mixed scenario. On the one hand, we share a hope that the necessary vaccinations will soon be available to confront the COVID-19 pandemic and start on the road to global economic recovery, particularly of the world's foremost economies, namely the U.S. and China, with which the countries of Latin America and the Caribbean are closely linked. Together with this, we are enjoying favorable terms of trade because of the high prices commanded by the region's principal export products; continued low interest rates for obtaining international financing under more favorable terms; the approval by the United States Congress, in mid-March, of a 1.9 billion U.S. dollar stimulus package to accelerate economic recovery, which will undoubtedly have a positive impact on the demand for our region's export products that go to the U.S. market.

On the other hand, however, we are astonished at the unequal access to vaccines on the part of a few countries that have the necessary resources and bear more influence and political weight on the international scene. This is happening at a time when Latin America and the Caribbean are experiencing one of the most troubling moments of the pandemic, inasmuch as the governments are more reluctant to impose strict quarantines because of their negative effects on the economy, and because of the tight fiscal situation and larger debt burdens of the governments and the corporate sector, which limit the possibilities for moving ahead with recovery.

Despite this, economic projections, according to the International Monetary Fund (World Economic Outlook, January 2021), are rosy, with estimated global economic growth of 5.5% in 2021 and 4.2% in 2022; while in Latin America and the Caribbean, the expected growth figures

are 4.1% in 2021 and 2.9% in 2022. Even so, some of the region's countries are not expected to return to their pre-pandemic levels of activity until 2023.

In this context, the ALIDE General Assembly scheduled for this coming May 25 and 26, bears the title of «Beyond the Three-fold Crisis: Continuity or Change?» The simultaneous confluence of the three crises we face today –economic, health and environmental-- leads us to ask ourselves whether we should continue to do things as we have in the past, or move toward a change if what we seek are results that are different from the viewpoint of human development, in the expectation that we will find some answers.

With this aim in mind, we will focus our discussions on identifying several elements of the post-pandemic world, the advances made in digitalizing and automating activities in order to change production patterns; renewed interest in science, technology and innovation at the heart of recovery and development policies in critical sectors and Development Bank finance and sustainable development efforts.

We sincerely hope to count on your presence and active participation in the most important Latin American Development Banking event and to share the experiences and contributions that our financial institutions are able to bring to the recovery and change in sustainable production patterns in each of your respective Latin American and Caribbean countries.

Cordially yours,
Carlos Linares,
President of ALIDE



Commitments to global development

While the world confronted unprecedented economic, social and environmental havoc produced by the COVID-19 crisis, 450 public development banks across the world gathered for the first time at the Finance in Common Summit (FICS) to join efforts and form a global coalition favoring sustainable, resilient and inclusive development.

The meeting was held simultaneously, both in-person in Paris and virtually, on November 9 to 12, 2021, with the presence of some 10 000 participants. The purpose was to boost a sustainable, resilient and inclusive development model, in line with the Sustainable Development Goals (SDGs) and climate finance agendas.

The development banks assumed varying commitments with regard to climate, energy transition, biodiversity, health, social investment, gender equality and digitalization. The most important commitments considered in the Joint Declaration of all Public Development Banks in the World are summarized below.

The public development banks (PDB) that recognize their unique role and social responsibility, with a view to redirecting all financial flows toward sustainability, affirm their determination to collectively shift their strategies, investment patterns, activities and operating modalities, in keeping with their respective mandates and governance, and the long-term policies and strategies of the countries, bearing in mind national and regional circumstances, particularly the following:

- **On climate change**, they commit to strive to develop, operationalize and scale-up strategies and methodologies of alignment in the perspective of COP26, in support of the definition and implementation of Nationally Determined Contributions (NDCs) and long-term strategies to reach zero net emissions. Also to mainstream resilience and adaptation in their strategies and operations and enhance actions to fund the implementation of national adaptation plans. Likewise, to help to redirect private financial flows in support of low-carbon, climate-resilient sustainable development. They stand ready, as well, to support governments to accelerate climate action and to move away from high-carbon, resource-intensive and polluting activities, and avoid maladaptation.
- **On energy transition**, they commit to increase the pace and coverage of investment in renewable energy, energy efficiency and clean technologies to accelerate equitable access to clean energy and the energy transition. And in this connection, to work together to leapfrog renewable energies into countries where there is little or no such development. Support and promote sustainable

The development banks assumed varying commitments with regard to climate, energy transition, biodiversity, health, social investment, gender equality and digitalization.

alternatives to fossil fuel investments and consider ways and means of reducing these investments, contributing to the ambition of long-term low-carbon development trajectories and NDCs towards a decarbonized society.

- **On biodiversity, oceans and nature**, to consider their conservation, sustainable management and protection as an essential foundation for development and for the well-being of all. They commit to develop or reinforce strategies, funding and cooperation among themselves and with the public and private sectors on these issues. Nature-based solutions, sustainable resources and land use, as well as better consideration of nature-related risks, will be used to promote a biodiversity-positive economy as well as climate neutrality. They will promote One Health approaches integrating human, animal and environmental health, as well as ecosystem restoration. They also consider changing their policies to cause no harm to the environment and to fight all threats to biodiversity, including the destruction of natural habitats, the overexploitation of wild species and natural resources, pollution, invasive species and climate change; these should be strengthened for all key biodiversity areas, including forests, oceans, wetlands and watersheds. They will strive to reach co-benefits among the climate, biodiversity and ocean agendas, whose joint preservation offers powerful opportunities to improve the health of the planet and all people.
- **On health**, in the context of Covid-19 and beyond, they will step up their cooperation for more resilient health systems to realize human security and achieve health and well-being



for all. They will strive to strengthen support to healthcare policies, infrastructure and services, including regarding corresponding human resources and capacities, and in favor of emergency preparedness and Universal Health Coverage (UHC).

o **On social investment**, fostering equality and social inclusion, they will strive to increase access to affordable and accessible essential services such as education, housing, sustainable energy, safe water, hygiene and sanitation, as well as to social protection, including by facilitating social and financial integration of vulnerable people, including young people and the elderly, people with disabilities, indigenous, small-scale producers and rural communities, migrants and refugees, with particular attention to the specific challenges faced by women and girls. They will factor in climate change and ecosystem degradation risks and impacts, as well as resulting resilience and adaptation capacity needs, including in fragile contexts. They will contribute to the provision of decent and sustainable employments through their operations. They will take into account the imperative of a just, inclusive and rights-based transition.

o **On gender equality and women's rights, empowerment and equal access to financial services**, they will strive to develop and strengthen, in a systematic and cross-cutting manner, gender-sensitive and gender-transformative policies through all internal and external practices. They will enhance access to employment opportunities and increase funding for gender equality and women's rights and empowerment as key enablers for sustainable development and economic recovery.

o **On digitalization**, they will leverage on the power and the acceleration of the digital transformation to foster the SDGs'



They commit to increase the pace and coverage of investment in renewable energy, energy efficiency and clean technologies to accelerate equitable access to clean energy and the energy transition.

implementation including the climate, biodiversity and social goals. They will work towards a more systematic integration of the opportunities and challenges of the digital transformation and its societal impacts, including by recognizing the widening of the digital divide and inequalities and focusing efforts against it.

o **To leave no one behind**, they will develop strategies, operations and partnerships addressing the specific needs of the most vulnerable communities, from an economic, political, social and environmental

They will enhance access to employment opportunities and increase funding for gender equality and women's rights and empowerment as key enablers for sustainable development and economic recovery.

standpoint, with particular attention to Africa, Least Developed Countries (LDCs) and Small Island Developing States (SIDS), inspired notably by the United Nations' "Leaving no one behind" framework for action.

The PDBs believe that their contribution will help the emergence of a much-needed global framework for SDG-compatible finance. They commit to:

- Collectively contribute to the preparation and implementation of common methodologies for the characterization of SDG- and Paris Agreement-aligned investment, building on the work of the Organization for Economic Cooperation and Development (OECD) and the United Nations Development Program (UNDP) on SDG-compatible finance. An overarching guidance on what is compatible with climate and SDGs –and what is not—is essential to coherence of action.
- Set up ways to increase their contributions to the elaboration and implementation of national and local

sustainable development policies and investment programs aligned with the SDGs. These contributions primarily consist of providing long-term and/or concessional financial resources to fund sustainable investments aligned with such policies. To complement their funding activities, they claim that they are prepared to provide non-financial services in order to inform national policymakers and contribute to the definition and operationalization of long-term sustainable development trajectories (sourcing of projects; technical expertise and assistance; knowledge and applied research; contribution to policy dialogue and coherence; work with governments and regulators to design appropriate policies and cross capitalization at all levels). The PDBs can also help scan for uncertainties and early signs of new crises and opportunities, and integrate them early on.

- Enhance the crowding in of private investment and work to increase the scale and sustainable impacts of private financial flows, and foster capital market development and the alignment of those markets with the SDGs and the Paris Agreement through innovative approaches, alternative finance and blended finance. The role of PDBs in sustainable finance is crucial and they will work to amplify their sustainability bonds and develop innovative tools to be at the core of the mobilization of financial markets for a successful and just transition.
- Contribute to the reorientation of trade finance towards climate and SDGs, while ensuring a level playing field. Trade facilitation, financing, and related regional infrastructures are areas of excellence of some PDBs and



an important contributor to sustainable development, in a context of persistent logistical gaps and inefficiencies in various developing regions, as well as recent disruptions in supply chains and rising trade barriers between some of the major economies.

The PDBs also commit to act as responsible and transparent institutions and to develop international cooperation, sharing best practices to improve the sustainability, transparency and quality of their financing. In that regard, they commit to strive to:

- Strengthen investment governance, openness and transparency, including regarding procurement, anti-corruption efforts, compliance with Anti-Money Laundering (AML) and Counter Terrorist Financing (CFT) rules and access to adequate information and data. They will also implement coherent pricing policies to ensure economic efficiency and enhance local capacity building.
- Share and apply best practices and internationally accepted norms and standards on environmental, social and governance (ESG) in their policies, and development risk mitigation and management plans as well as stakeholders' consultation plans, in order to facilitate cooperation and improve the quality of their operations and reporting, including through integration of non-financial results and impacts. Particular attention will be paid to community-led development and respect for the rights of indigenous people.
- Take into account and manage direct and indirect climate, biodiversity, environmental and social risks and opportunities, inspired by existing international initiatives and recommendations. They aim to enhance implementation of instruments that can shift investments to sustainable asset classes and provide adequate information on the degree of alignment of their portfolios with those objectives.

The global coalition

The depth of the crisis and the common search for innovative solutions suppose enhanced forms of cooperation, embodying SDG 17, which calls for them “to

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strengthen the means of implementation and revitalize the global partnership for sustainable development.” Reinforced, ambitious and comprehensive international coalitions are essential, building momentum and supporting multilateralism, capable of anticipating and responding to current and future challenges.

In this context, the Public Development Banks are setting out to join forces and reinforce the global coalition of PDBs around the world, building on their complementarities and making optimal use of the diversity and added value of the different types of PDBs and networks, including the World Federation of Development Finance Institutions (WFDFI) and its members AADFI, ADFIAP, ADFIMI, ALIDE, ELTI, and also IDFC, EAPB, D20-LTIC, EDFI and multilateral development banks.

Through this global coalition, PDBs will work together, as a community among themselves and a system with their stakeholders, with the view to simultaneously address the Covid-19 crisis, fight climate change and biodiversity loss, and achieve the SDGs. They will reinforce cooperation and share best practices and innovation; build capacities and improve mutual recognition of procedures; and facilitate access to international concessional finance. In their respective constituencies, they will accelerate the deployment of public resources, as well as the mobilization of the private sector for recovery, resilience and sustainability. They will also aim at more coherence in their approaches, actions and interventions, in close collaboration with their various stakeholders, to make the whole development finance system operate more efficiently.



Transformative innovation

In response to its need to produce a stronger impact, the Banco do Nordeste do Brasil (BNB) made innovation a key element of its operations. In doing so, it created the Innovation Hub, an initiative that induces Bank efforts to promote continuous innovation. The program operates internally and externally, enhancing its own improvement and regional entrepreneurship.

In the aftermath of the COVID-19 crisis, digitalization of the banking sector accelerated, as it strived to create differentiated products in line with customer expectations by offering better service and interacting with a growing portfolio of digital customers who have become a strategic bank priority.

It is the customers who, in recent years, are deciding whether they want to operate with their banks over digital channels, at what moment, from what location and how.

This is a new scenario where the Banco do Nordeste de Brasil (BNB), like so many other banks, was not prepared to start operating. The result was that in August of 2016, it launched the “Innovation Hub,” an open innovation unit responsible for designing innovation management models and improving organizational processes, products and services for the Bank; and for searching out and coordinating alliances with public and private organizations to develop the Northeastern Region’s innovation ecosystem.

An open innovation unit responsible for designing innovation management models and improving organizational processes, products and services for the Bank

The Bank at that time needed to invest in a change in prototype in order to reach new markets and build new financial relationships, as well as to make use of innovative products and services. Action was needed to promote an innovative culture, undertake the entrepreneurial management of innovation and support regional entrepreneurship.

Strategic response

The BNB's strategic response was to expand its operations and implement the Innovation Hub: an initiative fully aligned with the Bank's mission of operating as Northeastern Brazil's development bank, considering that the Hub's direct efforts can help to enhance enterprise competitiveness by using innovation as an added value.

But what does the Innovation Hub consist of? What are its characteristics? How does the service operate? The Innovation Hub is responsible for shaping innovation management policies and guidelines; structures and oversees innovative efforts to improve Bank processes, products and services and reinforces regional innovative entrepreneurship. Those responsibilities center on two fundamental pillars: the innovation ecosystem and innovation management.

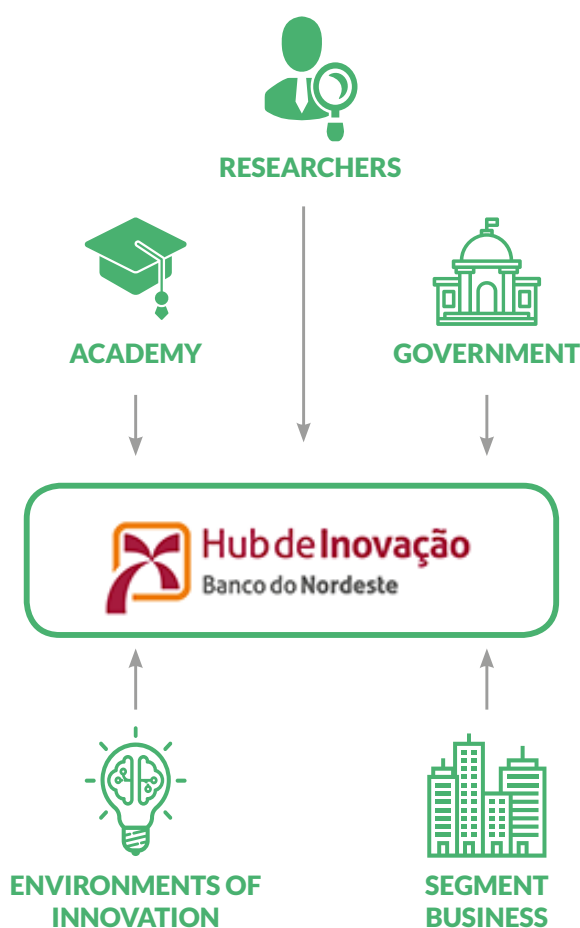
In the case of the innovation ecosystem, the attention is on developing innovative entrepreneurs and supporting startups, of which there are 2 244 distributed among the 9 Northeastern Brazilian states. One of the important ways of structuring strategic associations with local leaders and players is through institutional socio-political relations. Innovation management, whose target public are the 6 802 Banco do Nordeste employees, is carried out through the major lines of action like open innovation, the creative economy and also striving to establish an innovative culture in the Bank.

At present, the Hub has three Coworking spaces located in three cities in the northeastern region: Fortaleza, Recife and Salvador de Bahía, to help interconnect the academic world, government and society in the area of innovation.

This Hub, deeming that network efforts make the most of the connections, accelerate learning, reinforce the exchange of information and experiences and produce knowledge, has adopted the open innovation model as its chosen means of action.

Ecosystem and strategic allies

Institutional relations play an important role in the Hub's innovation efforts and the strategic partners are represented by the innovation ecosystem players that operate in the Banco do Nordeste's states of operation, in addition to the Federal Government network. The following figure illustrates the Hub's associations with the ecosystem players.



Innovation

- a) **The academic world:** universities that provide academic training, scientific knowledge, research and development.
- b) **innovation environments:** entities that promote the interaction of innovation players and contribute to the innovation culture and to generating business. Included are incubators, accelerators, innovation centers, coworkings, technological nuclei and scientific parks.
- c) **Investors:** institutions and people that financially support innovation ecosystems by promoting an entrepreneurial spirit and innovation, as financial institutions with reimbursable and non-reimbursable funds, foundations supporting investigation, and private investors (angels, seed capitalists or enterprises). Attention should be drawn to the joint efforts of the Banco do Nordeste and the Banco Nacional de Desenvolvimento Econômico e Social (BNDES), both of them investment and capital fund shareholders.
- d) **Government:** The BNB is the Federal Government's policy executor and enabler of investment in the area of operation of the Superintendencia para el Desarrollo del Nordeste (SUDENE) (Office of the Superintendent for the Development of the Northeast), in accordance with the Northeast Regional Development Plan (PRDNE) and the National Policy for Regional Development (PNDR). It also defines the policies and guidelines established by the Regional Development Ministry (MDR), the Ministry of Economy (Med) and the Ministry of Science, Technology, Innovation and Communication (MCTIC), as the Legal Framework for Innovation and the Brazilian Digital Transformation Strategy. In addition to its Federal Government partners, this category includes state and municipal government representatives with initiatives for promoting innovation in their areas of activity.
- e) **Business segment:** enterprises that create business demands and needs that could influence the development of innovation solutions by startups supported by the Innovation Hub and the entire Northeastern Region.

Advances and results

The qualitative and quantitative results obtained by the Innovation Hub over the period 2016-2019 are as follows:

Qualitative
<ul style="list-style-type: none"> ○ Definition of strategic guidelines in corporate planning establishing innovation as a practice; ○ Structuring of the Global Expenditure Plan with a specific Budget for innovation; ○ Internal processes for competitions of ideas that provide for the presentation, evaluation, selection, and application of innovative ideas; ○ Practice of agile methodologies (Design Thinking and Design Sprint) in the design of new processes, products and services; ○ Adaptations in the process of satisfying IT demands for dealing with innovative solutions; ○ Definition of the process for acquiring innovative solutions in the market, in keeping with the innovation's regulatory environment; ○ Creation of the first line of credit directed primarily to startups, the FNE Startup; and ○ Connection between Academia, the Government and Society in striving for innovation in the Banco do Nordeste and the Northeastern Region's economy.



Quantitative

- 126 training events on innovation issues, with 8 562 participants (internal and external public), for an annual average of 42 events and 2 854 participants;
- Open innovation events with the presence of over 100 BNB customers from more than 50 startups seeking innovative solutions. Exchange of experiences with at least 200 startups, including international partners like Start-Up Chile and investors like Core Angels of Portugal;
- Support for over 25 startups with Coworking;
- 160% increase in the number of enterprises involved in the period 2016-2019;
- 3 Competitions of Ideas Programs (InovaBNB 2016, InovaBNB 2017 and A TI+Perto de VC 2019) with the entire institution's participation.
- 347 ideas taken up with prizes awarded for the best each year;
- Specialized innovation loans: 47 million reales in 2017 (US\$ 14.2 million), 750 million in 2018 (US\$ 193.6 million), and 1.06 billion in 2019 (US\$ 263.7 million);
- 3 calls for economic subsidies to finance innovation projects for startups, amounting to 14 million reales (US\$ 4.2 million) in non-reimbursable funds (R\$ 4 million in 2017, R\$ 5 million in 2018 and R\$5 million in 2019 –equivalent to US\$ 1.2 million, US\$ 1.29 million and US\$ 1.24 million, respectively, in the period 2017-2019;
- 73 business meetings that resulted in the intermediation of business operations with the Bank's branch customers, for over R\$ 150 million (US\$ 37.3 million) in finance projects in 2019;
- Investments in the neighborhood of R\$ 20 million (US\$ 4.9 million) in startups by venture capital funds, including international investors; and
- Growth of 100 to 600% in Fortaleza Hub startups in the period 2017-2018.



Learning

- Instituting innovation processes in traditional institutions like major banks is always a great challenge. The Banco do Nordeste's case was no different. Initial barriers had to do with the organizational culture, bearing in mind the distaste for risk, resistance to change and lack of regulation.
- New obstacles emerged at each stage of the application process and were overcome creatively, with resistance and demonstration of the results achieved through gradual steps.
- Over the Innovation Hub's lengthy analysis period, the Bank sought government institution benchmarking and other references that enabled it to justify the measures proposed by the BNB and the projection of impacts and results.
- The adherence of sponsors and the public involved was sought by holding internal events to showcase the innovation topic, its alignment with Bank goals and the benefits it has produced for the regional development institution.



Innovative Connections in Minas Gerais

The Banco de Desenvolvimento de Minas Gerais (BDMG) created Hubble Hub to make startups more accessible to the public and private sectors. Considered among Brazil's 10 largest hubs, this program generates connections to boost business, linking up the innovative solutions of technological firms with large industrial and banking concerns.

The dissemination of digital technologies is transforming the dynamics of entrepreneurial finance at the global level. The huge amount of data generated and processed by the new tools can be used to gain a better understanding of market dynamics, evaluate creditworthiness and manage risks more effectively. The appearance of new technological solutions has ushered in a series of opportunities and challenges for financial institutions.

Initiatives for cooperation between public/private financial sector enterprises and startups like InovaBRA (Banco Bradesco), CUBO (Banco Itaú) and BNDES Garage (BNDES) are proliferating in Brazil, as already noted in other sectors.

In this connection, alliances between financial institutions and fintechs are producing benefits for both in the areas of digitalization as well as in service provision. Banks give the market and can facilitate the growth of promising fintechs, thereby promoting the viability of technological solutions on a large scale. The alliances, in exchange, reduce the threat of creating direct competition with the fintechs, while enabling banks to benefit from their capacity to operate more expeditiously. This co-development permits banks to acquire new fintech technologies without assuming the same level of risk and costs.

Hubble Hub is an acceleration program comprised of startups with already designed programs that could serve the banking sector, industries and the services sector in general, given that the financial solutions are linked up with other pillars of the economy.

The Hubble Hub initiative

In line with the situation described above, in 2018 the Banco de Desenvolvimento de Minas Gerais (BDMG) and its partner, LM Ventures, launched the Hubble Hub project. This project strives to promote an innovation ecosystem and bring startups into closer proximity with the public and private sectors through a continuous search for partners and positions the BDMG as a “glocal” institution -- that is, a local platform that heeds global trends and opportunities.

The BDMG Hubble, as the sole center of attraction of financial business outside the city of São Paulo, is a program that seeks interlinkages for the exchange of experiences and ideas for creating, undertaking and generating business. It is viewed as an environment that facilitates collaboration and business undertakings between different players: BDMG customers and Hubble partners. In addition to promoting integration between the Bank’s executives and startups through the mentoring program, it boosts other action that promotes discussion of technological issues with society by means of workshops, lectures and networking events.

As a result, Hubble Hub is an acceleration program comprised of startups with already designed programs that could serve the banking sector, industries and the services sector in general, given that the financial solutions are linked up with other pillars of the economy.

LM Ventures

A consulting firm on innovation and investment in incipient startups that offers corporate and intra-undertaking programs and creates innovation centers where large enterprises, startups and the ecosystem are interconnected. Its portfolio includes the OKARA HUB in the engineering and construction sector; PULSE, AGRIHUB SPACE and the TECHFARMERSCLUB in the agribusiness segment; HUBBLE HUB in the financial sector and the CONECTA program in the logistics sector. LM Ventures also directs PAINT THE FUTURE, the Akzo Nobel innovation program.



The emergence of new technological solutions offers a series of opportunities and challenges for financial institutions and for the IT area in other sector enterprises. In that way, partnerships between financial institutions and fintechs become an opportunity for banks to adapt to the digital revolution. Today, Hubble Hub already serves as a point of reference for other development banks wishing to follow this approach.

Strategic entrepreneurial alliance

One of the principal distinguishing characteristics of the Hubble Hub is that it operates as a business association whose end purpose is to bring together a group of institutions with shared interests in development and the startup of the Hub and which, at the same time, have complementary know-how and make different contributions to the project’s viability.

Hubble Hub, as a necessary initiative for development of the innovation ecosystem, is categorized among Brazil's major centers of innovation. Minas Gerais has the second largest nucleus of startups in Brazil.

The Hubble Hub has three types of partners:

- **Operative partners:** institutions with prior experience in the management of business accelerator and/or traction spaces, responsible for management of the initiative, organization of the selection processes, mentorship, development of concept tests, and events organized by Hubble Hub. It is important to stress that the Project will be developed by the partners, among them the BDMG, and that the guidelines will be laid down in accordance with the governance rules defined in the legal instrument. An entrepreneurial partnership with LM Ventures was established for the operational phase.
- **Corporate partners:** large and medium-sized enterprises, cooperatives, associations or foundations that will be the project's supporters and that preferably operate in priority strategic sectors and are interested in establishing relations with startups. In addition to the BDMG, a partnership contract was signed in June 2019 with Olé Consignado, a Santander Group enterprise that came into being in 2016 and is Brazil's first enterprise to offer 100% digital earmarked loans for National Social Security Institute (INSS) staff, retirees and pensioners. Olé saw in the partnership with Hubble Hub an opportunity to enter into contact with the startups, in order to strengthen and amplify its innovation culture.
- **Technical partners:** noteworthy institutions in the area of technologies / areas of knowledge / research prioritized by Hubble Hub or noteworthy institutions in the area of innovation / development of people who will support the production of events and startups on product development. This category can include schools and institutions that produce studies and know-how, NGOs, associations or regulatory organizations whose purpose and activities are associated with those of the Hubble Project; international institutions,

preferably non-profit, that could contribute expertise and connections for promoting the exchange of know-how with Hubble Hub and its participants (enterprises and startups), among other entities that collaborate in the development and growth of startups.

Hubble Hub, as a necessary initiative for development of the innovation ecosystem, is categorized among Brazil's major centers of innovation. Minas Gerais has the second largest nucleus of startups in Brazil. According to the Startups Census conducted by the Minas Gerais Innovation Systems, that region has over 1000 technology-based enterprises (target market), distributed into 4 technological parks, 21 enterprise incubators, 13 accelerators, 31 communities and dozens of coworking spaces and other environments. Those figures are illustrative of the State's importance as a center for promotion of technologically-based innovation and the great potential for economic development in the era of knowledge.

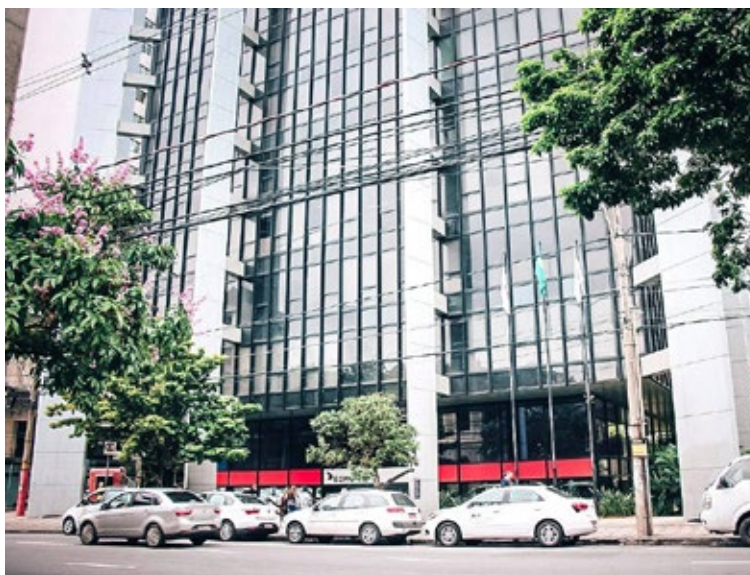
Some Results

Two Project cycles have been implemented since January 2019 with significant results. The program created a total of 81 direct jobs through its startups, which attracted investments of over R\$ 7.5 million (US\$ 1.8 million). After joining Hubble Hub, the startups signed 256 new contracts, two with Olé Consignado and two with BDMG customers. The companies' total income in the first quarter of 2019 was in excess of R\$ 2 million (US\$ 400 thousand), up 31.8% over the same period of the previous year. Fifteen contracts were signed and investments reached R\$ 7.5 million (US\$ 1.8 million). The Bank contributed to the materialization of new business by presenting the startups to its customers, like the Fundação Altivo, Telemont and Hermes Pardini. At year-end 2019, those same 15 startups from the first series had over 30 PoCs (concept tests) laid out with the BDMG and Olé Consignado. It should be stressed that the Hubble Hub startups maintained their quarterly upward curves, as can be seen in the following results :

- **First and second quarters:** 0.3% growth.
- **Second and third quarters:** 29.6% growth.
- **Third and fourth quarters:** 4% growth.

As part of the initiatives furthered by Hubble Hub, 84 training events were held, among lectures, courses and workshops, attended by 5 683 people in Belo Horizonte. Among them

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was “the Global Startup Weekend Sustainable Revolution,” one of the world’s most important innovation promotion events, which was organized by Hubble Hub and the BDMG in June. During the first quarter of 2019, 13 articles were published about Hubble, its startups and its partners in media like InfoMoney, Terra and Exame, adding up to approximately network 500 publications (clippings).

In addition, a business model was created between the BDMG and Newatt, one of the startups selected in the first batch or group of program startups, whose product provides real-time energy consumption solutions and enables the BDMG to offer its medium and large industry and retail trade customers financial products, together with the startup’s low-cost solutions centering on company energy management.

This model was market-tested and, as a successful case, is being applied in a chemical firm belonging to a major corporate group, which was able to demonstrate a 4% saving in the company’s energy cost, which even approached 20%, with an estimated payback in 6 months’ time.

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The chosen fintechs from the second batch, begun in December of 2019, were Asotech, Galax Pay, Pris Softwar, Banco Social Liberdade, GoCredit, Sobix, HTS, Tyde, Cashtag Blockchain, Mitosis, Trovato Lending, Predify and Crawly. Known for their origin, primarily of Minas Gerais, and consisting of nationally and internationally-experienced entrepreneurs, this is a diverse group of startups that will make it possible to enrich and strengthen Minas Gerais’ innovation ecosystem.

To conclude, the experiences shared by Hubble Hub show how promoting innovation produces value not only for the promoting institution, but for society as a whole, contributing to the development of Brazil’s economic ecosystem. Participating enterprises, in addition to promoting new technological products in the market, promote and contribute to economic diversification and are important in establishing the significance of these technological centers, which handle company incubation, acceleration and traction in the current scenario.

The companies’ total income in the **first quarter of 2019** was in excess of **R\$ 2 million (US\$ 400 thousand)**, up **31.8%** over the same period of the previous year.

1 Tractor or anchor enterprises are all of those large firms that promote economic growth and development at the macro level, inasmuch as the majority are major national or international companies.



Disaster Insurance in Guatemala

The Banco de Desarrollo Rural (Banrural), of Guatemala, program offers farmers protection from natural disasters at reasonable rates, with special emphasis on small farmers and micro and small enterprise owners. By the end of February 2020 alone, the product had benefitted over 10 800 direct customers, with an impact on more than 54 000 indirect beneficiaries.

The Central American countries are particularly exposed to natural disasters, which have increased in number as a result of climate change. The vulnerable with their meager earnings are the population group hardest hit by natural catastrophes, prone as they are to being more exposed to those events and generally having no access to efficient risk management mechanisms.

Families confronted by natural disasters find themselves in the position of having to sell their goods, draw on their savings and turn to families and friends for assistance,

assume debts, and require their children to contribute to the household economy and in so doing, stop studying, among other measures.

The Banco de Desarrollo Rural S.A. (Banrural), of Guatemala, is conscious of the fact that natural disasters put the brakes on productivity and stem the good results of its customers' efforts. As a result, it created "Parametric Insurance," a product new to the country that covers losses and ensures continued productivity in cases of drought, torrential rainfalls and earthquakes.

This insurance protects Banrural's loan recipients, who are small farmers and micro and small business owners, from natural disasters by compensating them for their loans, in full or in part, depending upon the intensity and extent of the disaster in the production area.

Product objectives

- To offer the country's vulnerable population groups, small farmers and micro and small business owners, an opportunity for protection against natural disasters.
- To provide insured parties at reasonable rates with solutions for confronting economic losses resulting from natural disasters, by means of claims adjustments based on measurable climate elements.
- To contribute alternatives for mitigating the effects of climate change through insurance coverage particularly for small farmers and micro and small business owners, so that they can continue their production activities.

Alignment with the social mandate

Banrural's activities are directed mainly towards the rural area of the country and financial inclusion, reinforcing the resilience of its borrowers in the country's most vulnerable communities by means of insurance coverage.

The Parametric Insurance is offered to Banrural customers holding production loans and guarantees their investment against the occurrence of catastrophic events, which activate the coverage and produce compensation for the loan, in part or in full, depending upon the intensity and extent of the disaster in the production areas.

Parametric Insurance constitutes a viable alternative to emergency care in the event of natural disasters, through recognition of their occurrence as an indemnifiable event.

This insurance protects Banrural's loan recipients, who are small farmers and micro and small business owners, from natural disasters by compensating them for their loans, in full or in part

The target segment for the Parametric Insurance consists mainly of 433 413 microbusiness owners and 819 162 agricultural producers, giving a total of 1 252 575 potential customers. Thus far, Banrural has granted loans to 94 431 customers, or only 8% of the total, revealing the large potential demand for the product that still exists.

Product characteristics

The microinsurance that has been developed provides a solution for covering vulnerable population groups engaged in production activities in regions heavily exposed to natural disasters.

The product provides coverage against an interruption of production, which is defined as the impairment of normal production activities caused by a severe natural event and is quantified in terms of the investment made and the expected commercial returns. Parametric detonators are activated by its occurrence.

The product's operational process in the event of a natural disaster is the following:

- The MI CAPP platform informs Aseguradora Rural of the occurrence of an event that impaired the production activities of customers subject to payment of compensation. The report specifies the location, the seriousness rating of the disaster and the percentage (%) of compensation payable.

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- Based on that report, Aseguradora Rural balances the loan portfolio by customer in order to calculate individual payments, producing a report of payments by customer that is transmitted to Banrural.
- Banrural activates the payment process by applying it to the loan or crediting it to the customer's account when the compensation is larger than the loan balance.

Another characteristic of the Parametric Insurance is that the customer does not have to notify the bank in advance in order to claim compensation. Customers are informed in a written text sent to their mobile phones that their insurance activated a compensation payment per event.

It is important to stress that the product impacts and produces many benefits for Banrural and its customers; among the most important are the following:

Benefits and impact

a. For the customer

- Allows for the continuity of the economic activity;
- Availability of resources for reinvestment;
- Local economic growth spurred by having more insured parties; and
- Favorable impact on the tranquility and well-being of the direct beneficiary and his/her family.

b. For Banrural

- Positions Banrural and Aseguradora Rural as points of reference for innovation in the financial sector, contributing to the struggle against the effects of climate change and environmental conservation;
- Its provision of a natural disaster risk mitigation solution, which is a new experience for customers, opens up an opportunity for the Bank to increase its customer portfolio;
- Builds more customer loyalty by immediately compensating customers on experiencing catastrophic events; and
- Improves loan portfolio health.



Results

- By the close of February 2020, the product had benefitted more than 10 800 direct customers, impacting over 54 000 indirect beneficiaries, 57.8% of them women.
- Banrural has an insured loan portfolio balance of US\$ 16.5 million.
- A total of 64 catastrophic events have been handled, 52% corresponding to drought situations and 48% to torrential rainfalls.
- Some 44,668 payments have been made to 10 868 customers, with compensation amounting to US\$ 670 thousand.
- A breakdown of the payments made by segments reveals that 57% correspond to Microagriculture and 43% to Microinsurance.

Lessons learned

a. From the outlook of the customer

- The involvement of strategic allies and of international cooperation have been of key importance for the design and management of the mechanisms and tools for implementing innovative products and generates an added value to the loan products.
- The communications media and financial education programs are fundamental for raising the awareness of customers and collaborators to the risks and creating an understanding of the benefits of the insurance and of the claims mechanisms for the catastrophic events covered.

b. From Banrural's perspective

- The technical studies and pilot test are essential for learning customer needs and determining their level of understanding and expectations regarding disaster coverage.
- Office of the Banking Superintendent (SIB) continuous communication and monitoring, as the regulatory body, is key for moving ahead with the product's design and formulation.
- Monitoring of the level of acceptance and customer opinion, together with adjustment in measurement reports should be continuous in order to make the necessary improvements in the process and in the product.
- Basing a product's design on customer opinions and needs ensures its acceptance and market penetration.
- Automatic and immediate compensation disbursements contribute heavily to portfolio health, credibility, building customer loyalty and the continuity of customer business.

Conclusions

- Guatemala is a country with high poverty levels and extreme vulnerability to the effects of climate change, a situation that leads the country to easily lose a large part of its production, crops or harvest, as a result mainly of too little or too much rainfall, elements that enabled



Banrural and Aseguradora Rural to develop a product that would mitigate losses produced by the occurrence of natural disasters.

- Parametric Insurance is a viable Banrural and Aseguradora Rural financial inclusion alternative, in fulfillment of their vision and mission, that facilitates access to loans, using mechanisms to build resilience to climate risk threats among the most vulnerable production sectors, thereby minimizing losses in the event of natural disasters, safeguarding portfolio loans balances and contributing to small producer reinvestments.
- Insurance compensation has an immediate reimbursement mechanism in the event of a catastrophic event, making it an efficient, transparent tool and an encouragement to the insured party in being able to have access once again to his/her resources for investment and increases loyalty to Banrural.
- The principal benefit of Parametric Insurance is the continuity of the insured customer's business despite the uncertainty over catastrophic events.
- Banrural and Aseguradora Rural contribute heavily to boosting the local economy, particularly by giving the direct beneficiary and his/her family tranquility and well-being.



Historic results

We talked with Alan Elizondo Flores, Director General of Fideicomisos Instituidos en Relación con la Agricultura (FIRA), about the efforts led by the Mexican institution during the pandemic. He drew attention to the historic records set by FIRA in the area of agricultural finance and went on to reveal that today about 63% of agricultural sector financing by commercial banks has been carried out using FIRA resources or guarantees.

** This interview took place on Monday, March 29, 2021.*

What is FIRA's role and how important is its presence as a public bank in Mexico's development finance system?

Mexico has a highly differentiated rural environment with sharp contrasts that require use of a series of varied promotional instruments to ensure development. Credit is, in all its component strata, an essential element. Private sector institutions show differing levels of service coverage, but in order to guarantee their presence among the least favored strata, the intervention of a public development institution like FIRA is essential. Access-to-credit barriers are associated with the high relative cost to financial intermediaries of accrediting producers who require, on the one hand, small loans, a remote location often characterized by poverty conditions and, on the other, informality, poor or no credit histories or a lack of guarantees or avals.

Ever since its creation, 66 years ago, FIRA has boosted financing under these conditions. As a wholesale development bank, it strives to create economies of scale and more channels for access and service to the population. Today, about 63% of agricultural sector financing by commercial banks has been carried out using FIRA resources or guarantees.

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Its operating model interlocks with that of the 81 financial intermediaries that operate in Mexico's rural area and this gives it a far greater reach than it would have had on its own. At March, FIRA's portfolio balance amounted to 229,000 million pesos (US\$11,000 million dollars), of which 78% is produced through financing and 22% through guarantees.

In that way FIRA, as a development institution, creates economies of scale in the operation of rural financial services and, as a result, is able to influence a variety of public policy issues associated with the sector's sustainable development. A case in point among these matters is the environmental sustainability of rural activities. FIRA draws on three instruments (finance, guarantees and transfer of knowledge) for promoting incentives to prevent the finance granted from damaging the environment and keep it congruent with good social practices. At a second stage, incentives could be granted to intermediaries and producers by way of financial products designed to favor adoption of environmentally-friendly technologies. To conclude, through its access to national debt markets, it is able

to promote and involve other segments in the problems afflicting the rural sector.

Among the lessons left to us by this highly unique situation is the revaluing of agriculture as a strategic sector. What is your opinion in this regard, especially concerning small-scale agriculture?

The agricultural sector has been revalued in this situation thanks to its counter-cyclical role and confirmation as an essential economic sector in these highly unusual circumstances. Agricultural activities showed growth of 2% in 2020 compared with an 8.3% decline of the economy as a whole. In like manner, the role of small producers has assumed importance because they have represented the principal source of food products in local markets. This

At March, FIRA's portfolio balance amounted to **229,000 million pesos** (US\$11,000 million dollars), of which **78%** is produced through financing and **22%** through guarantees.



Between February 29 and June 30, 2020, the credit portfolio balance of financial intermediaries with FIRA funding rose by \$ 31 223 million (a nominal 21%), the largest growth noted in this four-year period over the past 10 years.

needs, kept agricultural production funded and afloat, despite financial market liquidity restrictions on rural finance in 2020.

FIRA has played a highly important role in dealing with the crisis triggered by the COVID-19 pandemic. What measures and action were taken to support the agricultural, fishery and livestock sectors confronted by the sudden emergency?

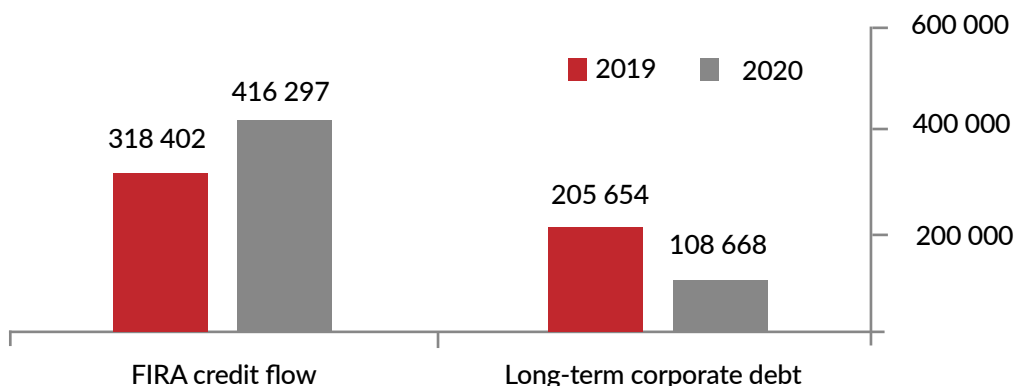
The temporary liquidity shortage in local corporate debt markets between March and June 2020 triggered an unusually heavy demand for FIRA financial resources from financial intermediaries. Between February 29 and June 30, 2020, the credit portfolio balance of financial intermediaries with FIRA funding rose by \$ 31 223 million (a nominal 21%), the largest growth noted in this four-year period over the past 10 years.

favorable performance can be attributed to a variety of elements, of which the following three are noteworthy:

- The persistent demand for agricultural products compared with the decline in other sectors, with the result that no important disruptions of food production or supply chains have been seen.
- The vigorous export performance played a role in the evolution of the United States economy and the signing of the United States – Mexico – Canada Agreement (T-MEC). Agricultural exports in 2020 were 4.7% higher than those of 2019, bringing the agricultural balance of payments up to US\$ 5,800 million, a historic record since it first began to run a surplus in 2015.
- The presence of assorted financial services that remained operational during the pandemic, particularly timely loan restructuring packages in keeping with the

In addition to debt contracted as a result of the pandemic-generated increase in demand, FIRA implemented a dual support strategy, with action on two fronts, for the producers and for the financial intermediaries. In the case of the producers, the most important were the debt restructuring facilities, raising the debt level to \$ 20 866 million (US\$ 1 043 million); together with the restructuring, producers were granted an additional loan of \$ 18 760 million (US\$ 938 million) to facilitate the restarting of their activities. As for the financial intermediaries, the extraordinary demand for resources was handled for companies and loans that

FIRA credit flow and the national long-term corporate debt market
(Millions of pesos)



Source: FIRA-EBIS and SIPO BMV.

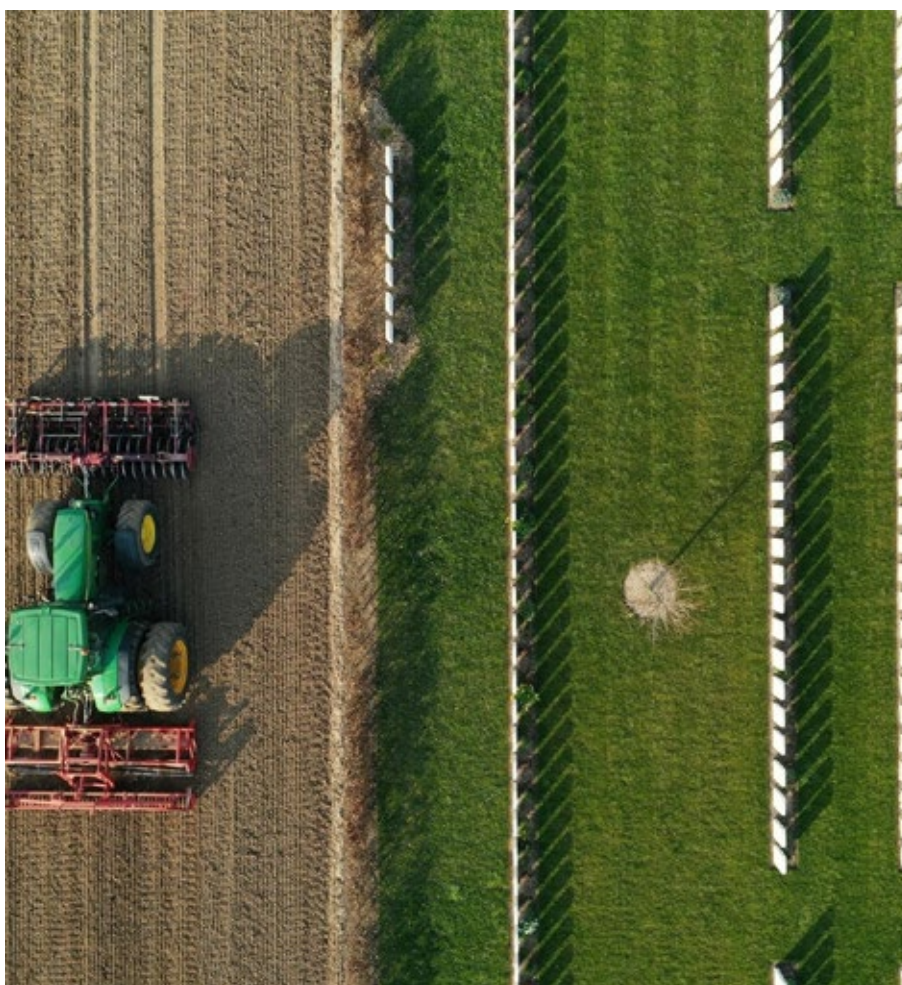
The guarantee systems play a multipurpose role in the institution's public policy efforts by channeling credit to smaller and higher-risk loan recipients, substituting for the lack of collateral frequently observed among those same population groups and favoring credits associated with the institution's strategic objectives

financial intermediaries normally covered with their own resources; that measure called for an additional credit of \$55736 million (US\$27868 million).

One of the most heavily used instruments in Mexico, particularly by FIRA, is the diversity of guarantee systems for customers, bank and non-bank intermediaries. What systems are being offered and what have the results been?

FIRA offers two types of loan guarantees: *pari passu* guarantees and first- and second-loss guarantees. In the former case, the banks purchase percentages of coverage (typically 50%). In the event of non-compliance, FIRA and the bank share the losses according to the contractually stipulated coverage percentages. In the case of first-loss guarantees, losses are covered by means of liquid guarantee funds, associated with a loan portfolio.

FIRA, for its part, has also signed agreements with more than 13 federative institutions to constitute guarantee funds administered to back medium agribusiness and rural enterprise



(PROEM) loans. The PROEM exerts a large multiplier effect on credit generation: it permits the incorporation of new borrowers into the financial system (41% of the enterprises backed in the PROEM were new borrowers) and facilitates financing with adequate terms for rural producers.

Another of the guarantee systems is the Family Agriculture Financing Program (PROAF), directed towards IFNB loans and small producers to which it has granted greater access to financing (61% of the beneficiaries, between 2015 and 2018, had never held a financial institution loan before). The program has also had a strong gender-differentiated approach (45% of the total beneficiaries being women) and has induced loans in municipalities with low financial penetration and a high degree of marginalization.

Thematic bonds were conceived as an element within a broader strategy aimed at promoting sustainable development goals in Mexico's rural area. Their issuance has been the main means for involving relevant actors in resolving rural problems in those dimensions.

The guarantee systems play a multipurpose role in the institution's public policy efforts by channeling credit to smaller and higher-risk loan recipients, substituting for the lack of collateral frequently observed among those same population groups and favoring credits associated with the institution's strategic objectives, such as enhancing productivity or benefiting the environment.

How has FIRA been able to continue serving rural producers despite the continued existence of limitations on social mobility and amid such widely scattered customers? What means has it used to do so?

FIRA has over 80 offices distributed throughout the country to advise rural producers and help them structure investment projects so that they are able to obtain loans from financial institutions. It is here that the wholesale model becomes important, inasmuch as it is able to reach its target population through the efforts of 480 service centers or branches.

FIRA has implemented a «mobile» working strategy that has been operating for the past 14 years, which enables it to give continuity to product, service and back office work operations. That strategy has permitted it to maintain those operations even in the presence of larger financed balances, although it is important to mention that restrictions imposed in the most remote communities have hampered promotional efforts.



How are your programs and the larger demand for loans in the current situation being financed? Where do the funds come from?

Credit portfolio growth is being financed with local market debt and funds borrowed from international financial organizations. At year-end 2020, the financed credit balance totaled \$232 956 million (US\$ 11 715 million), representing a growth of 9.44% over the 2019 figure.

Faced by an unusually large demand for FIRA funding from financial institutions, financial loans were contracted in a very short period of time under highly unfavorable terms. Between February 29 and June 30, 2020, the funded credit portfolio increased by \$31 223 million (a nominal 21%), the heaviest growth noted for this four-month period of the past 10 years.

For these reasons, \$47 290 million (some US\$2378 million) of debt were contracted from March to June 2020. That is more than the entire debt contracted in 2019 and the largest amount contracted in a four-month period since FIRA first started raising that debt in the markets (2012).

FIRA is very clearly oriented towards sustainable development. What can you tell us about that experience in emissions of thematic bonds of that kind and how that ties in with your sustainability approach?

Thematic bonds were conceived as an element within a broader strategy aimed at promoting sustainable development goals in Mexico's rural area. Their issuance has been the main means for involving relevant actors in resolving rural problems in those dimensions.

FIRA started issuing Green Bonds in 2018; to date, we have had three emissions with a total of \$8 000 million in circulation. In addition, on

Equipped with these technological tools, FIRA seeks to break through the barriers limiting Mexican producers' access to finance (like the lack of information) and promote the inclusion of new products in the financial system.

October 15, 2020, as part of the International Rural Woman's Day celebration, a first \$3 000 million Social Gender Bond (BSG) was issued.

FIRA's 2020-2024 Institutional Program considers the 2030 Agenda SDGs (Social Development Goals) within its frame of reference. Thematic emissions fall within the sustainability policy that rests on three pillars: a) Not helping to worsen the problem; b) Providing solutions to the problems, and c) Making resources, incentives and information available in order to establish solutions.

Tell us more about the gender-denominated bond.

The objective of the loan backing the social gender bond is to help do away with gender inequalities by empowering women through financing, but, even more important, through training and technical assistance. Bond proceeds will be used to finance the existing portfolio or new production projects in the agribusiness and rural sector, led exclusively by women. The bond's frame of reference provides for three categories: a) financial inclusion; b) labor and productive initiative, and c) entrepreneurship. At the moment of the emission, a portfolio amounting to \$1 426

Interview

million (US\$ 72 million) had been identified, which had risen to \$1 756 million (US\$89 million) by the end of December of 2020. The 3-year \$3 000 million bond was placed at an interbank equilibrium interest rate +27 bp (basis points) with a surplus demand 3.8 times greater. The surcharge obtained was 13 basis points lower than FIRA's last 3-year thematic bond.

What are the Bank's short-, medium- and long-term prospects in the area of infrastructure?

In the area of infrastructure, FIRA is striving to develop and expand agribusiness assets by means of innovative financial instruments like Infrastructure and Real Estate Trusts (Fibra). This mechanism aims to enable companies with stable financial flows to convert those fixed assets into liquid ones for use in expanding their business by means of specialized infrastructure: warehouses, storage facilities, silos, and refrigeration networks, among others.

Agribusiness Fibra will, in addition, attract long-term resources –from institutional investors-- which would otherwise not participate in the sector; this would make it possible to augment the volume of specialized infrastructure, turning Fibra into a coordinator of the country's supply and agrilogistics configuration.

Is there any other issue regarding FIRA's activity that you would like to comment on?

FIRA is undergoing digital transformation in order to integrate technological elements that would promote financial inclusion, productivity and risk management into business processes, with a cross-cutting outlook –from the credit's origination to its supervision, monitoring and evaluation. By using these tools, FIRA's business partners will be given timely and pertinent information for strategic decision-making on both credit and agricultural issues.

Equipped with these technological tools, FIRA seeks to break through the barriers limiting Mexican producers' access to finance (like the lack of information) and promote the inclusion of new products in the financial system.

Another area being developed by FIRA is the institutional ESG (environmental, social and governance) agenda. The environmental, social and corporate governance information revealed will create synergistic relationships with international organizations and with a larger number of investors. This, in turn, will make it possible to accede to so-called "responsible" financing.

- 1 Total balance of financing at the close of 2019: \$212 857 million.
- 2 As physical persons or as members or partners in an enterprise, association or organization of producers consisting exclusively of women or led by women.





Counter-cyclical banking

Jorge Mendoza, Director General of the Banco Nacional de Obras y Servicios Públicos S.N.C. (Banobras), of Mexico, explains the counter-cyclical role played by the Bank during the COVID-19 crisis. He also speaks about sustainable bonds, economic recovery and the outlook for the new normal.

** This interview took place on Tuesday, March 2, 2021*

What role has Banobras played in Mexico's development finance system during the crisis?

We know that 2020 was a complicated year. The impact of the COVID-19 pandemic raised challenges for us; however, we are already equipped with financial and economic variables that lead us to think that our economic recovery was started several months ago.

This year, in 2021, Banobras started contributing to recovery by means of infrastructure finance. In that connection, we have focused our efforts on financing projects in priority sectors that generate employment and that, first and foremost, improve the well-being of all Mexican families.

In the context of the pandemic, Banobras operates like a Mexican government counter-cyclical instrument. A case in point is that in 2020, the Bank reached a historic credit level of some US\$ 7 937 million, with a loan portfolio in the neighborhood of US\$ 29 302 million.

In 2021, Banobras continues to be an important player in the country's economic recovery. In our financing, we will give special emphasis to work and projects that create employment and have a strong social impact; we will work to strengthen the Bank's social vision in order to ensure that our financing produces well-being.



In the context of the pandemic, Banobras operates as a Mexican government counter-cyclical instrument.

What measures did the Bank take in response to the sudden outbreak of the crisis to support the production and social sectors and subnational governments: states and municipalities?

In heeding the instructions of the president, Andres Manuel López Obrador, we have given special emphasis to the sectors, states and municipalities with the greatest needs and risks. As a result, in 2020, the southeastern part of the country received 62% of Banobras' loans to states and municipalities. During that year, we granted financing to Oaxaca, Veracruz, Quintana Roo, Durango, Estado de México and Mexico City and have provided support to over 353 municipalities.

Banobras also took part in bidding competitions for funds approaching 160 thousand million pesos (US\$ 8 040 million) and were awarded 50 %. The most important case was the 70,000 million peso (some US\$ 3 518 million) process put into play by the Secretariat of the Treasury and Public Credit (SHCP) to increase the resources of the Federative Institutions Income Stabilization Fund (FEIEF), whose end purpose is to cope with the decline in state and municipal shares of federal earnings. Despite the complex liquidity situation that arose in mid 2020, Banobras redoubled its efforts to participate with 25,000 million pesos (US\$ 1,256 million), making it the financial institution with the heaviest contribution to that important operation.

We have focused our efforts on financing projects in priority sectors that generate employment and that, first and foremost, improve the well-being of all Mexican families.

Furthermore, under the “4+2” Program, support was given to the state governments of Coahuila, Sonora, Jalisco and the Cozumel municipality, deferring the payment of the principal and interest on a total loan of 655.3 million pesos (some US\$ 33 million) for a four-month period. Use of this support mechanism made it possible to alleviate liquidity pressures stemming from the decline in income brought about by the slowdown in economic activity.

How important has Banobras' participation been in the implementation of public programs to avoid a worsening of the crisis?

Banobras' participation has been extremely important in mitigating the effects of the economic crisis by making it possible to maintain the flow of financing, thus ensuring that the country's projects are not halted by its lack.

The Bank has also boosted implementation of 56 projects considered in the National Infrastructure Plan and in the “Investment Agreements” between the Mexican government and the private sector. Those projects represent an estimated investment of over 280,000 million pesos (US\$ 14,070 million) and allow for job recovery.

Also in 2020, Banobras executed a special hospital completion, rehabilitation and equipment program. For the health sector, prioritized in today's context, resources totaling US\$ 34 million were channeled for 5 hospitals.

Above and beyond the current situation, Banobras supports state and municipal government infrastructure management needs in different ways. Could you summarize these areas of support, please?

In effect, in the case of states and municipalities, we have financed projects with a strong social impact that directly affect the people's quality of life: projects that ensure access to services and reduce regional and social shortcomings.

Four mechanisms are used to manage this support:

- **Financings.** Banobras grants basic infrastructure and public services project development loans.
- **Financial supports.** The National Infrastructure Fund promotes socially-advantageous and economically-profitable infrastructure studies and projects.
- **Financial guarantee.** Financial instrument guaranteeing timely payment to banks.
- **Technical assistance.** Programs that contribute to local government financial and institutional strengthening.

How do you work with states and municipalities that receive less income, are small or have no access to financial system finance?

Banobras contributes with its Technical Assistance products and programs to the institutional strengthening of federative entities by facilitating municipal access to financing. The cadastral modernization program, for example, builds up municipal income by increasing real estate property tax collection.

In addition, Banobras provides legal and financial counselling to states, municipalities and decentralized public agencies needing debt financing or current debt restructuring, by means of financial assistance and the juridical analysis of the operation's viabilities and compliance with applicable legislation through municipal staff training programs.

To conclude, the Banobras-FAIS Program is a system for prepaying and optimizing Social



In 2020, the Bank channeled US\$ 34 million to the health sector.

Infrastructure Contributions Fund resources, for the implementation of high social impact programs in the more heavily marginalized zones. It is a financially accessible system with market-competitive terms and is designed in such a way that it does not commit municipal public finances. The aim is to keep the projects from creating debts for the next administration.

How are your programs and the larger credit demands being financed in the current situation? Where do the resources come from?

Banobras has full access to financial markets and bank loans. As part of our effort to diversify our financing sources, we have turned to the sustainable bonds market. In fact, today Banobras is the largest sustainable bonds issuer. The emission of different short-, medium- and long-term fund-raising instruments enables us to cover our liquidity needs, making us one of the most important issuers in the Mexican debt market.

We can even add that, despite financial market complications noted through a large part of 2020, the demand for Banobras' securities did not decline and was able to satisfy the increase in loan placement through debt bond issues.

In 2020, the Bank reached a historic credit level of some **US\$ 7 937 million**, with a loan portfolio in the neighborhood of **US\$ 29 302 million**.



Banobras-FAIS boosts project execution with a social impact in highly marginalized zones.

Banobras redoubled its efforts to participate with 25,000 million pesos (US\$ 1,256 million), making it the financial institution with the heaviest contribution to that important operation.

Can you give us any more details about the sustainable bonds and how they fit within the Bank's Sustainable Funding Strategy?

Banobras, continuing its commitment as a sustainable bank, listed two new sustainable bonds on the Mexican Stock Market. The 3- and 5-year issues, for US\$ 377 million overall, were successfully placed at a floating rate last November. The demand was seen to be 3 times larger than targeted and 2 times the amount called for, confirming the investors' trust in the institution and in its objective. This transaction marked the return of Development Banks

to public securities placement after a troubling year for financial markets due to the COVID-19 contingency.

It should be stressed that the frame of reference for the Bank's sustainable bond issuance combines the green and social bond principles established by the International Capital Markets Association (ICMA). It was also reviewed by Sustainalytics, a global expert on the subject.

Total sustainable bond placement amounts to approximately 27,060 million pesos (US\$ 1,360 million), consolidating Banobras' position as Mexico's foremost thematic and sustainable bond issuer.

Tell us a little about the projects being financed with the sustainable bond proceeds.

The resources obtained are oriented towards financing projects that meet Reference Framework eligibility criteria and belong to the eight sectors that Banobras serves:

- Basic infrastructure benefitting the socially backward and extremely poor population;
- Public utilities infrastructure;
- Natural disaster recovery;
- Sustainable transportation;
- Renewable energy projects;
- Energy consumption reduction and energy efficiency improvement projects;
- Water and wastewater management; and
- Pollution prevention and control.

Bond proceeds are allocated to green projects with a high social impact. This is in line with Banobras' Sustainability Framework and the Bank's function of boosting the country's sustainable development.

In this connection, I would like to let you know that Banobras' sustainable portfolio at the close of December 2020 amounted to 51,325 million pesos (US\$ 2,579 million).

What prospects or new challenges do you foresee for the bank in this sector that is so important for development, namely infrastructure?

Banobras will continue to work actively in contributing to the country's economic recovery. In 2021, we are

in 2020, Banobras executed a special hospital completion, rehabilitation and equipment program.

For the health sector, prioritized in today's context, resources totaling US\$ 34 million were channeled for 5 hospitals.

striving to channel more resources to the southern and southeastern region, in order to comply with the social approach to promoting development. In particular, we seek to serve municipalities with high or very high degrees of marginalization and those that traditionally have had no access to commercial banks.

We will seek to increase debt placement in projects with their own payment source, considering projects in strategic sectors like highways, energy, health, telecommunications and transportation, among others.

It should be added that, for the very first time, we will issue environmental and social policies, and gender policy, to guide our efforts in and outside our institution; this will enable us to boost better environmental, social and gender policies through indicators that will measure the social impact and benefits.

We will continue to diversify our fund-raising efforts by means of sustainable mechanisms like thematic bond emission and international green fund concessional resources.

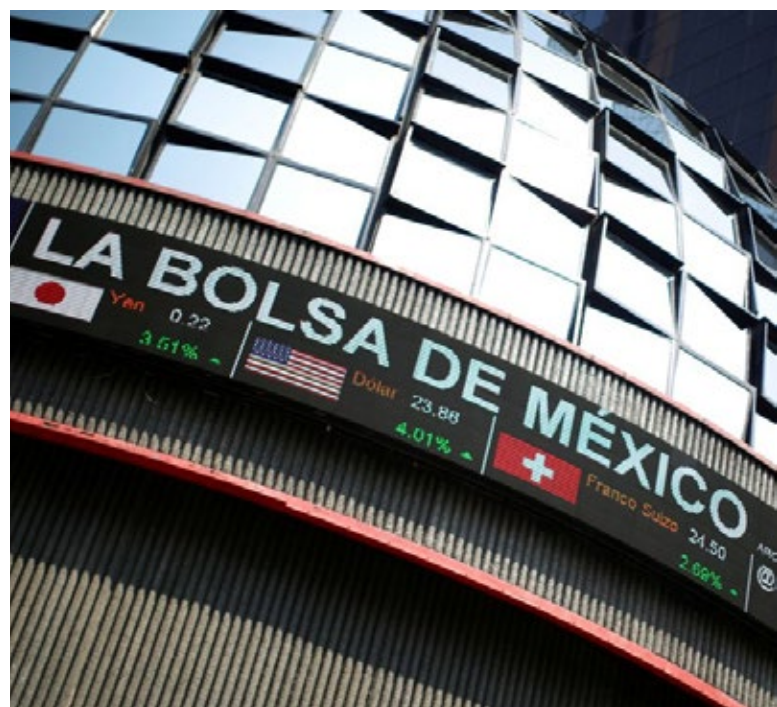
To conclude, how has the bank's strategy for promoting development in this new reality changed?

It has changed significantly. The Mexican government's public policy approach to reducing regional, social and economic gaps, together with the counter-cyclical effect produced by Development Banks, have made it possible for Banobras to handle the growing demand triggered by the present economic recession.

We are also involved in projects of priority to President López Obrador's administration, among them: the Mexico - Toluca train, the Barranca Larga - Ventanilla expressway, Felipe Ángeles Airport connectivity, Internet para Tod@ and the Maya Train, which are an important driving force for creating jobs and producing well-being in the neediest regions.

Is there anything else you would like to add and what could Banobras do with its LAC peers under ALIDE's aegis?

The Bank will continue to promote economic development by providing access to financing that will lead to better living conditions for all Mexicans. For that reason, we consider that the exchange of experiences and identification of best practices in the areas of sustainability and gender, establishment of cooperation agreements on financial issues of shared interest, and collaboration in carrying out financial training workshops will build up the technical capacities of all ALIDE member financial institutions. I wish to thank you very much for inviting me to take part in this interview and to share with you a little of Banobras' work under this administration.



At the close of December 2020, Banobras' sustainable portfolio was valued at US\$ 2 579 million.

RECENT PUBLICATIONS

ALIDE periodically elaborates reports, documents and books about different development financing issues. Its catalogue of publications can be freely consulted at www.alide.org.



BOOK Public Banks and COVID-19

Municipal Services Project, UNCTAD, Eurodad | December 2020

An in-depth account of the responses of public banks to the socioeconomic crises produced by COVID-19. Written by experts throughout the world, the book offers a critical evaluation of programs implemented in different places and asks how these actions can be improved in the future. ALIDE prepared chapter 22 about the experience of Latin America's development banks.



BOOK ALIDE 2020 Prizes: Innovation ecosystems and environmental finance

ALIDE | December 2020

The book collects and makes a detailed description of the programs, products and services of the development finance institutions that were awarded ALIDE 2020 Prizes. The majority deal with initiatives oriented towards boosting entrepreneurial innovation and productivity, as well as product finance emphasizing sustainable development.



DOCUMENT Development Banks and support for SMEs during the COVID-19 crisis

ALIDE | September 2020

Caribbean and the responses of the governments to the COVID-19 crisis, specifically the measures taken by development banks to support and reactivate Latin America's production sector. The document was presented at the conference «From Pandemic to Recovery: The Role of Development Banks in Tackling the Economic Crisis», organized by Russia's VEB.RF and the IDFC.