



**“Innovate, Invest, Include:  
Development Banking Driving Inclusive and Transformative Growth in the New  
Scenario”**

**CONCLUSIONS AND RECOMMENDATIONS**

- **Profound redefinition of the international economic order.** The global economy is slowing amid high uncertainty, trade and financial tensions, inflation that is more persistent than expected, and interest rates that continue to condition productive investment. Fragmentation and geopolitical conflicts are reshaping supply chains and putting pressure on the prices of energy, food and other strategic raw materials. **What used to be temporary volatility is now a structural condition.** Latin America faces this scenario from a challenging position: insufficient growth, investment below our needs, productivity gaps, and persistent social and territorial inequalities.
- **Uncertainty is not a new phenomenon.** It is part of the environment in which economies operate and affects growth because it can paralyze investment, reduce consumption, increase financial volatility, restrict credit, raise risk aversion and affect employment. Without investment and consumption, the two main components of demand lose momentum and growth suffers. **Uncertainty has always been present;** perhaps in the past its effects took longer to appear and did so on a smaller scale. Today, with greater integration of economies at the global level and immediate access to real-time information, its effects are faster and are amplified more easily. **The relevant question is not whether uncertainty exists, but what its effective magnitude is and how it should be incorporated into economic policy decisions.**
- **The new international shock is associated** with the conflict in the Middle East and its possible effects on the global economy. The International Monetary Fund (IMF) works with differentiated scenarios according to the duration of the conflict and its implications for prices, especially oil. **The scenario initially considered temporary has shifted toward an adverse situation and, if the conflict continues, could approach a severe scenario.** In this case, **policy responses** must be appropriate to the type of impact each country faces. There is no single solution for importers and exporters of oil, food or fertilizers. Measures must be designed intelligently, avoiding poorly calibrated fiscal responses that compromise medium-term sustainability.
- **A response to the scenario described above involves strengthening the strategic role of development banking,** as we have done in other complex periods. Productive transformation, economic modernization and social inclusion do not occur spontaneously: they require vision, institutional capacity and financing. Development banking fulfills that function. Not as a substitute for the market, but as a strategic complement where the market does not reach, where risk is higher or where social returns exceed financial returns. The responsibility of these institutions is **to finance where others do not, support strategic sectors, mobilize investment toward transformative activities, and expand opportunities** for those who have been left outside the financial system.
- That **mandate of development banking now takes on a new dimension,** because Latin America and the Caribbean (LAC) has extraordinary opportunities in key areas for the future, such as the energy transition, digital transformation, the relocation of production chains, resilient infrastructure and sustainable agrifood systems, among

other areas, which can redefine the region's position in the world economy. **But no opportunity becomes development by itself: it needs investment, coordination, institutional capacity and long-term financing.** This is the **new frontier of development banking**: not only lending but building value chains that last for generations. Financing must operate as a tool for productive transformation, capable of connecting investment opportunities with the generation of capacities, employment and territorial development.

- The productivity leap in Latin America, in general, will come through the modernization of traditional sectors, so that innovation reaches them and they understand, use and apply it. That is where the role of development banking lies: reaching where other financial institutions do not reach and acting as a connector among the different actors. In this way, development banks not only provide financial services, but also support the transformation process of small economic agents and vulnerable actors, allowing this process to spread throughout the economy and help reduce not only technological gaps, but also social and economic gaps. **The competitiveness of today and the competitiveness of the future will depend on how we manage to democratize technology and innovation.**
- The **mobilization and scaling of productive investments for development is central.** Public development banks play an increasingly important role in supporting countries' development and climate objectives. In recent years, they have strengthened their ambitions and expanded their operations, contributing significantly to financing. At the same time, we know that moving from ambition to implementation, especially at scale, remains a shared challenge. Addressing this challenge requires coordination and sustained partnerships across the entire international financial architecture. In this context, **international sources of concessional financing, together with a broad range of stakeholders, play a fundamental role in reducing risks and scaling innovative instruments and approaches.**
- In some Latin American countries, under this scenario of uncertainty, public policies such as industrial policy, climate transition policy and national sovereignty policy are being reorganized. For example, in Brazil, the Federal Government promoted a plan of US\$30 billion for exporters affected by United States measures, which included job maintenance clauses. More recently, it launched another broader program with a larger budget that, among other objectives, also seeks to support the development of strategic sectors such as fertilizers and strategic minerals affected by the current situation. In this context, BNDES, the federal-level development bank, has positioned itself much more strongly to face and help the country address this new and highly challenging scenario, combining credit and guarantees. In the same direction, Mexico, through Plan México, focused on infrastructure, reindustrialization, investment attraction, the reactivation of production chains and the integration of Mexican firms into the national and international economy, is led by development banking, NAFIN and Bancomext, which promote business integration through different financing strategies and instruments: guarantees, sustainable and thematic financing; private capital through the capitalization of investment funds, private equity and venture capital in projects focused on technology, technological infrastructure, microchips and advanced production. In general, they are devoting efforts to inclusive sectors, with regional impact and an export-oriented vision.
- There are major challenges in the business sector. In particular, micro, small and medium-sized enterprises face difficulties in innovating, investing and including.

Building a business culture whose decisions do not depend excessively on uncertainty is a fundamental challenge. This is even more important in Latin American economies where a significant share of gross domestic product and employment is generated by firms that are mostly micro, small and medium-sized, and where a significant share operates informally. In this context, the existence of a major gap, **a major challenge is recognized. Therefore, it is necessary to get closer to entrepreneurs in order to understand their needs in greater depth and to understand how to activate demand for credit for investment, modernization and asset acquisition.** Likewise, regarding the internationalization of firms, it is necessary to support them throughout the process: diversifying markets, transforming production toward higher value-added goods, expanding the exportable supply and, ultimately, improving productivity. An example of this approach is what Bancoldex has been doing in Colombia.

## INNOVATION

- Innovation is not only about adopting technology: it is about rethinking financial instruments, creating more efficient mechanisms for mobilizing resources, incorporating data intelligence, developing new guarantee schemes and strengthening the capacity to measure economic, social and environmental impact. To **finance the future and finance innovation**, credits different from traditional ones are needed. It is not possible to finance innovation with the same criteria used to finance physical investments, especially because innovation is uncertain, speculative, takes time and involves high risk. Its analysis is based less on physical evidence and more on the knowledge and capacities of those seeking financing for their innovative projects. On the other hand, the solutions offered to companies are not limited only to credit. Credit responds to a specific need, but the aim is to strengthen the portfolio so that support for the entrepreneur is permanent and adapted to their needs. This support includes non-financial services, the generation of business capacities, financial products such as credit and guarantees, and also the possibility of capital investment in those companies.
- In the experiences presented by development banks, **different areas of action to support innovation were observed.** The first is reimbursable financing for innovation. Another area is the creation of hubs or innovation cells within the institution, aimed at managing the bank's internal innovation and also managing the innovation ecosystem in the area where the banks operate. They also act through investment funds with equity stakes, working with equity and becoming partners of companies. Finally, there are also research and development funds with non-reimbursable resources.
- **Innovation within development banks.** Innovation must begin within financial institutions themselves. Therefore, it was stated, and the cases and experiences presented emphasized, that the digital transformation of development banks requires linking technology, data, governance and internal capacities with multidisciplinary teams, as well as a clear understanding of users' needs. In this process, AI can help expand access to financing, improve institutional efficiency and strengthen the capacity to respond to the region's development challenges.
- Public resources are limited and impose restrictions, but the challenges are now much greater. For this reason, the importance of private sector participation in mobilizing investment was emphasized. Development banks in LAC must be integrated into this dynamic by acting as catalysts for investment in innovation, mitigating risks, attracting

the private sector and co-investing when necessary. Innovation ecosystems must be stronger, more connected and integrated, and must not operate in isolation, in order to respond to problems and finance increasingly sophisticated instruments. For this, it is considered that development banks must have three institutional capacities. First, **technical capacities**: to provide intelligent and blended financing, such as blended finance, they must know how to evaluate innovation projects with intangible assets whose future return cannot be precisely estimated from the outset. Therefore, they must have engineers, scientists and specialists, not only financial profiles. Second, **operational capacities**: innovation is a collective process that involves the public sector, the private sector, academia, universities and research and development centers. Therefore, development banks must connect with these actors, with different types of data and information, and with clients such as startups. Third, **governance and learning capacities**: this means strengthening monitoring and impact evaluation. Conducting systematic evaluations is essential to identify what should be scaled up, what should be canceled and **how to ensure truly productive and institutional transformation**.

## FINANCING AND PROJECT STRUCTURING

- The experiences and challenges faced by development banks in structuring and financing large or medium-sized projects are diverse and vary by country. In Colombia, for example, the Financiera de Desarrollo Nacional (FDN), although it has experience in large projects, of around US\$1 billion by local standards, faces a different problem when dealing with medium-sized or small projects with local or subnational governments in intermediate or small cities. In these cases, there is less understanding of what the structuring process involves and of the time required to develop projects, times that do not coincide with political cycles. An infrastructure project can take between four and eight years, so some authorities are reluctant to allocate resources to a project that will be completed during another administration. What the FDN has done is approach these levels of government and explain the benefits of good structuring. What has helped greatly, and has been fundamental, is that the structuring processes in which the FDN has participated, which are the large projects in Colombia, have had successful results. This has produced a demonstration and confidence effect and has helped remove the perception that structuring was not necessary. Therefore, they must carry out work to persuade and explain the nature of these processes, their different phases, the importance of pre-feasibility, a feasibility stage that allows the project to be financially viable, and the benefits it will have for the respective community. The problem is that this is often perceived more as an additional cost than as an investment; **that is a change that must be made with those authorities**.
- Another limitation in financing infrastructure projects is the lack of available funding under adequate conditions. In the case of the FDN, the main financier of road and highway projects, the current challenge is the diversification of the portfolio toward sectors such as renewable energy, particularly solar energy, a sector with strong growth, where it is beginning to provide financing, as well as transportation, trains and metro systems, wastewater treatment, seaports and other projects. The difficulty is that interest rates remain high in the country. Solar energy projects require lower rates, and the FDN cannot turn to the capital market to issue bonds at interest rates that would prevent the project's economic viability. At this point, the mobilization of resources from multilateral and bilateral sources becomes especially important. For this reason, the institution has been seeking concessional blended finance resources.

- Another experience, but a very different one, is the Banco Nacional de Fomento (BNF) of Paraguay. Until 2017, the BNF had legal restrictions on the loanable amount, which prevented it from reaching the segment of medium-sized and large clients where infrastructure works are mainly concentrated. With changes to its legal framework, the Bank now participates in the main syndicated loans carried out in the country, including the first public infrastructure PPP project. Through this financing structure, the main banks in the system participate, including the BNF. Confidence is generated, risks are shared, the quality of risk analysis improves, the process is facilitated, time frames are shortened and a high-impact investment for the country becomes viable. As in the case of Colombia's FDN, demand for financing for this type of project is growing and funds are required, especially long-term funds. Therefore, in order to diversify its funding sources, the BNF will carry out its first bond issue in the local capital market and later expects to enter the international market.

## **THE CURRENT CONTEXT IS CRITICAL FOR CLIMATE INVESTMENT**

- Geopolitical conditions have negatively affected climate investment in Latin America and the Caribbean, as well as in other regions. However, it should be noted that six months ago, at the Conference of the Parties held in Belém, Brazil, the Baku-Belém Roadmap was agreed, with the objective of mobilizing US\$1.3 trillion in climate finance by 2035. The ambition for adaptation projects was also tripled, and the Tropical Forest Forever Facility was signed, an instrument that can mobilize relevant resources for the region. From this perspective, development finance institutions need to understand what real and current opportunities exist to access climate finance, what mechanisms are available and how they can connect with international, regional, public and private resources.
- The role of national and multilateral development banking is not limited to project financing. To reach scales comparable to those observed in other regions, such as Europe, it is necessary to create a climate financial ecosystem. This means that national development banking should not only participate as a financier but also contribute to building the market conditions necessary for climate monetization. Several countries have already adopted climate change laws and are making progress in regulation. However, ministerial capacity is not sufficient. Infrastructure is required to enable the growth and monetization of carbon markets. This infrastructure includes robust monitoring, reporting and verification (MRV) systems, as well as digital MRV tools. Credit or carbon bond registry systems are also required, with sufficient interoperability to communicate with other registries and even with other countries. The private sector will not develop this entire architecture by itself. The creation of market infrastructure is a function that national development banking can and should assume, in addition to promoting the financing of projects that generate emission reductions or removals.
- A common view is that, beyond the availability of resources and the diversification of financial mechanisms, funds increasingly require impact, traceability and data criteria that generate transparency. In this context, it is no longer sufficient to have green projects. Projects must be accompanied by mechanisms and tools that demonstrate full climate alignment. There are two particularly relevant types of tools. The first corresponds to the framework of the International Financial Reporting Standards Foundation (IFRS Foundation), which promotes an update of environmental and social risk analysis systems under a logic of integrating climate risk from a financial perspective. The second consists of sustainable taxonomies, which function as

classification catalogues with criteria to define what is a sustainable activity and what is a sustainable project.

- National development banking now has the possibility to strengthen access to financing, improve criteria for transparency, traceability and investment rating, and do so under a development logic. Latin America faces a particular situation because of its social vulnerability, ecological biodiversity and exposure to climate threats. When the climate variable is incorporated, these factors become a systemic risk for the economy. The regulatory wave is not accidental. It is a response to the region's context. Development banking has the possibility to act in response to these risks, and the process is moving in an appropriate direction.

## **CAPITAL MARKETS, MULTILATERAL AND BILATERAL ORGANIZATIONS AS SOURCES OF FUNDING**

- **Capital markets do not develop spontaneously.** Specific regulations must be developed to help build market infrastructure, that is, so that participants know how to operate and what their margin of action is. Domestic institutional investors are also key. For this, good vehicles are needed so that different institutional investors and public funds, which are often organized into specific programs, know that through the capital market they will find suitable structures to reach the assets that are to be promoted and generate the financing that is needed. On the other hand, it was emphasized that the capital market **should not only be used as a source of funding or as the processor of long-term savings, but also as the space where development banks can transfer the risks of their operations.**
- **Beyond loans and technical cooperation, blended finance is a key instrument.** This mechanism makes it possible to mobilize concessional resources to finance more innovative projects that, for the moment, do not have sufficient profitability for the private market or could not be financed without this type of support. One example is the project developed by the French Development Agency (AFD) with NAFIN and the Green Climate Fund (GCF) in Mexico, aimed at financing energy efficiency in buildings. Likewise, AFD is currently working with a Brazilian public bank on its own bond issue, which AFD would acquire. These funds would be combined with concessional resources from the Brazilian Treasury and would make it possible to finance basic sanitation and water and sanitation projects in regions that are particularly vulnerable to climate change. This type of hybrid architecture, which brings together national public banks, international banks such as AFD and concessional resources, has the potential to expand financing and close part of the existing gap in climate matters and in other areas.
- In line with its evolution from syndication toward origination, Cassa Depositi e Prestiti S.p.A. (CDP), of Italy, seeks to strengthen its role through technical assistance and proactive project development. Latin America and the Caribbean constitute a strategic region for CDP, with strong potential for exchange, investment and collaboration. The institution considers that in LAC, the Italian ecosystem can add value in support of partner countries' priorities. The key sectors for developing this approach in the region include agricultural value chains, clean energy infrastructure, water, digitalization and private sector development. In this framework, local development banks are considered not only financial partners, but also strategic counterparts for originating projects jointly.

- Exim Bank India. In its relationship with banks in Latin America, one of the recurring needs perceived by the bank relates to guarantees. In this regard, the bank carries out operations in the region linked to project exports, performance guarantees, bid bonds, fronting guarantees and confirmation of letters of credit. These instruments facilitate trade and investment operations, particularly when financial support or risk mitigation is required for cross-border transactions. In project financing, Exim Bank India participates through co-financing with international financing agencies, multilateral development banks and other entities. The institution has specific products for projects and for international investment operations. In turn, the overseas investment financing program supports Indian exporters and investors in the acquisition of companies, the creation of manufacturing capacities and international expansion. Multiple projects have been financed in LAC, especially in Brazil and Mexico.
- **Regional and bilateral financiers are an important source of financing to mobilize public-private investment.** One example is Germany's KfW Development Bank, which in the region mainly finances and supports public sector actors. Its aim is to be a catalyst that helps provide adequate framework conditions in emerging markets that are attractive for private investment and job creation. The most common financial instruments offered are development loans and promotional loans with attractive interest rates. It also invests in impact funds, offers guarantees and provides project financing. For its part, the Fondo Español de Desarrollo Sostenible (FEDES), managed by the Agencia Española de Cooperación Internacional para el Desarrollo (AECID), has LAC as a priority region for Spanish cooperation, while also advancing in the mobilization of private capital and in work with private financial institutions, seeking to deepen ecological transition, such as water and sanitation, digitalization, support for the productive sector, micro, small and medium-sized enterprises, and financial inclusion.

## **BANKING DRIVES THE ADOPTION OF TECHNOLOGICAL ARCHITECTURES**

- The traditional role of banking, as we are used to understanding it, should not be seen as an incorrect model. Historically, banking has operated as a provider of credit, with a transactional relationship with the client, risk assessment based on historical information and financial services external to the operation of companies. However, banking in the present, with a clear orientation toward the future, is moving toward a new model: the bank as an orchestrator of ecosystems and infrastructure. In this approach, the client no longer necessarily goes to the bank; rather, the bank is integrated into companies' systems. The financial institution becomes part of the client's daily operations, which makes it possible to manage real-time data through so-called data lakes, centralized storage repositories designed to store large volumes of raw data, or through application programming interfaces (APIs) and technological interconnection. This change implies a new paradigm: banking stops waiting for the company to enter the bank and instead becomes incorporated into the company. This is not an automatic or simple transformation. **It requires technological work by both banks and companies, because companies must adapt their systems so that the connection can be made in a secure, efficient and operational manner.**
- With the new banking model, progress is generated in productive inclusion, not only financial inclusion. Banking helps companies adopt more modern technological architectures, use technology better, scale their operations and integrate their value chain. When companies incorporate efficient technology, they increase their productivity and strengthen the economy. The new model reduces technological

frictions, promotes client digitalization and requires decoupling, microservices and what has been called flexible, non-rigid composable banking. These elements allow greater agility in product development and a better capacity to respond to the market. In banking, time to market, the period from when an idea is conceived until the product or service is fully available to the final consumer, is a critical factor: when a need arises, the institution must respond quickly with new technological solutions. This capacity is strengthened when banking architecture is supported by microservices and interoperability among systems. **Banking no longer only finances growth; it also helps design, accelerate and scale business models through purposeful innovation.**

- Regarding innovation in bank operations, some specific initiatives using AI were presented to improve innovation conditions within banking. It was emphasized that, to achieve this, it is essential to take into account some strategic objectives: 1) the intelligent optimization of internal processes, aimed at increasing efficiency and drastically reducing the operational burden within the bank itself; 2) the transformation of the customer experience through cognitive solutions within the framework of AI, associated with procedures that imitate certain patterns of human reasoning; 3) the generation of innovation and new business opportunities through the proactive identification of market niches and the development of appropriate financial services; and 4) the use of this tool to strengthen more informed decision-making.

## **GOVERNANCE OF DIGITAL TRANSFORMATION AND USE OF AI**

- The digital transformation of development banks requires linking technology, data, governance, internal capacities and a clear understanding of users' needs. In this process, AI can help expand access to financing, improve institutional efficiency and strengthen the capacity to respond to the region's development challenges. Digital transformation should not begin by asking what technology or program will be used; the starting point should be a people-centered culture. It is necessary to build trust, ensure that teams understand that they can do it, and recognize that those who carry out the work know many of the answers. Internal trust is a central element. Employees must also see personal benefits in the change. The objective should be to build a system in which every piece of data collected can be used.
- AI is one of the most advanced technologies available for banking, but its implementation without governance can generate legal, regulatory, operational and reputational problems. The same technology can produce very different results in two different institutions: in one, it can improve productivity and portfolio management; in another, it can generate conflicts with clients, legal risks or regulatory non-compliance. The difference does not lie only in the tool, but in the implementation map, the path adopted and the capacity for governance. Therefore, AI governance should not be understood as an end in itself. It is a means to obtain better institutional results: healthier portfolios, greater productivity, reduced frictions, better decision-making and alignment with each entity's strategic objectives. Before implementing solutions, a diagnosis must be established to understand where the institution stands, what capacities it has, what processes require intervention and what results are being sought.

## IMPACT MEASUREMENT OF OPERATIONS

- Financial instruments should not be measured only by the volume of resources placed, but by their real impact on production, employment, productivity and people's quality of life. Development banks face growing pressure to demonstrate the economic and social impact of their operations. This pressure comes from the need to strengthen the work they carry out, but also from the need to be accountable to funders and other actors linked to their development mandates. In many cases, it is difficult to obtain the data needed to know whether operations are advancing toward the expected social and economic impacts and results. It also happens that technical teams and senior management do not always have the information they need to make decisions. Therefore, strengthening monitoring and evaluation practices and capacities is a relevant condition for improving institutional management. Some banks already have solid monitoring and evaluation practices and may be more successful. However, strengthening these practices is not simple. It often requires investment of resources, identification of internal gaps and clarity about where and how to improve existing capacities. Peer learning, especially among institutions that share similar challenges and objectives, is often more effective for developing individual and organizational capacities than the vertical transfer of knowledge.