



CMF in Review

2006-2011

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**Inter-American
Development Bank**

**Institutions for
Development Sector
(IFD)**

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CMF IN REVIEW (2006-2011)

Capital Markets and Financial Institutions Division (ICF/CMF)*

**NOTE: After this publication was finished the Institutional Capacity and Finance (ICF) Sector was reorganized and became Institutions for Development (IFD).*

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The Capital Markets and Financial Institution (CMF) Division plays a vital role in the development of financial and private sector markets in Latin America and the Caribbean and is a global thought leader for the region on the issue of economic development. Based within the Institutional Capacity and Finance Sector of the Inter-American Development Bank (IDB), CMF houses expertise on a variety of important issues for the Americas including finance, banking, development, institutional strengthening, competitiveness and more. Its operations have and are currently being executed in 24 countries and all five sub-regions across the region with great success both in terms of the host country's improvements and the IDB's investments.

The purpose of this Discussion paper is to highlight some of the key areas of work for CMF and to explore both the thematic breakdown of its operations from the last five years and how those operations have affected the region. While not an exhaustive analysis of CMF operations, the paper provides a thorough overview of the division's role within the broader context of the IDB and other regional actors along with an insightful, more comprehensive evaluation of certain key thematic areas of work. It is the goal of the paper to clearly detail the division's work as a way to improve the conceptual understanding of that work by others within the IDB, the region and the world. To accomplish this, the paper drew on several specialists within the division to guide the 'narrative' voice for each of the sections presented.

Different than many other official IDB publications, the paper has been formatted in a portfolio style in which each section is independent and which allows readers to separate out sections/chapters as they see fit. Each section is comprised of a CMF Portfolio Note, which is an internal publication series produced by CMF as a tool for self-analysis and effective communications of operational functions. The sections found within the Discussion Paper explore CMF operations from the last five years on the following areas of work: Financial Inclusion; SME Development; Clusters, Value Chains and other Firm-Level Interventions; Banking Supervision and Regulation; and CMF Operations in Uruguay. Additionally, the first section offers a complete operational overview from 2000 up to 2011.

A note on methodology...

The primary source of information for the Discussion Paper came from the **CMF Operations and Project Database**, an internal database of CMF operations. The database was built using information from a variety of IDB information systems and independent research from the CMF Knowledge Management Group as part of an effort begun in the final months of 2010. Unique from IDB bank-wide systems, the CMF database provides

conceptual categorization and comprehensive project information, which allows to analysis of the Division's operations in a more tangible manner and at a more detailed level without having to review several systems. In other words, it allows others to truly understand the goals and focus of CMF operations.

Prior to the Discussion Paper, CMF began and completed a several month long process of building out its database system by collecting thousands of individual data-points from numerous sources. During this process, each CMF operation from 2000 through 2011 was identified and then had its respective data and information placed into the database system. Since CMF only officially came into existence in 2007, the IDB has retroactively assigned numerous operations to its historic portfolio and these were included in the CMF Operations and Project Database.

Included in the comprehensive information for each operation from the IDB systems were the bank's operational classifications. However, the CMF database, and this paper, DID NOT use these classifications, but rather developed a unique and original method of classification for its projects that drilled down into project documents to discover the 'essence' of each operation. In other words, **the CMF database focused on what each project did on a fundamental, conceptual level**, rather than use the bank's broader classifications. For example, while some actual operations made significant loans to a public bank in Brazil and were classified as multi-sectoral credit programs in the IDB's systems, they were classified as MSME finance operations in the CMF database because the ultimate goal of the operations was to increase credit to and competitiveness of MSMEs in Brazil through a menu of tools funded by the large, multi-sectoral loans. We wanted to understand what our operations actually did on the ground and their end-goals, rather than just their larger structural aspects.

Each operation received categorical classifications at the Sector, Sub-sector and Thematic Area levels (these are DIFFERENT than those in the IDB's systems) by the CMF Knowledge Management Group using a comprehensive classification methodology, independent analysis of project documents and input from specialists. The entire database then underwent a variety of 'quality-check' reviews to ensure objectivity and accuracy of information and classifications.

The discussion paper, in part, represents the culmination of this effort to categorize and evaluate CMF operations up to August 1, 2011 through the CMF Operations and Project Database. While the paper does not include comprehensive analysis of the database nor a complete presentation of CMF's areas of work, it does present an interesting perspective into how several of the division's key programs have functioned. The type of analysis conducted with the database and this paper is different than traditional IDB analysis and the results reflect a different perspective on CMF's operations. It is the goal of this paper to help stimulate discussion and thought in the future.

Common abbreviations used in the text:

CMF – Capital Markets and Financial Institutions Division

ICF – Institutional Capacity and Finance Sector

IDB – Inter-American Development Bank

CID – Country Department Central America, Mexico, Panama and the Dominican Republic

CSC – Country Department Southern Cone

CAN – Country Department Andean Group

CCB – Country Department Caribbean Group

REG – Regional Projects

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***NOTE: After this publication was finished the Institutional Capacity and Finance (ICF) Sector was reorganized and became Institutions for Development (IFD).*

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CMF Portfolio Notes

Capital Markets and Financial Institutions Division (ICF/CMF)

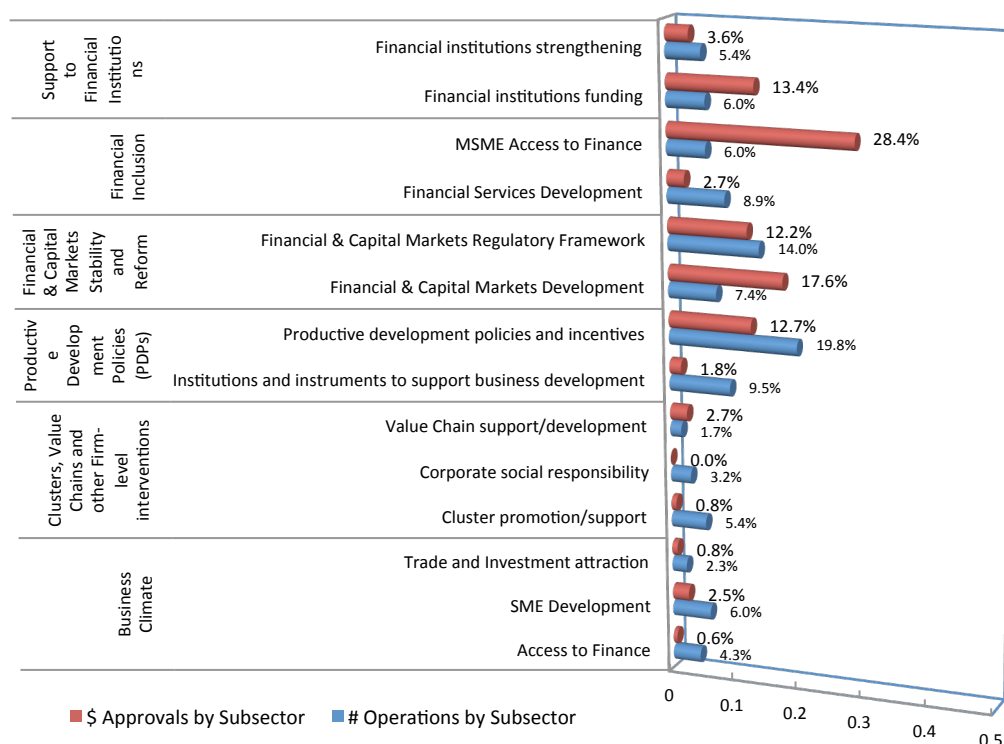
CMF, as part of its Knowledge Management Strategy, designed a tool to standardize the analysis and classification of projects financed by the Division since the year 2000. It is meant to be used by staff and consultants in any analysis pertaining the project data in this period.

Learning from CMF experiences (2000-2011)

Continuing previous efforts from its Knowledge Management Strategy, CMF has further developed and refined a new tool for standardizing the analysis and classification of projects financed by the division. The CMF Operations and Project Database, an internal database system for CMF, offers a unique perspective on CMF operations that allows its users (internal and external) to understand division operations at a conceptual level. The database provides comprehensive information from a variety of IDB information systems, but also adds thematic categorization for each project and serves as a tool for statistical analysis. As a result, the tool now offers a more robust menu of information on CMF projects to assist CMF team members in the design, execution and evaluation of projects.

Expanding Our Understanding of CMF Operations

This issue evaluates CMF operations since 2000 through the end of July 2011 and compares that information with the breakdown in the previous CMF Portfolio Note (Vol 1, Issue 1). However, this issue also discusses the advancement of the tool beyond broader sector and Sub-sector levels into a breakdown of thematic areas, which highlight the detailed activity of each operation with more precision.



...over the last five years, projects related to Financial Inclusion made up the largest share of approval dollars with approximately 29% of total division funding.

Comparative Sector Analysis

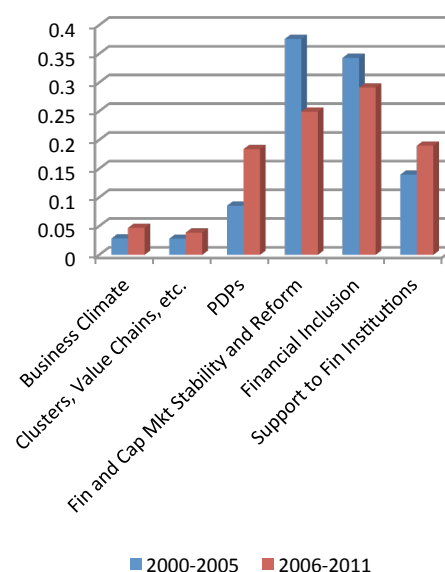
Understanding composition of divisional operations can offer valuable lessons for both the division and its clients. One type of analysis that CMF currently conducts with the CMF Operations and Project Database is temporal analysis of sector and sub-sector activities.

The chart to the right illustrates the compositional breakdown of CMF operations by Sector category using percent share of total dollar approval amounts. It analyzes two time periods, from 2000 through 2005 and the last five years from 2006 through July 31, 2011. The purpose is to show the shifting focus of CMF operations over time and since the creation of CMF.

What it reveals is that over the last five years CMF has moved toward a greater focus in terms of approval dollars spent on Productive Development Policies and Support to Financial Institutions, which both experienced a 9% share increase of approvals between the two periods and a more balanced portfolio. Meanwhile CMF moved away from Financial and Capital Market Stability and Reform, which experienced a decrease of 14% and in Financial Inclusion operations, which experienced a 7% decrease, notwithstanding their continuing high values.

Thus, over the last five years, projects related to Financial Inclusion made up the largest share of approval dollars with approximately 29% of total division funding. The next largest Sector was Financial & Capital Markets Stability and Reform, which received just fewer than

CMF Approvals by Sector



25% of total approval dollars.

Overall, CMF has conducted 349 operations since 2000 and invested approximately \$18.824 billion in approvals. Since 2006, the division has conducted 38 operations with total approvals of \$3.349 billion.

Using the CMF Operations and Project Database, each of the operations were categorized into one of six Sector areas: Business Climate; Clusters, Value Chains and other Firm-Level Interventions; Productive Development Policies; Financial & Capital Markets Stability and Reform; Financial Inclusion; Support to Financial Institutions. Within each of these Sectors, several sub-sectors were created and within each sub-sector a set of corresponding Thematic Areas were developed which more accurately described CMF's operations conceptually. Each project was then assigned to a single Sector, Sub-sector and potentially multiple Thematic Areas within those classifications.

A Thematic Area is a classification executed at a finer level than Sector or Sub-sector and that offers precise description of what each operation actually executes.

Understanding Our Operations by Thematic Areas

A Thematic Area is a classification executed at a finer level than Sector or Sub-sector and that offers precise description of what each CMF operation actually executes. The process of identifying, refining and assigning these Thematic Areas took nearly a year to complete by employees in the CMF division.

In total 136 Thematic Areas (73 in Private Sector Development and 63 in Financial Markets Development) were identified by analyzing key project documents for each operation of the division and a series of refinement processes with consultations with several members of CMF to ensure quality.

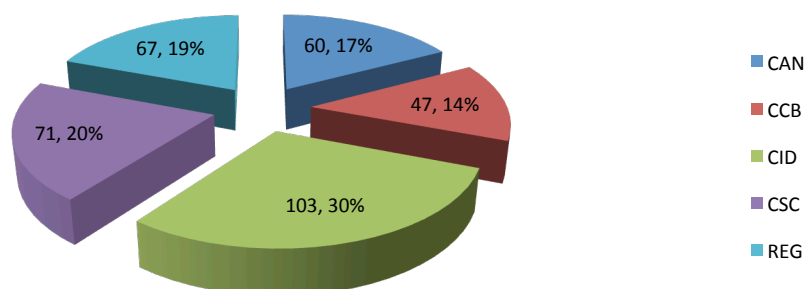
Each operation from the division was classified with one or more unique Thematic Area(s) with the goal of developing an accurate illustration of the division's operations. Taken together with the Sector and Sub-sector classifications assigned to each operation these classifications offer insight into the true nature of CMF operations. These classifications also provide various avenues

gathering for future preparatory research that will provide more flexibility and ease in identifying relative projects, documents and data.

The two tables at the end of this note show the ten Thematic Areas with the largest number of operations and largest number of dollar approvals. These tables show that Development Planning and Policy activities comprise the largest number of operations (about 10.6%) and Medium and Long-Term Investments comprise the largest number of total approval dollars (about 22.3%).

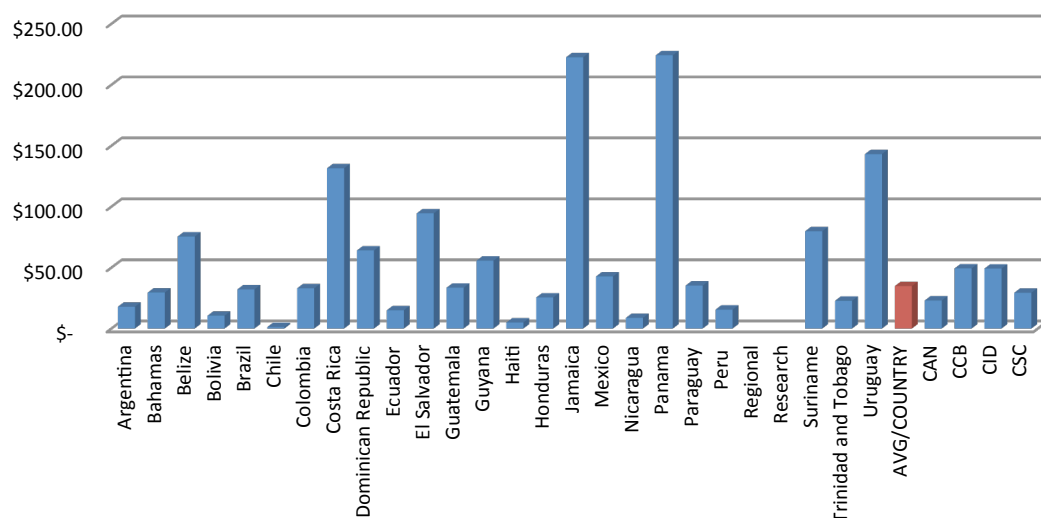
The chart below offers the number of operations and the percentages in each sub-region of Latin America and the Caribbean. It shows a fairly even distribution of projects across the sub-regions with no single sub-region dominating CMF's operations.

CMF # Operations by Region



*CAN – Andean Countries; CCB – Caribbean Countries; CID – Central American Countries; CSC – Southern Cone Countries; REG – Regional

\$ Approvals per Capita



The smallest recipient of approval dollars on a per capita basis was Chile with approximately \$1.24 per person.

When we analyze CMF operations based on recipient country and region using dollar approval amounts per capita, two primary recipients immediately appear: Jamaica and Panama. By far the largest two recipients of CMF approval dollars, they have received investments of more than 3.5 times more per person (\$222.53 and 224.17 respectively) than our overall average of \$34.82 per person per country.

The largest overall recipient of CMF approval dollars was Brazil with approximately 32.6% of approvals, although on a per capita basis Brazil only received about \$32.14 per person which is just below the average.

The smallest total approval dollar recipient was the Bahamas, which received about 0.056% of approval dollars. The smallest recipient of approval dollars on a per capita basis was Chile with approximately \$1.24 per person. Overall Chile received about 0.1% of approval dollars, which may reflect

its relative wealth, level of development and policy decisions.

Overall 24 countries received investments from 349 CMF operations. Eight countries received per capita approval dollars that were larger than the overall average and sixteen received less than average.

On a regional basis, the CID countries received the most approval dollars with about 43%. Countries from the CSC received about 40% of approvals, CAN countries received about 12% of approvals, CCB countries received about 4% and Regional projects made up less than 1% of approval dollars.

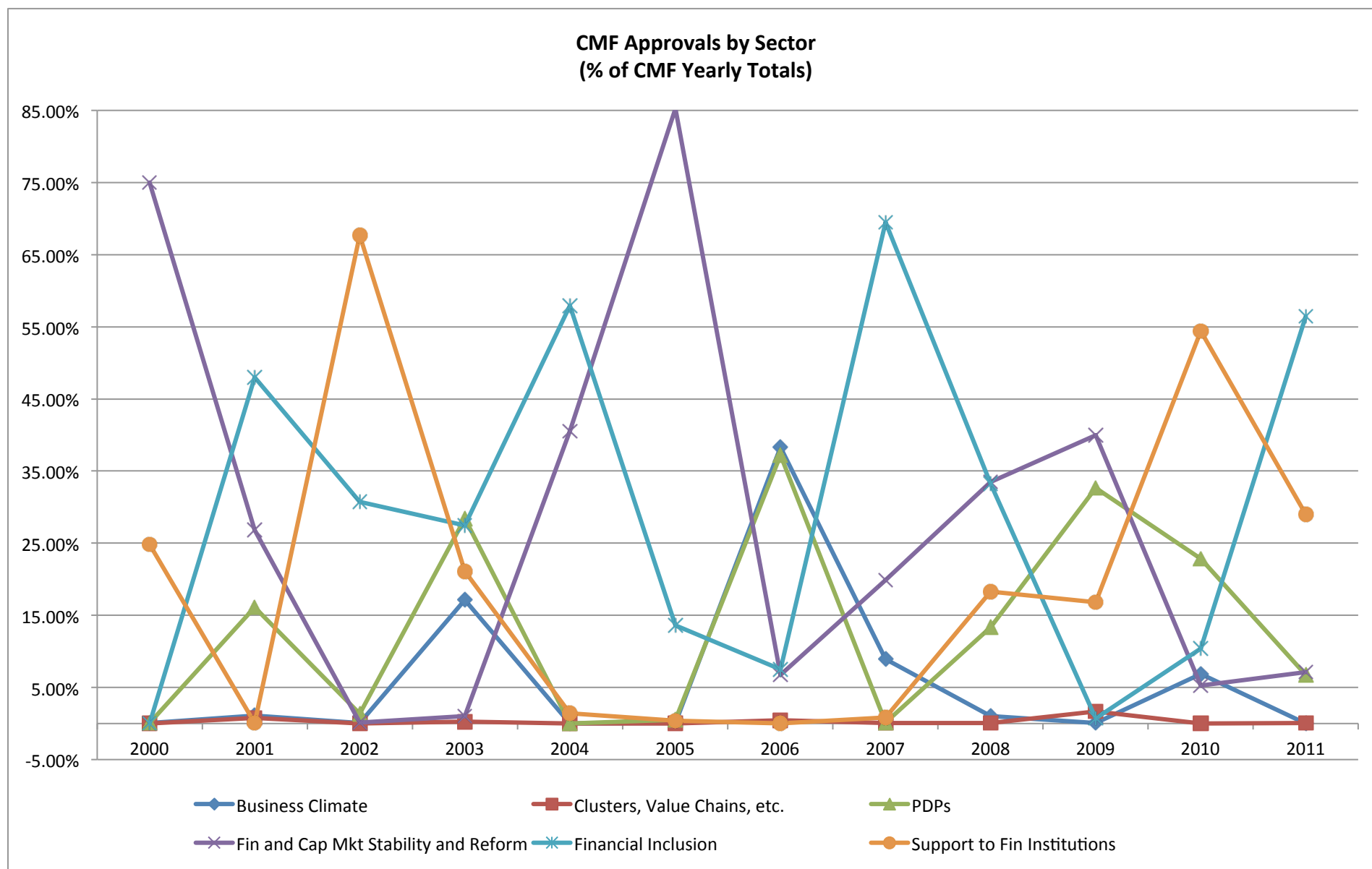
**CAN – Andean Countries; CCB – Caribbean Countries; CID – Central American Countries; CSC – Southern Cone Countries; REG – Regional*

Top 10 Thematic Areas by # Operations

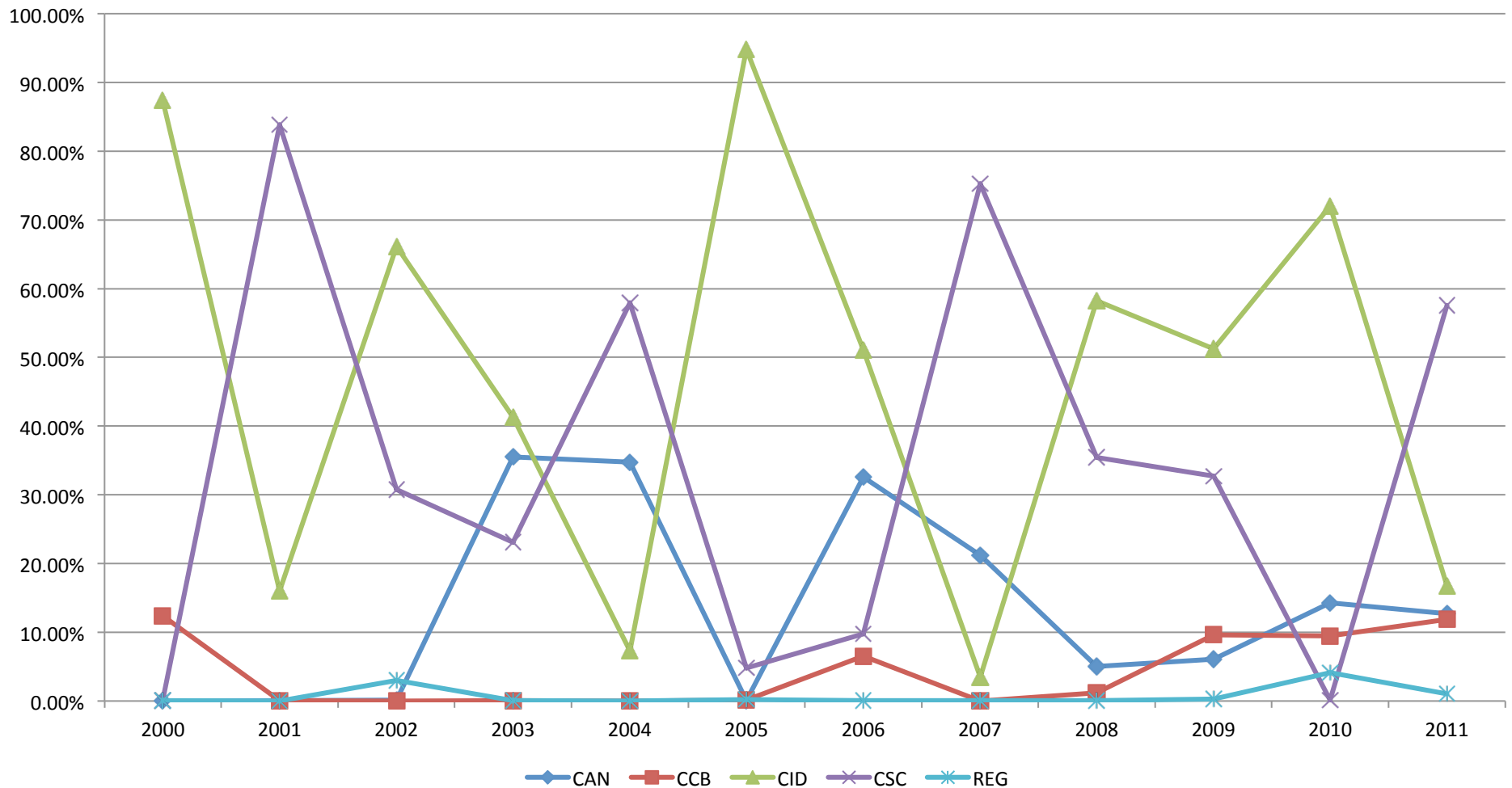
Sector	Sub-sector	Thematic Area	# Operations	%	\$ Approvals	%
PDPs	PDPs	Development Planning and Policy	37	10.60%	\$ 164,433,603.00	0.87%
PDPs	PDPs	Financial intermediation	18	5.16%	\$ 2,164,200,000.00	11.50%
PDPs	Institutions and instruments...	Fiscal and Financial Management	17	4.87%	\$ 206,580,344.00	1.10%
Financial & Capital Markets Stability and Reform	Financial & Capital Markets...	Financial services reform/supervision	16	4.58%	\$ 304,484,449.00	1.62%
Business Climate	SME development	Competitiveness Strengthening	14	4.01%	\$ 398,957,487.00	2.12%
Clusters, value chains, etc	Cluster Promotion/support	Program/support services strengthening	14	4.01%	\$ 133,569,100.00	0.71%
Financial & Capital Markets Stability and Reform	Financial & Capital Markets...	Banking supervision	12	3.44%	\$ 880,629,000.00	4.68%
PDPs	PDPs	Forestry and conservation promotion	11	3.15%	\$ 1,407,800.00	0.01%
Support to Financial Institutions	Financial Institutions Strengthening	Public banking support	11	3.15%	\$ 626,399,000.00	3.33%
Financial Inclusion	Financial Services Development	Rural and peri-urban firm financing	10	2.87%	\$ 375,330,000.00	1.99%

Top 10 Thematic Areas by \$ Approvals

Sector	Sub-sector	Thematic Area	# Operations	%	\$ Approvals	%
Financial Inclusion	MSME Access to Finance	Medium and Long-term investments	7	2.01%	\$ 4,200,000,000.00	22.31%
PDPs	PDPs	Financial intermediation	18	5.16%	\$ 2,164,200,000.00	11.50%
Financial & Capital Markets Stability and Reform	Financial & Capital Markets Dev	Housing finance/mortgage program funding	6	1.72%	\$ 1,507,860,000.00	8.01%
Financial & Capital Markets Stability and Reform	Financial & Capital Markets Reg Framework	Capital market regulation/supervision	3	0.86%	\$ 1,100,010,950.00	5.84%
Support to Financial Institutions	Financial Institutions Funding	Productive sector financing	7	2.01%	\$ 1,042,300,000.00	5.54%
Financial & Capital Markets Stability and Reform	Financial & Capital Markets Dev	Financial market intermediation	3	0.86%	\$ 1,030,000,000.00	5.47%
PDPs	PDPs	Job creation	1	0.29%	\$ 1,000,000,000.00	5.31%
Financial Inclusion	MSME Access to Finance	Credit guarantees for MSMEs	3	0.86%	\$ 950,000,000.00	5.05%
Financial & Capital Markets Stability and Reform	Financial & Capital Markets RegFramework	Banking supervision	12	3.44%	\$ 880,629,000.00	4.68%
Support to Financial Institutions	Financial Institutions Funding	Guarantee funding	3	0.86%	\$ 800,300,000.00	4.25%



**CMF Approvals by Region
 (% of CMR Yearly Totals)**



CAN – Andean Countries; CCB – Caribbean Countries; CID – Central American Countries; CSC – Southern Cone Countries; REG – Regional

In LAC it is estimated that only about 35% of all households have bank accounts, 10-25% use credit services, less than 1% use insurance products. For microenterprises, it is estimated that only about 5-8% have access to credit from financial institutions.

What is Financial Inclusion?

Financial inclusion is defined as the access to and use of a broad range of financial services—credit, deposits, insurance, payments – by lower and moderate income households and small firms. The services should be convenient, affordable, and suitable to household and business needs and capacities to pay, and be provided in a sustainable and permanent manner. In most developing countries, the segment of the population that uses formal financial services tends to be the upper income and salaried workers.

The lack of access to financial services implies economic and social costs for excluded households and firms. For households this limited access requires them to depend on cash for payment and transfer services, implying greater insecurity and higher transaction costs. Limited access to deposit services complicates consumption smoothing, risk management, and poverty reduction while the virtual inability to purchase formal insurance makes households and firms vulnerable to external shocks that can result in the loss of assets or one's livelihood. For microenterprises credit constraints and the high cost of alternative informal lenders increase costs, limit investment opportunities, firm expansion, innovation and, as a consequence, productivity gains.

In Latin America and the Caribbean (LAC) access to financial services for low-income segments of the population is still limited. It is estimated that only about 35% of all households have bank accounts, 10-25% use credit services, and that less than 1% use insurance products. For microenterprises, it is estimated that only about 5–8% have access to credit from financial institutions. In comparison, in higher income countries (countries from the Organization for Economic Cooperation and Development or OECD) about 90% of adults have accounts (CGAP, 2010).

Greater financial inclusion in terms of both supply and demand is constrained by a series of factors: (i) high relative costs of providing services – the operational costs of financial transactions are not closely related to the value of the transaction; (ii) difficulties and high relative costs to assess risk, monitor behavior and maintain incentives; (iii) lower educational levels, which lead to difficulties in understanding the benefits and how to use the services; (iv) low income levels, which imply less stable incomes and greater vulnerability. To be able to address these constraints the following are required: (a) the development of specialized financial technologies that can profitably provide services to meet the needs of the financially excluded; (b) motivated and capable financial institutions willing to serve this market and to invest the resources in the development and implementation of effective technologies; and (c) a supportive enabling environment that facilitates the implementation of these technologies and the willingness of service providers to enter into this market.

CMF Financial Inclusion strategy focuses on three areas: 1) Enhancing legal and regulatory framework. 2) Promoting non-credit financial services. 3) Continuing to widen the effectiveness of credit products.

In the case of credit for microenterprises, effective financial technologies have been proven, and are easily accessible. Some Latin American countries have been leaders in the development and implementation of these technologies. In these LAC countries, where supportive enabling environments have been established and motivated financial institutions have flourished, some of the most dynamic microfinance markets in the world have developed. However, in the majority of the region microenterprise credit markets are still vastly underdeveloped. Moreover, interest rates still remain high and term credit is still rarely available.

For non-credit financial services, effective financial technologies have not yet been proven in the region, and the implementation of supportive enabling legal and regulatory environments for these services is more limited. However, for payments, transfers and short-term savings, there are promising developments. The use of mobile banking, non-bank agent networks, combined with the introduction of basic bank accounts and the entry of new financial providers appears to be able to dramatically expand access.

CMF and Financial Inclusion

The Capital Market and Financial Institution (CMF) Division developed a Financial Inclusion strategy to significantly increase access to and the use of financial services that effectively and efficiently meet the specific needs of lower and moderate income households and microenterprises. The strategy works at the level of institutions, policies, and programs in order to achieve the goals of financial institutional development, or enhanced household welfare and economic growth. Main areas of focus are:

1. Enhancing the legal and regulatory framework and other aspects of the enabling environment.
2. Greater focus on promoting access to a full range of non-credit financial services.
3. Continuing to widen the array and effectiveness of credit products.

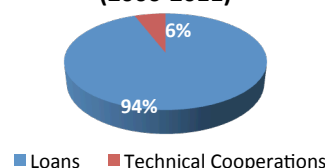
This note describes CMF main activities on financial inclusion by providing insights on the portfolio of operations during the period 2006-2011. To better understand CMF involvement in improving access to finance, two distinct categories of operations are described: Loans and Technical Cooperations (TCs), which differ by definition in scope and amount. The note provides a short description of each operation identifying the main area of focus, recipient country, year, and approved amount. It also discusses the potential benefits of providing non-credit financial services through new financial technologies in terms of reduction of administrative costs and increase of low-income client accessibility.

Since 2006, CMF approved \$82 million dollars for Financial Inclusion operations: \$77 million in Loans and \$5 million in Technical Cooperations.

Financial Inclusion portfolio analysis

In the period 2006-2011 CMF approved 16 operations related to Financial Inclusion for a total amount of approximately \$82 million dollars. As showed in the chart below, approximately 94% of this amount (\$77 million dollars) is composed by loans operations. The other 6% of the approvals are TCs, which make up to approximately \$5 million dollars of the total approved amount for Financial Inclusion.

**Financial Inclusion \$ Approvals
(2006-2011)**



Loans

The table below offers a brief description of all CMF Financial Inclusion loans. In terms of geographic distributions, Ecuador appears to be the main recipient country, with three approved operations for a total amount of \$57 million dollars, while Mexico is the second major beneficiary with one operation of \$20 million dollars. Each operation has been classified with a thematic area: of the four operations approved in the last 5 years, one is to improve access to finance for micro-entrepreneurs, one is to support the development of housing market and two are to improve financing in the rural and semi-urban sector.

CMF Financial Inclusion Loans (2006-2011)

Project Name	Number	Description	Thematic Area	Year	\$ Amount (US\$ 000s)
Ecuador. Global Credit Program for Microfinance Support in Ecuador	EC-L1073	Improve access to financial resources for popular finance structures and micro entrepreneurs, thus helping to create more sources of employment among cooperative associations and low-income groups.	Individual and group credit/microfinance	2011	50,000
Mexico. Rural Financing	ME-L1055	Improve financing in the rural sector with particularly targeting activities that require long term investment and generate positive environment and social impact.	Rural and peri-urban firm financing	2011	20,000
Ecuador. Expansion of Formal Financial Services to Semi urban & Rural Micro entrepreneurs	EC-M1031	Expanding the access to formal financial system for micro entrepreneurs in rural and peri-urban areas through a regulated institution that serves lowest-income households through village banking and solidarity group lending.	Rural and peri-urban firm financing	2007	4,500
Ecuador. Supporting the Provision of Transnational Mortgages Loans for Ecuadoran Migrants	EC-M1030	Development of housing market tailored to migrant for the purchase of housing through their remittances.	Financial instrument development	2007	2,500

Technical Co-operations

Since 2006 CMF approved over 12 TCs that have a financial inclusion objective. As some of the operations were regional, more than 10 countries in LAC received technical assistance. The table below presents a short description of these TCs. It can be noticed that the main areas of focus for the division have been: (i) *Mobile banking and other new technologies than enhance access to banking services*; (ii) *Improving low-income and microenterprise access to credit*; (iii) *Micro-pensions*; (iv) *Micro-insurance*. Half of the TCs were to implement and evaluate m-banking pilot systems for low-income households. The other half of projects offered assistance to local authorities in the improvement of appropriate regulatory frameworks that facilitate access to finance of low-income segments of the population, as well as improving access to credit of disadvantaged groups, developing micro-pensions plans and supporting programs to transfer the risk of natural disasters.

CMF Financial Inclusion Technical Cooperations (2006-2011)

Number	Project Name	Description	Thematic Area	Year	\$ Amount
RG-T1478	Regional. Development of Natural Disaster Risk Transfer Programs.	Supporting the implementation of integrated programs to manage natural disasters to strengthen the financial mechanisms of natural disaster risk transfer.	Insurance	2009	\$1,000,000
RG-M1126	Regional. Pilot Project for Micro pensions in Central America.	Reducing poverty among micro entrepreneurs and non salaried low income workers through an experimental Pension Plan.	Micro-pensions	2009	\$915,000
PR-T1096	Paraguay. Second Program of support for the modernization of the Credito Agricola de Habi	Strengthen the microfinance credit for the rural micro entrepreneurs.	Improving access to credit	2009	\$830,000
RG-T1737	Regional. Increasing Access to Financial Services to the Poor and the Unbanked	Increasing the access to financial services of the poor and the unbanked via the utilization of new financial technologies and business models.	Mobile banking and access to banking services	2009	\$600,000
RG-T1548	Regional. Supporting the Implementation of M-banking Systems for the Poor and Unbanked	Increasing the access to financial services of the unbaked, in particular low-income households through mobile banking solutions.	Mobile banking and access to banking services	2008	\$500,000
EC-T1189	Ecuador. Strengthening of Popular and Solidarity Financial Sector: Financial Inclusion	Improving access to finance of Popular and Solidarity sector through the development of a supervision process for the local social solidarity authority.	Improving access to credit	2010	\$340,000
PR-T1077	Paraguay. Mobilizing Banking System to Finance Forest-based Businesses	Increase financing from commercial banks to sustainable forest businesses, particularly to natural forests management and plantations projects.	Mobile banking and access to banking services	2008	\$150,000
PE-T1066	Peru. Support for Deepening Access to financial services through m-banking	Supporting the local government to set an enabling environment for the provision of m-banking services with the objective of increasing access to financial and banking services for the poor.	Mobile banking and access to banking services	2008	\$145,159
BR-T1129	Brazil. Afro-Brazilian Access to Business Credit	Improving access to credit of Afro-Brazilian owned and operated micro and small businesses in metropolitan areas, with regard to access to formal and informal credit.	Improving access to credit	2009	\$140,000
JA-T1021	Jamaica. Financial Services through Mobile Devices	Increasing access to financial and banking services for the poor to set an enabling environment for the provision of m-banking services.	Mobile banking and access to banking services	2008	\$99,999
CO-T1067	Colombia. Promoting Access to finance through Mobile Devices	Increasing access to financial and banking services for the poor to set an enabling environment for the provision of m-banking services.	Mobile banking and access to banking services	2007	\$99,650
JA-T1042	Jamaica. Improving Access to Finance to Women Entrepreneurs	Improving access to credit of women entrepreneurs, which represent an important part of the MSEs sector.	Improving access to credit	2009	\$30,000

CMF has started to emphasize the importance of new financial technologies to expand access to finance. Many innovative projects have been approved in several countries of the region.

CMF and non credit financial services: Mobile banking and access to banking services

Until relatively recently, increasing access to non-credit financial services received less attention from governments and development institutions. To some degree, this was due to their focus on microfinance as well as the absence of proven effective financial technologies that could make the lower and moderate income market profitable. This trend is changing with the understanding that the benefits of microfinance are not as great as believed, the greater awareness of the unmet need for this service, and the development of some promising financial technologies.

Particularly transactions like payments and transfers seem to have the greatest potential for expanding access. New financial technologies that apply low cost ICT technologies have been proven to obtain economies of scale and generate the needed large volume of demand to make these services profitable for the unbanked. Some examples of these new models and technologies include: mobile banking, non-bank agent networks, pre-paid credit cards, simplified savings and checking accounts. Savings and micro-insurance are the other two areas where non-credit financial services can potentially increase access to finance although there is less understanding (or agreement) on how to expand the use of these services to lower income households.

As new financial technologies allow for transactions to be conducted outside of bank branches, administrative costs lower and accessibility for the client increases. Another additional important aspect of these new modes of service delivery is that they also permit the entry of new financial service providers in the market, such as mobile phone companies and commercial chains, which facilitates greater competition.

As mentioned, mobile banking and access to banking services represent the largest category of technical assistance CMF provided on financial inclusion. Some mobile banking projects included considerable innovation components. Among the most innovative projects were: (i) a system developed in Brazil that estimates effective credit scores for persons with no credit history based on their cell phone call histories and; and, (ii) a mobile wallet product used for the payment of salaries of low-income people working on non-government organization (NGO) projects in Haiti.

Because much is still unknown about the financial behavior, needs, and decision-making processes of low income households, the true costs of delivering financial service, and what impacts financial service usage has, a crucial role in assessing Financial Inclusion effectiveness is played by surveys, monitoring, evaluations, lessons learned and best practice. In this sense, CMF is also working on refining these tools in partnerships with other Bank's division as well as other donor agencies involved in financial inclusion.

CMF Portfolio Notes

December 2011

Capital Markets and Financial Institutions Division (ICF/CMF)

The Capital Markets and Financial Institutions Division... has been at the leading edge of this effort...

Development of Micro, Small and Medium Enterprises (MSMEs)

The Inter-American Development Bank has made programs that develop private sector economies and the small and medium-sized businesses within those economies a leading priority. The Capital Markets and Financial Institutions Division, in particular, has been at the leading edge of this effort contributing a significant number of operations and approval dollars to MSME development both in terms of the bank's overall efforts and as a percent share of CMF's portfolio. The importance given to MSME operations within the IDB and CMF reflects the significance of these firms for employment, GDP, and economic diversification in our member countries. To better understand the role CMF has played in this agenda, this Portfolio Note lays out the division's efforts in the context of the IDB overall.

For the bank overall, in the past five years from 2006 to 2010, operations related to MSMEs have accounted for 361 operations (about 10%) and approximately US\$ 7.7 billion, or 8% , of approval dollars within the IDB's portfolio. These figures mirror the importance placed in this area of work and also are consistent with levels since 2000. When analyzed as a share of overall Private Sector Development (PSD) Enterprise funds from the 2000 to 2010, MSME development accounted for approximately US\$ 12.5 billion or about 51% of PSD Enterprise Development approvals in the bank and just fewer than 30% of all operations for both Credit and Technical Assistance programs.

Summary of IDB SME Operations

	2006	2007	2008	2009	2010	Grand Total
Approvals related to SME Development (#)	68	66	101	78	48	361
Bank Approvals (#)	741	699	871	797	549	3657
Approvals related to SME Development (US\$ millions)	858.10	1,962.00	2,111.50	2,158.00	622.00	7,711.60
Bank Approvals (US\$ millions)	8,282.00	13,788.00	30,328.00	30,478.00	9,782.00	92,658.00
Number of Approvals SME Development (% total)	9%	9%	12%	10%	9%	10%
Amount of Approvals SME Development (% total)	10%	14%	7%	7%	6%	8%

Source: CMF SME Operations 2000-2010 Bank Wide Database

...CMF has contributed approximately 61% of the US\$ 12.5 billion approvals in 2000-2010.

The IDB's review of these operations in the past has focused on broader sectoral level analysis which has divided the MSME portfolio into the following categories:

- IT and Telecommunications
- Other
- Social Investment
- Environment And Natural Disasters
- Microenterprises
- Reform / Modernization Of The State
- Agriculture And Rural Development
- Tourism
- Science And Technology
- Trade
- Capital Markets
- Industry
- Private Sector Development
- Multisector Credit & Preinvestment

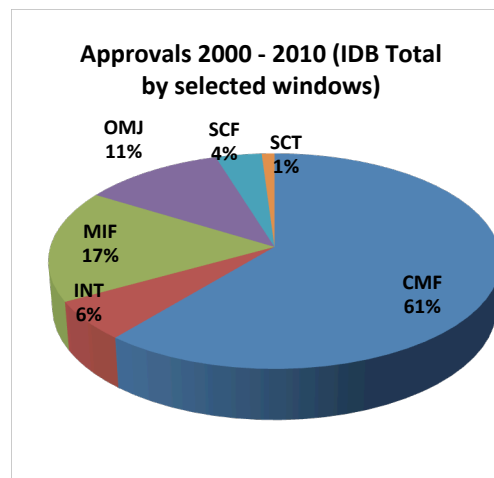
Multisector Credit & Preinvestment was the largest category with approximately US\$ 3.3 billion in approvals from 2000-2010 or about 26% of the portfolio related to MSME development.

CMF's Role in MSME Development

While the IDB's MSME portfolio consists of various types of operations, covers a multitude of sectors, and has multiple divisions involved, CMF has distinguished itself in two primary ways: 1) the large percentage of approvals within the MSME portfolio issued by the division, and 2) the conceptual level of analysis with which CMF reviews and categorizes its MSME operations.

Various divisions have devoted operations and approvals to MSME development including the Office for the Majority Sector (OMJ), Structured and Corporate Finance (SCF), the Science and Technology Division, Integration and Trade (SCT), and CMF.

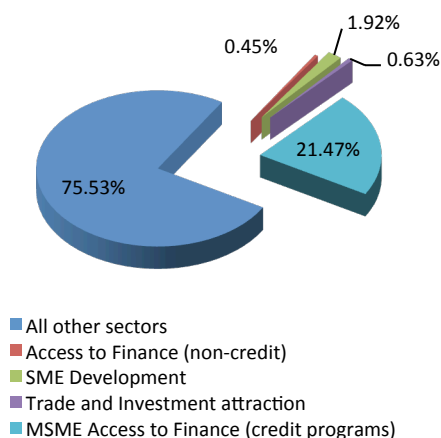
However, for non-credit based MSME programs, CMF has contributed approximately 61% of the US\$ 12.5 billion approvals in 2000-2010 in the bank. And in the past five years, CMF has contributed approximately US\$ 2.8 billion of approvals, or about 36% of total IDB MSME approvals.



Source: CMF SME Operations 2000-2010 Database

Two key characteristics of CMF's MSME efforts are the significant resources devoted by the division to its MSME portfolio and the consistency in its levels of contributions. Over the past five years, the operations related to MSME development have contributed approximately 19% of CMF's total number of operations and approximately 32% of the approvals within its overall portfolio. This means that not only is CMF providing a significant contribution to the IDB's overall effort to develop MSMEs in the region, but also within its own set of activities and work areas MSME Development has been given high priority status. The result has been a record of successful operations by CMF and the IDB.

**Share of Approvals by Subsector
2000-2011 (CMF Totals)**



...CMF has begun using the CMF Operations and Project Database to drill-down further into data pertinent to its MSME operations and better define its portfolio.

Conceptualizing MSME operations in a new way

Traditional areas of categorization of MSME operation within the IDB have consisted of broad definitions such as Trade, Tourism, Capital Markets, etc. While this categorization level serves the bank's larger knowledge and analytical efforts and goals, it does not allow one to understand the detailed nature of operations. For CMF, or any division, such broad definitions inhibit an accurate portrait of what MSME, or any, operations are doing at a level refined enough to allow evaluations and strategic decisions based on the information.

To help address this gap, CMF has begun using the CMF Operations and Project Database to drill-down further into data pertinent to its MSME operations and better define its portfolio. Similar to analytical work done with other areas of CMF's portfolio, this process has helped CMF better define its own 'identity' from the past five years.

Moving past the sector level categorization

of MSME development, we have determined four sub-sector categories related to MSME development in which CMF is active. They are:

- Access to Finance (non-credit programs)
- SME Development (technical assistance)
- Trade and Investment Attraction
- MSME Access to Finance (credit programs)

These sub-sectors combined accounted for approximately one quarter of all approval dollars in CMF from 2000 through 2011. The MSME Access to Finance (mostly credit programs) sub-sector accounted for the largest share of those approvals with over 21% as illustrated by the graph in the left corner. However, this is related to the nature of the credit programs which generally requires larger approval amounts compared to the other three sub-sectors, which were largely technical assistance operations and that do necessitate as much money.

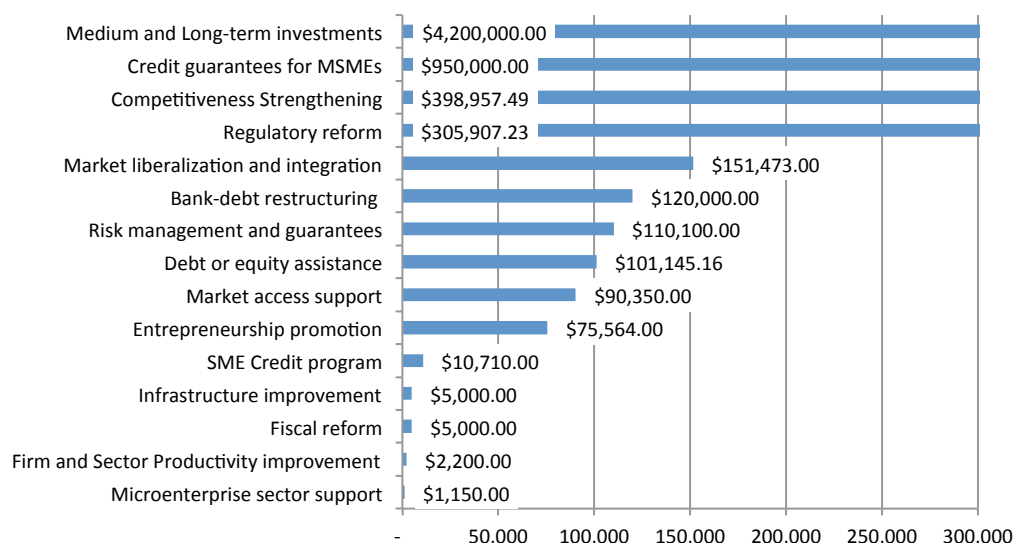
Going even further, we have identified twenty nine thematic areas within the four sub-sectors in which CMF conducts MSME development operations. Appendix 1 at the end of this note lists these areas and gives their relative share of MSME operations and approvals. What these thematic areas offer is a more detailed explanation of our operations, specifying the actual areas of work conducted by CMF in each operation. For example, while the IDB may use the broad category of Trade to define some MSME operations, CMF's database includes thematic areas such as Market Access & Liberalization and Market Access Support.

Over the last ten years, CMF has focused its approval dollars into two primary areas: Medium and Long-Term Investments which accounted for US\$ 4.2 billion and Credit Guarantees for MSMEs which accounted for US\$ 950 million.

The chart below lists the thematic areas for MSME development that accounted for at least US\$ 1 million (they happen to be the fifteen largest thematic areas). Over the last ten years, CMF has focused its approval dollars into two primary areas: Medium and Long-Term Investments which accounted for US\$ 4.2 billion and Credit Guarantees for MSMEs which accounted for US\$ 950 million. These credit operations received significantly larger approval amounts than any other thematic area with the third largest area accounting for less than half of credit guarantees – this is Competitiveness Strengthening with approximately US\$ 399 million.

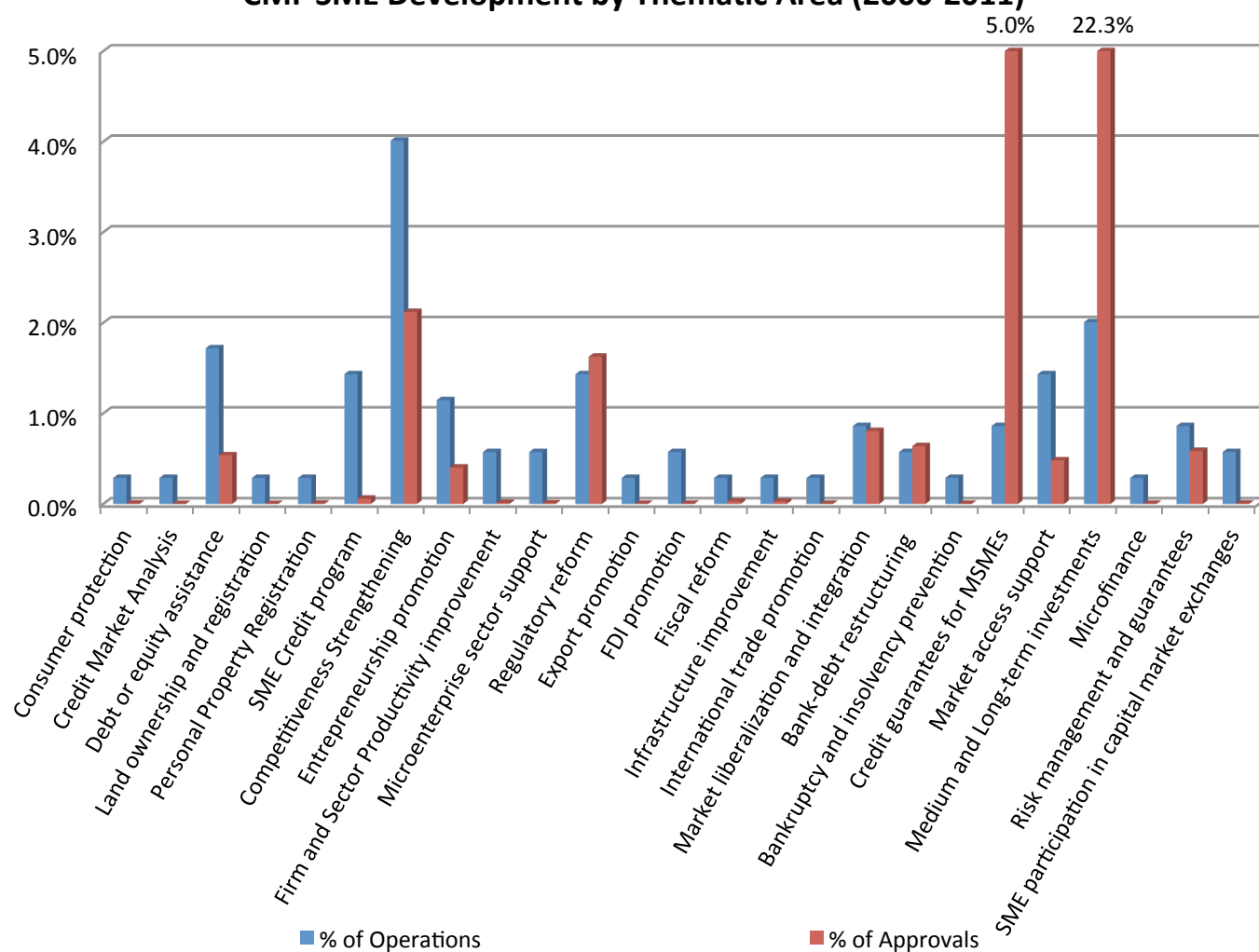
However, while it is expected that a few credit program areas would dominate overall approval dollars, it is important to emphasize that fifteen areas of work received more than US\$ 1 million and thirty nine unique areas of work have been identified. This means that the MSME development operations of CMF have cut across a wide variety of needs and issues such as Entrepreneurship Promotion and Land Ownership & Registration and that CMF has not limited itself to a few types of intervention when seeking to address the challenges of MSME Development in the region. The various technical assistance areas require lower dollar amounts, but serve a vital role in a strategic and holistic MSME development strategy. This is reflected in the more even distribution across thematic areas of the number of operations conducted by CMF. They are also areas of work that cannot easily be implemented and that require a nuanced approach to development. Indeed the skill and expertise of CMF is a primary factor that allows the division to address such a wide variety of thematic areas related to MSME Development and that has allowed CMF to be successful in all of these various thematic areas related to MSME Development. Now, using this improved understanding of its operations CMF can continue its efforts based on strategic consideration of exactly what and where it has been conducting MSME Development Operations.

Approvals by Thematic Area in US\$ thousands 2000 - 2010 (CMF Totals)



Appendix 1

CMF SME Development by Thematic Area (2000-2011)



A. Summary of IDB

Activities for Enterprise Development /2

2000 to 2008 (* Amount in US\$ thousands)

CATEGORY	IDB /3			
	Credit		Technical Assistance	
	Amount *	No. of Projects	Amount *	No. of Projects
Private Sector Development and Competitiveness /1	2,762,665	32	12,836	91
Micro and SMEs	12,462,951	20	15,938	152
Global Multisectoral /1	2,344,597	12	28,834	8
Capital Markets	3,056,600	38	7,540	49
Support to Industrial Sector	2,082,565	15	6,353	42
Innovation/ Information and Communication Technologies	1,534,733	26	14,963	96
TOTAL IDB (Credit + TA)	24,244,111	143	86,464	438

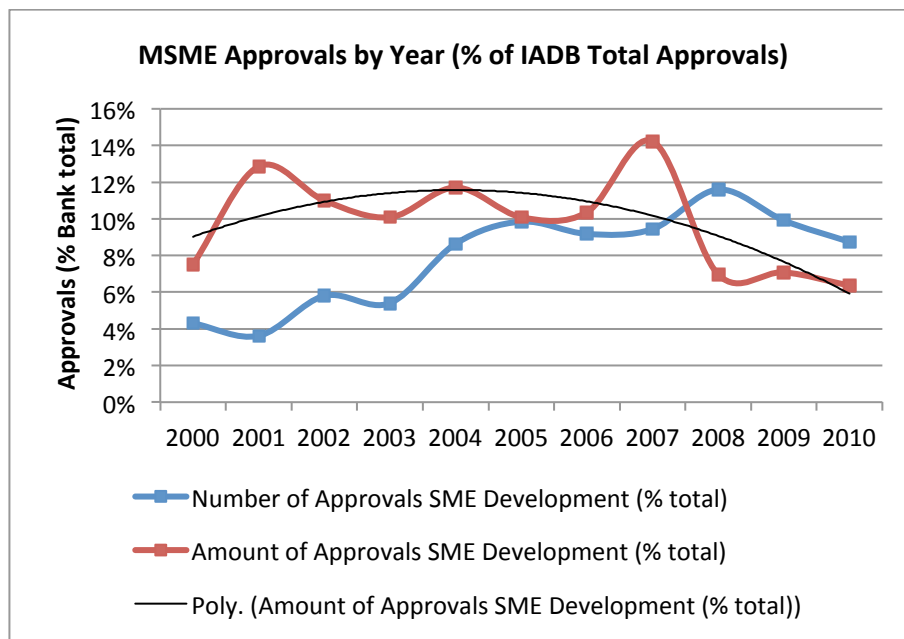
Source: IDB Projects 00-08 Database

Notes:

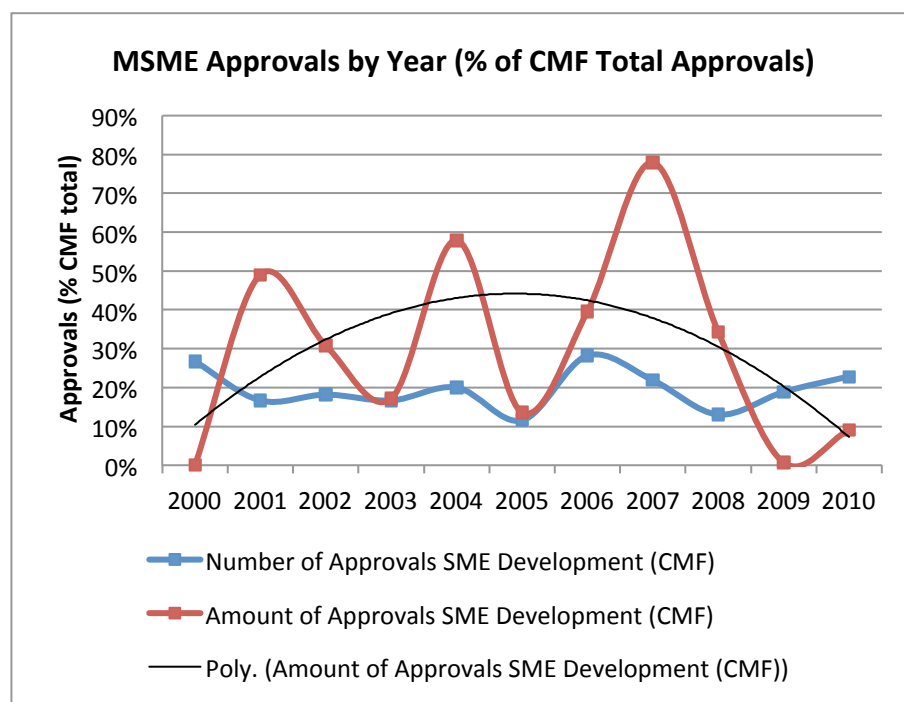
/1 These categories are global and may include components not directly related with Enterprise Development.

/2 Enterprise Development is considered a broad definition comprising PSD activities, business climate and industrial support

/3 Only IDB projects. IIC and MIF project not included in this Table.



**Financing and Technical Assistance for MSME Development represents a large percentage of IDB commitments*



***This percentage (MSME Development) represents an even larger percentage of CMF commitments*

“The financial sector needs regulation to protect consumers, businesses and the financial system itself... dialogue improves the quality of the regulation and assists in its achievement.”

*- Paulina Beato
Advisor of the General
Ibero-Americana
Secretary*

Banking Regulation and Supervision: CMF and the Promotion of Regional Dialogue

The Regional Policy Dialogue constitutes one of the principal instruments of the Inter-American Development Bank for exchanging experiences and knowledge between high level officials, practitioners and development experts in Latin America and the Caribbean.

This network of bank regulation brings together representatives from the American Association of Bank Supervisors (ASBA), the Central American Council of Superintendents for Banks, Insurance, and Other Financial Institutions (CCSBSO) and the Latin American Federation of Banks (FELABAN) as international experts in the financial sector. The goal of this network is to analyze, harmonize and integrate ideas and strategies proposed by supervisory entities and financial institutions from Latin America and the Caribbean in order to promote the development and strengthening of the financial sector and financial inclusion.

This network has developed a ‘space’ for representatives to explore various themes that have become relevant since the financial crisis of 2008 and 2009 and that present important challenges for the public and private sector.

Within the dialogue, several important themes have emerged: i) the new international regulatory framework for banks (Basilea II y III) and its impact on risk management, particularly on credit risks for the efficient administration of bank capital; ii) the Corporate Governance Principals for Regulatory and Supervision Organisms; and iii) the promotion of transparency and protection of financial service users in the region.

CMF’s Role in Banking Regulation and Supervision and its Different Levels

In a broader context, CMF has focused on supporting the strengthening of regulatory frameworks, on improving the capacity of regulatory and control bodies to effectively supervise financial systems, and creating a favorable environment for the expansion of collateral. It has prioritized operations oriented to the “Strengthening of Financial Security Networks” and to the “Improvement of Financial Inclusion,” which have contributed to accounting operations with more solid financial systems, more insurance for small depositors

**NOTE: Much of the information in this note was sourced from the document “Logros Alcanzados En Materia De Fortalecimiento De Las Redes De Seguridad Financiera Y De Apoyo A Los Procesos De Inclusión Financiera El Marco De La Red De Regulación Bancaria.” For more information, please see this document.*

“... for us it’s very important to have continuity in these dialogues that benefit Latin American Banks so much.”

*- Oscar Rivera
President, FELABAN*

and to the offering of greater returns to stir access to finance processes.

At a macro level, the IDB and CMF have participated with assistance and technical cooperation in the strengthening of financial security networks in member countries, supporting the improvement of supervisory processes for risk, deposit insurance mechanisms and liquidation, and resolution processes for non-viable financial institutions. CMF and the IDB have also worked to formulate norms for transparency in the use of financial services and reform proposals for the notification systems for users of those services. The goal of these efforts is to remove obstacles and improve access to financing and financial services.

At the meso level, CMF supports the development of market infrastructure through a regional cooperation that seeks to strengthen a position against risks unique to the Central American region.

Finally, at the micro level CMF has pushed operations that facilitate the placement of resources in financial institutions through investment funds under competitive procedures. The objective is to promote new products and support services for financial inclusion.

Key Results in the Public-Private and Regulation Dialogues

As part of CMFs broader Banking Regulation and Supervision efforts and as part of the requirements from the Executive Committee ASBA/FELABAN, an evaluation of the implications of reforms from Basilea II and III on the regional banking system was conducted with a focus on credit risk management and efficient capital administration. The study took the following two primary perspectives:

- i) The description of the state in relation to the establishment of healthy regulatory and supervisory practices for the management of risk in financial entities
- ii) The identification of how the strategies and instruments for integral risk management in financial entities are contributing to the administration of bank capital, the determination of risk mitigation strategies and the balancing of competitiveness in the sector

To achieve this analysis, a survey was implemented that allowed a more precise understanding of the status of the application of principles from Basilea II and III by regulators and supervisors.

In the area of public-private dialogue related to best-practices the analysis led to the following:

- i) Corporate Governance Principles for Regulatory and Supervisory Organizations – this identified general principles based on existing practices that could be applied to each one of the different regulatory and supervisory systems
- ii) Principles of Corporate Governance for Financial Institutions – this presents, in a

“The dialogue now is guiding us toward proposals and achievements that are establishing themselves in state policies and not just in government flags.

*- Enrique Beltrán
President of the Latin American Committee of Financial Education, FELABAN*

concrete form, a battery of applicable practices for financial institutions and that, depending on individual circumstances, can be adopted and implemented by each system.

As a support for the consolidation of information transparency mechanisms and the protection of financial service users, CMF hosted a variety of regional workshops in Panama City (for the bank association members of FELABAN in Central America, Mexico and the Caribbean), Bogotá (for Andean countries), and Buenos Aires (for Southern Cone countries). These workshops constituted a debate platform over proposals and content in the Guide of Best Practices in Transparency and Protection of the User, which had been developed as a result of meetings held with the Bank Association of FELEBAN and that had been approved in part by FELABAN.

In addition to these broader results, a variety of more targeted ‘outputs’ have been produced that have focused on micro and meso level issues and that range from workshops and conferences to technical assistance.

Regulation and Supervision at a Finer Scale

To better understand some of these more targeted operations, along with CMF’s broader efforts, the Banking Regulation and Supervision Group and the Knowledge Management Group have utilized the CMF Operations and Project Database to review the division’s portfolio.

Thematic Area	# of Operations	% of CMF Operations	\$ Approvals	% of CMF Approvals
Banking supervision	12	3%	\$ 880,629,000.00	5%
Capital market regulation/supervision	3	1%	\$ 1,100,010,950.00	6%
Credit scoring reform	2	1%	\$ 1,207,000.00	0%
Financial and monetary law regulation	5	1%	\$ 151,349,960.00	1%
Financial intermediation support	3	1%	\$ 400,000,000.00	2%
Financial market intermediation	3	1%	\$ 1,030,000,000.00	5%
Financial services reform/supervision	16	5%	\$ 304,484,449.00	2%
Institutional and programmatic framework reform	1	0%	\$ 150,000.00	0%
Institutional strengthening of financial entities	1	0%	\$ 50,000,000.00	0%
Institutional strengthening of public financial entities	2	1%	\$ 300,350,000.00	2%
Institutional strengthening of regulatory bodies	7	2%	\$ 11,373,000.00	0%
Insurance supervision reforms	7	2%	\$ 503,596,829.00	3%
Medium and Long-term investment support	6	2%	\$ 542,400,000.00	3%
Public banking support	11	3%	\$ 626,399,000.00	3%
Support for risk management programs	2	1%	\$ 190,000.00	0%
TOTALS	81	23%	\$ 5,902,140,188.00	31%

“...It (dialogue) helps to harmonize principles of financial supervision and regulation with the reality of countries and the region supports the identification of opportunities for betterment both for the supervisee and the supervisor.

- Francisco Lay Solano,
General Superintendent
of Financial Entities of
Costa Rica

CMF's operations related to Banking Regulation and Supervision have been well-balanced with a variety of Thematic Areas accounting for significant numbers of operations and approvals. In total 15 areas were identified within the realm of Banking Regulation and Supervision and these areas accounted for approximately 23% of operations and 31% of CMF dollar approvals between 2000 and 2011. In the past five years from 2006 they accounted for approximately 21% and 24% of operations and dollar approvals respectively. Banking Regulation and Supervision work has also been conducted in all 24 countries in which CMF has conducted operations.

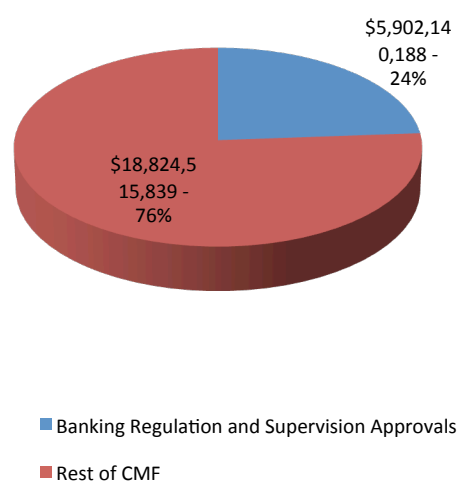
The Thematic Area which accounted for the largest number of operations within Banking Regulation and Supervision was Financial Services and Reform with 16 operations or about 5% of CMF's total portfolio. This area of work corresponded mostly with the macro level of operations described above and received approximately US\$ 304 million in approvals.

The Thematic Area which accounted for the largest amount of approvals was Capital Market Regulation/Supervision. This area accounted for approximately US\$ 1.1 billion in CMF approvals, or about 6%. However, only three actual operations were conducted in this area, meaning less than 1% of the portfolio operations were devoted to this area.

Conclusions

Through these operations, CMF has achieved important results in the framework banking regulation in member countries and has supported financial inclusion throughout the region. The division and the bank have advanced the regional dialogue, making it more informed and helping to generate consensuses with principal actors involved in this sector. Furthermore, CMF and the IDB have assisted in the training and dissemination of best practices (in the areas of information transparency, consumer protection, corporate governance, financial education and more) that contribute to the strength and stability of financial systems for in the region.

**Amount of Approvals in US\$
(2006-2011)**



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CMF Portfolio Notes

December 2011

Capital Markets and Financial Institutions Division (ICF/CMF)

The Inter-American Development Bank, and within it the Capital Markets and Financial Institutions Division (CMF) have established themselves as experts in the area of cluster development, executing dozens of programs throughout the region and producing important research on the topic area.

Cluster development programs

Geographic concentrations of firms in clusters have proven a pivotal theoretical framework and policy option in the field of economic development. Policies to support Clusters are abundant throughout Latin America and the Caribbean and in most parts of the world, and practitioners have turned to these policies and programs as a way to improve competitiveness, innovation and overall private sector development. The Inter-American Development Bank, and within it the Capital Markets and Financial Institutions Division (CMF), have established themselves as experts in the area of cluster development, executing dozens of programs throughout the region and producing important research on the topic area.

Clusters are an important area of development and help cities, regions, and countries achieve the full potential of their respective competitive advantages. They foster the coordination of investment decisions among private and public firms and institutions, and thereby help improve competitiveness.

CMF and clusters

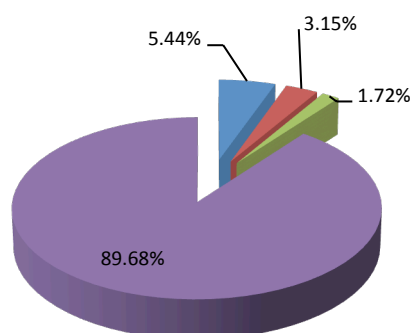
Along with the work of several other groups within the IDB, CMF has dedicated its own independent work program within its portfolio for the development, support and strengthening of clusters in the region, and these are grouped under the sector of "Clusters, Value Chains and Other Firm-Level Interventions." These efforts deal with a variety of issues and elements, but focus primarily on the areas of the promotion/support, corporate social responsibility and value chain support/development. Within these sub-sectors, specific operations have focused on a variety of Thematic Areas ranging from cluster identification and innovation promotion to related areas such as training and infrastructure. The breadth of operations and the comprehensive knowledge of CMF's staff have made Cluster operations a vital ingredient of its activities, which enhances several other areas of work.

Given the nature of these operations, which requires a more technical and consultative assistance for clients, CMF cluster programs have often included technical co-operations (TCs), in addition to loan programs. This has resulted in a lower value of approvals compared to the number of operations given the lower financial value of TCs. Notwithstanding this, the nature of cluster development work requires complex and delicate project design and comprehensive expertise in order to be effective. As a consequence, the IDB and CMF can leverage minimal resources to produce significant results compared to larger, more capital intensive programs.

In total, out of the 349 operations in CMF's Portfolio during 2000-2011, 36 are cluster-related

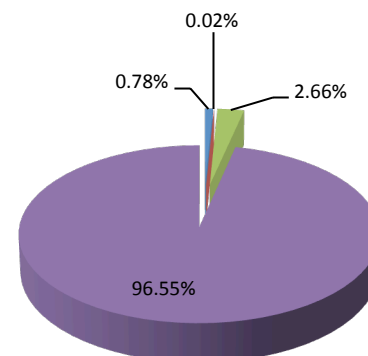
By using the CMF Operations and Project Database, the division can now quickly investigate cluster operations to determine approval dollars, disbursement percentages, impact (number of clusters and firms assisted) and conduct analysis using this information.

Cluster Operations by Subsector (2000-2011)



Cluster promotion/support
Corporate social responsibility
Value Chain support/development
Rest of CMF

Cluster Approvals by Subsector (2000-2011)



Cluster promotion/support
Corporate social responsibility
Value Chain support/development
Rest of CMF

and amount to approximately US\$ 650.2 million (3.5%).

Measuring the impact of cluster programs

On the following page, the note presents a sampling of 12 CMF cluster in 9 countries. These programs received a combined total of US\$ 133 million from the IDB and its country counterparts (the bank provided approximately US\$ 97 million).

These operations worked with an approximate total of 101 unique clusters in the region. The industries of these clusters included, but were not limited to:

- Tourism
- Furniture
- Light manufacturing
- Jewelry
- Milk products
- Men's footwear
- Ecotourism
- Aloe

By using the CMF Operations and Project Database, the division can now quickly investigate cluster operations to determine approval dollars, disbursement percentages, impact (number of clusters and firms assisted) and conduct analysis using this information.

In the future, CMF can also use the database to identify the specific industry clusters receiving assistance through its operations and then conduct targeted operational analysis to measure economic, geographic, and development impacts on the host regions of the clusters. Such analysis will allow accurate performance evaluation in a topic area often muddled with non-rigorous methods. Based on that evaluation, CMF can search for key lessons and apply them to future operations in order to improve efficiency and efficacy.

Country	Project Name	Project Number	Approval Date	Amount (US\$ million)		% Disbursed At Aug.2011	# of Clusters Assisted
				Total	IADB		
Panama	Programa para el Fomento de la Competitividad	PN0145	2002	10	7	95.1	5
Argentina	Modernización Productiva de la Provincia de Río Negro	AR0279	2003	86,5	51,9	31	1
Dominican Republic	Programa de Desarrollo de Ventajas Competitivas	DR-0152	2003	13,5	9,4	100	20
Honduras	Programa para el Fomento de la Competitividad Empresarial y Gestión de Comercio Exterior	HO0221	2003	11.2	10	97.2	4
Guyana	PEF:GY-L1006 Support for Competitiveness Program	GY-L1010	2005	0.8	0.8	92	2
Uruguay	Competitividad de Conglomerados y Cadenas Productivas	UR-L1020	2006	9	9	54.4	24
Brazil	Programa de Fortalecimiento de la Actividad Empresarial del Estado de Bahía	BR-L1023	2006	16.7	10	31	10
Guatemala	Programa de Apoyo a Inversiones Estratégicas y Transformación Productiva	GU0163	2006	29	29	-	5
Brazil	Competitividad de Sistemas Productivos Locales São Paulo	BR-L1016	2007	20	10	3	15
Brazil	Apoyo a la Competitividad de APLs del Estado de Minas Gerais	BR-L1021	2009	16.7	10	10	7
Brazil	Producción y Difusión de Innovaciones Competitividad Clusters Estado Pernambuco	BR-L1020	2009	16.7	10	-	7
Paraguay	PROCOLE II (Competitividad del Sector Lechero del Paraguay)	PR-M1018	2010	2.93	1.52	-	1
Totals				133.03	97.32		101

CMF is developing methodologies to assess the impact of cluster programs, and it is testing them in several countries in LA

In sum

Cluster development work has enjoyed priority in CMF and IDB work, and this has opened the way towards innovative approaches to the promotion of private sector development.

A new area of interest that is currently being developed is that of **impact evaluation** of cluster programs. To this aim, the Division is carrying work with the following methods: (i) Econometric work on firm-level performance with Census data, control groups and Propensity Score Matching (PSM), with new test on cluster programs in Brazil (Minas Gerais and Sao Paulo), and Argentina (Cordoba). (ii) Analysis of linkages, networks, and their influence on firms and clusters performance through Social Network Analysis, with tests in Argentina (Cordoba); (iii) Case studies to explore processes of change and policy effects induced by cluster programs in the Southern Cone of LA.

Lessons learnt

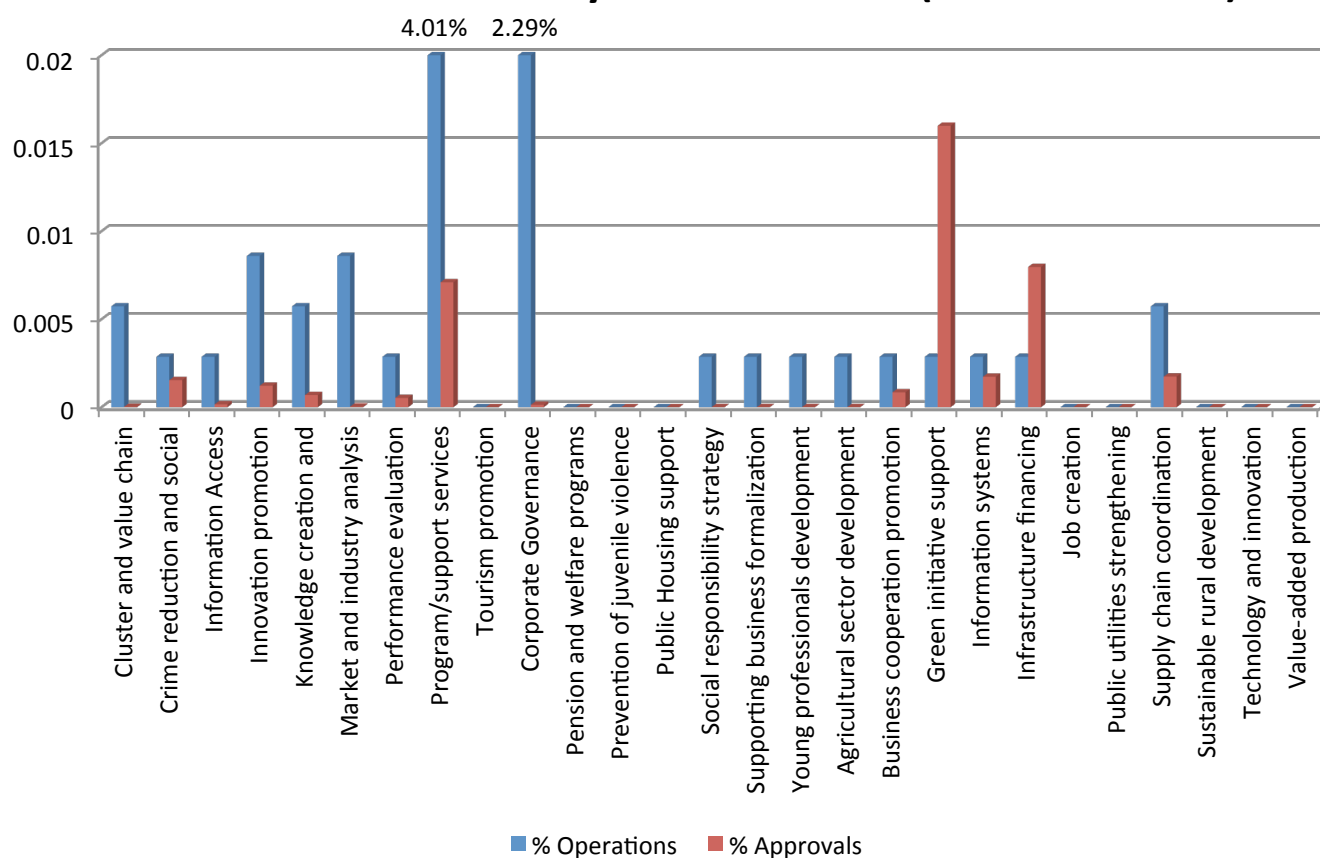
The experience of carrying out cluster development programs in LAC has allowed CMF to draw the following preliminary lessons:

- Cluster programs need to enjoy an explicit Government priority to achieve its objective of performance and sustainability.
- Coordination with other Government bodies and with the productive sector is essential
- Priority needs to be given to clusters enjoying a minimum of pre-conditions for success

- Cluster governance should be built with a targeted and committed business sector, and not with all the firms in given area.
- A well defined cluster vision for the short, medium and long term, often carried out by an international expert helps achieving the expected results.
- It is always useful to complement local knowledge and experience with foreign ones, as this reduces the risk of capture by local lobbies and power groups, enhances the exploitation of dynamic linkages with global value chains, and prevents adopting a static approach to clusters.
- Continuous learning and improvements from feed-back is always need to improve the efficiency and effectiveness of cluster programs.

Together with the development of industry and clusters, the approach to promote them is also developing to include new areas of work and new activities. Thus, institutions are increasingly included and participate in cluster programs, local public and club goods are financed, and focus often goes to innovation activities.

CMF Cluster Portfolio by Thematic Area (% of CMF total)



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CMF Portfolio Notes

December 2011

Capital Markets and Financial Institutions Division (ICF/CMF)

Uruguay as a country accounted for approximately US\$ 480.4 million or about 2.6% US\$ approvals and 11 operations or about 3.2%.

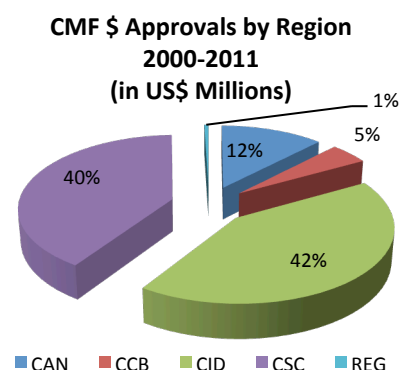
Exploring Operations at a Micro Level – CMF in Uruguay

An essential part of CMF's various thematic programs and initiatives is in-country operations with the member countries of the IDB. The CMF Division has, or has had, operations in 24 different countries across Latin America and the Caribbean that involved numerous types of operations and stakeholders. National, state and local governments of each respective client country have all been partners in the division's operations. Private sector firms and businesses have also played an active role in programs through agreements with those governments.

To have an accurate and complete picture of what CMF does in its portfolio, it is important to understand the operations within a specific country and how those operations address needs and challenges unique to the respective national context. This portfolio note offers such an example by analyzing division operations in the country of Uruguay. The example of Uruguay was chosen precisely because it is 'typical' with significant, but normal levels of activity relative to other countries given its population and economy. It is similar to most of the national contexts within the division's portfolio and thus offers an excellent example of operations that are not skewed by a few unusually large operations.

Uruguay within the region

Uruguay, Chile, Brazil, Paraguay and Argentina form the Country Department Southern Cone (CSC). The CSC Region accounts for approximately US\$ 7.6 billion or 40% of CMF approvals and 71 or approximately 20% of its operations from 2000 through 2011 with each of the other regions – the Country Department Central America, Mexico, Panama and the Dominican Republic (CID), Country Department Andean Group (CAN), Country Department Caribbean Group (CCB) and Regional Operations (REG) – accounting for a portion of the rest. Uruguay as a country accounted for approximately US\$ 480.4 million or about 2.6% of US\$ approvals and 11 operations or about 3.2%. On a per capita basis CMF lent approximately US \$143.12 per person in Uruguay, which was the third largest per capita approvals of any country portfolio behind Panama and Jamaica.



*CAN – Andean Countries; CCB – Caribbean Countries; CID – Central American Countries; CSC – Southern Cone Countries; REG – Regional

CMF Operations in Uruguay

Approval Year	Project Name	Project Number	Sector	Sub-sector	Component 1	Component 2	Loan Number	Original Approved Amount
2001	"Joint Ventures" Desarrollo Industrial Forestal	TC0102032	Clusters, Value Chains and other Firm-level interventions	Cluster promotion/support	Program/support services strengthening		ATN/FC-7377-UR	\$ 149,100.00
2002	Programa Global Financiamiento multisectorial	UR0136	Financial Inclusion	MSME Access to Finance	Medium and Long-term investments		1407/OC-UR-2	\$ 4,654,200.00
2002	Programa Global Financiamiento multisectorial	UR0136	Financial Inclusion	MSME Access to Finance	Medium and Long-term investments		1407/OC-UR-1	\$ 175,345,800.00
2003	Programa Sectorial Fortalecimiento Sistema Bancario	UR0150	Support to Financial Institutions	Financial Institutions Strengthening	Public banking support		1496/OC-UR	\$ 200,000,000.00
2005	Oficina de Manejo de Deuda Pública	UR-L1008	Productive Development Policies (PDPs)	Institutions and instruments to support business development	Fiscal and Financial management		1690/OC-UR	\$ 2,450,000.00
2006	Competitividad de Conglomerados y Cadenas Productivas	UR-L1020	Clusters, Value Chains and other Firm-level interventions	Cluster promotion/support	Program/support services strengthening		1763/OC-UR	\$ 9,000,000.00
2006	FPE:UR-L1010 Apoyo a Microfinanzas para el Desarrollo Productivo	UR-L1023	Financial Inclusion	MSME Access to Finance	Microfinance		1714/OC-UR	\$ 430,000.00
2006	FEP:UR-L1020 Apoyo al Sistema Productivo Uruguay	UR-L1024	Productive Development Policies (PDPs)	Productive Development Policies and Incentives	Development planning and policy		1716/OC-UR	\$ 600,000.00
2007	Apoyo a Microfinanzas para el Desarrollo Productivo	UR-L1010	Business climate	Access to finance	SME Credit program		1874/OC-UR	\$ 8,760,000.00
2007	Préstamo Programático de Competitividad I	UR-L1007	Business Climate	SME development	Regulatory reform	Entrepreneurship promotion	1840/OC-UR	\$ 75,000,000.00
2009	Programa de Fortalecimiento de Superintendencia de Servicios Financieros (SSF)	UR-L1052	Financial & Capital Markets Stability and Reform	Financial & Capital Markets Regulatory Framework	Banking supervision	Institutional strengthening of regulatory bodies	2228/OC-UR	\$ 4,000,000.00

At the sub-sector level Financial Institutions Strengthening (which falls under the Support to Financial Institutions sector) accounted for 42% of approvals (in Uruguay).

One country, various needs

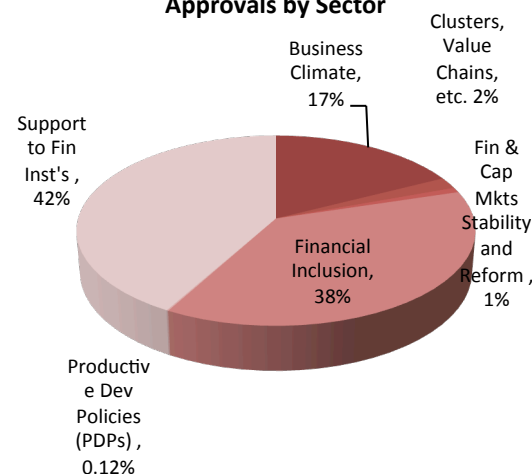
The range of operations conducted within Uruguay has covered all six sectors of categorization used by CMF in its Operations and Project Database. Nearly 97% of approvals were accounted for by just three sectors – Support to Financial Institutions, Financial Inclusion and Business Climate. The sector with the largest share was Support to Financial Institutions with approximately 42% (US\$ 200 million) of approvals.

At the sub-sector level Financial Institutions Strengthening (which falls under the Support to Financial Institutions sector) accounted for 42% of approvals. In total, the operations in Uruguay fell under 8 sub-sectors:

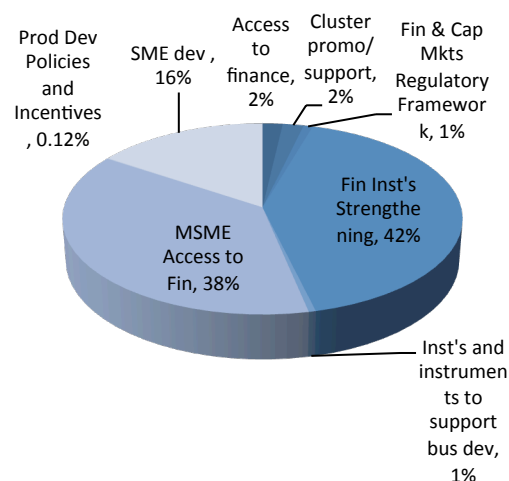
- Access to finance
- Cluster promotion/support
- Financial & Capital Markets Regulatory Framework
- Financial Institutions Strengthening
- Institutions and Instruments to Support Business Development
- MSME Access to Finance
- Productive Development Policies and Incentives
- SME development

Finally, 11 different thematic areas were covered by operations in Uruguay with the largest being Public Banking Support which accounted for the same 42% of approvals that were under the sub-sector Financial Institutions Strengthening. Several Thematic Areas received less than 1% of approvals due to being part of small technical assistance operations.

Approvals by Sector



Approvals by Subsector



Approvals by Thematic Area

