LAC DFIs and Macro Financial Landscape

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IDB and National DFIs in LAC

- Long standing work with national DFIs in LAC – largest MDB lender to these institutions in the region.
- Focus in activities to leverage private investments and access to finance to promote productivity in the LAC region.
- Working with about national 20 DFIs with operation covering SME credits, value chains, productive infrastructure and green financing (support about US$4,5 billion in the last 5 years).
- Support countries in the development of macroeconomic environment including development financial markets, contingent mechanisms to address systemic risks and programs to promote investment climate.
- Support regional network and exchange of experience among DFIs with strong collaboration with institutions such as ALIDE.

LAC DFIs Trends

- Overall there was an increase in the efficiency of DFIs operational and financial management in LAC region due to:
  - Greater fiscal responsibility reflected decrease from levels of public debt (of about 30%)
  - Greater financial system development in LAC has facilitated DFIs expansion
  - Important legal and DFI framework reforms since late 1990s (such as Colombia, Mexico, Peru, El Salvador and Nicaragua) improving governance and increasing the number of tier 2 operations in the region
  - Instruments were adopted to improve standard banking management, such as risk management systems which resulted in reduced loan default rates
  - Mandates became more specific in order to maintain healthier financial situation and limit fiscal contingencies

LAC DFIs Trends – supervision and funding

- Importance of regulation and supervision by the financial authorities:
  - 80% of LAC DFIs observe the same prudential financial rules as their commercial peers
  - 70% of local DFIs have local credit rating
  - Less cases of intervention of DFIs for questions of insolvency and lower levels of default rates because of healthier portfolios
- Fewer and fewer DFIs receive resources from public budget to improve their capitalization – 80% of LAC DFIs finance themselves via the market (mainly with state debt guarantee)
- Capital injection by governments were mainly aimed at increase activities of banks (as the international crisis in 2008) or use of fiduciary capacity of banks to transfer resources for specific ends.

LAC DFIs Trends - instrumentation

- Consolidation of networks to channel credit resources by tier 2 banks
- Greater presence by tier 1 banks.
- Interventions at both:
  - short term (working capital for MSMEs and exports)
  - as well as long term productive investments (e.g. increase of total credit for long term operations of 6 %).
- Diversification of financial instruments - guarantee schemes and non financial products were strengthened.
- No decline of quality of portfolio given quick recovery of most countries – financial supervision played a key role as well – importance of rigorous monitoring of counter cyclical credit.

Conclusion

- While the increase of DFIs assets and loans in the LAC region over the past decade has not surpassed the average growth of local financial systems, DFIs were able to increase their relevance in serving specific market niches and articulating current economic policies.
- In the last decade DFIs became vehicles for implementing countercyclical policies due to their experience in using a wide range of instruments for address financing needs of both social and productive actors.
- DFIs confront, however, new challenges and opportunities as they become stronger government arms to promote development - implying also more risks– in this context there will be key to enhance effectiveness and efficiency of these institutions and undertake better analysis of what instruments are adequate under new roles.
- Issue of specific risks relating to some specific sectors – agriculture and housing in particular.

Steps forward

- Institutional and governance capacities are key for efficiency and effectiveness of institutions
- Promote innovative financial solutions and diversify support interventions on new economic priorities such as infrastructure (PPPs) and green finance
- Importance to blend of various instruments (loans, equity, contingencies and guarantees) and sources of funding for addressing different problems based on clear diagnostics
- Key to develop capacity to evaluate and monitor results of DFIs interventions

Instituciones para la gente

BID

Banco Interamericano de Desarrollo / www.iadb.org

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