

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	VENEZUELA/CAN - Andean Group
▪ TC Name:	Enhancing Digital Payments in Venezuela
▪ TC Number:	VE-T1077
▪ Team Leader/Members:	ANDRADE, SYLVIA GABRIELA (IFD/CMF) Team Leader; MARTINEZ LOPEZ, CYNTHIA GUADALUPE (IFD/CMF); GALICIA RABADAN, GUILLERMO ALFONSO (IFD/CMF); CABRERA ESCALANTE, MARIA (IFD/CMF); BERNEDO, CECILIA (IFD/CMF); JIMENEZ MOSQUERA, JAVIER I. (LEG/SGO)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	09 May 2019
▪ Beneficiary:	Central Bank of Venezuela and Superintendence of Banking Sector Institutions
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$75,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	Institutions for Development Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Institutional capacity and rule of law

### II. Objective and Justification

- 2.1 The objective of this TC is to support the enhancement of digital payments in Venezuela by (i) supporting the design and implementation of a Challenge Fund or similar structure to facilitate and incentivize, among others, private sector solutions to solve specific critical pain-points in payments systems, particularly for unbanked individuals and high-volume low-value payments; and (ii) providing technical assistance and institutional strengthening in matters related to digital payments regulation and supervision in order to ensure a future in which several digital solutions in the country, both bank and non-bank based, interoperate while users are protected. These actions, particularly the regulatory aspects, are critical for future implementations of G2P programs and therefore there is a close coordination with the Social Protection Division of the Bank.
- 2.2 In order to tackle bottlenecks on the ability to transact and to reactivate economic activity, there is a need to facilitate investments to quickly restore and expand critical payment infrastructure such as PoS, including mobile and NFC solutions, as well as to support fintech companies that have the technology to facilitate at alleviating bottlenecks in the ability to transact, but lack capital to expand operations. The regulatory aspects of this TC are critical for future implementations of G2P programs and therefore there is a close coordination with the Social Protection Division of the Bank.

### III. Description of Activities and Outputs

3.1 Component 1. Challenge Fund design and implementation. This component will focus on the design and implementation of a Challenge Fund or similar structure to facilitate and incentivize private sector solutions to solve specific pain-points in payments systems in both: (i) bank-based systems, particularly PoS reposition, including mobile PoS and NFC-related technologies; and (ii) fintech solution to niche problems, particularly for unbanked individuals and high-volume low-value payments. This Fund will receive grant contributions from different donors which would then be allocated following the established rules. The design and applicable rules for the Fund will need to be carefully tailored for the reality and needs of the country and would likely entail a different set of incentives depending on the characteristics of the direct beneficiaries (the company providing the solution) and the end-beneficiaries (the user of the supported solution).

Component 2. Regulatory Technical Support and institutional strengthening. This component will focus on providing technical support for the review of current regulations applicable to digital payments and for the design of a roadmap of actions to facilitate competition and interoperability of digital payment solutions in the medium term; as well as providing institutional strengthening to the relevant financial regulators and supervisors, the CBV and the Superintendence of Banking Sector Institutions (Sudeban).

3.2 **Component I: Challenge Fund design and implementation.** This component will focus on the design and implementation of a Challenge Fund or similar structure to facilitate and incentivize private sector solutions to solve specific pain-points in payments systems in both: (i) bank-based systems, particularly PoS reposition, including mobile PoS and NFC-related technologies; and (ii) fintech solution to niche problems, particularly for unbanked individuals and high-volume low-value payments

3.3 **Component II: Regulatory Technical Support and institutional strengthening.** This component will focus on providing technical support for the review of current regulations applicable to digital payments and for the design of a roadmap of actions to facilitate competition and interoperability of digital payment solutions in the medium term.

### IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Challenge Fund design and implementation	US\$45,000.00	US\$0.00	US\$45,000.00
Regulatory Technical Support and institutional strengthening	US\$30,000.00	US\$0.00	US\$30,000.00
<b>Total</b>	<b>US\$75,000.00</b>	<b>US\$0.00</b>	<b>US\$75,000.00</b>

### V. Executing Agency and Execution Structure

5.1 The IDB will be the executing agency, through the Connectivity, Markets and Finance Division (IFD/CMF),

- 5.2 The CMF division has ample experience executing similar programs. Beneficiary public-sector entities will be the counterparts and are expected to organize and coordinate the participation of other entities or stakeholders. While all contracting will be conducted by the Bank, counterparts will provide information on the execution of Bank-supported activities.

## **VI. Project Risks and Issues**

- 6.1 The main risk of the project is rooted on the possibility that there is not enough interest by donors to provide grants to the Challenge Fund due to the prioritization of a different sector. To mitigate this risk IDB will undertake dialogue, campaigns, etc. Other risk relates to a potential lack of demand to participate/apply to the Challenge Fund, however the initial market analysis performed for this operation suggests that there are several potential candidates which could quickly expand operations with access to capital. The design of the Challenge Fund will incorporate the specific situation of the country at its core and potential applicants to ensure that it is relevant and or applicable.

## **VII. Environmental and Social Classification**

- 7.1 The ESG classification for this operation is "undefined".