
Call for Research Proposals

Digital Finance and Financial Inclusion in Latin America and the Caribbean

A Research Network Project

RG-K1198

1. Background and Justification

In recent years, the use of digital payments in the region has increased dramatically (Demirgüç-Kunt et al., 2022). This change brings hopes of a deeper financial inclusion of the most vulnerable segments of society. It also brings the challenge for governments to design sound regulatory frameworks to enhance competition, protect customers, and foster innovation.

From the demand side, there is a growing literature on how to encourage the adoption of digital payments and on how these technologies help integrate individuals into the financial system. However, there are important knowledge gaps in Latin America and the Caribbean (LAC). First, there is little evidence on the effects of the use of digital payments on Micro, Small and Medium and Enterprises' (MSMEs') sales, growth, and integration into supply-chain networks. Likewise, given the large share of the informal economy in the region, there is little effect on how digital payments indeed contribute to increasing the formalization of transactions and tax compliance.

Second, there are multiple approaches that countries in LAC follow to increase competition across providers of digital payments. There is no rigorous causal evidence for the region on the impact of such approaches. For example, using quasi-experimental variation stemming from staggered introduction of interoperability (the ability of different payment systems to communicate and process transactions with each other) across operators and countries in the mobile money industry in Africa, Brunnermeier et. al (2023) find that interoperability benefits existing consumers through lower transaction fees, but it also discourages investing in reaching rural areas that would benefit more from increased integration of vulnerable populations into financial markets. It is unclear whether these results would apply to countries in LAC where both traditional financial institutions and other non-financial companies lead the digital payments industry as opposed to mobile phone companies.

Third, the availability of multiple sources of data on (potential) customers brings an opportunity to expand financial inclusion by reducing information asymmetries and enabling the financial industry to develop products tailored at customers' needs. For example, using a natural experiment in the United Kingdom, Babina et. al (2024) find that open banking—a system that provides financial institutions with access to

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financial data using application programming interfaces (APIs)—enables individuals to have access to advice and expand their credit opportunities and MSMEs to build a relationship with lenders. However, there is no causal evidence in LAC on the impacts of open finance on financial inclusion.

This Call for Research Proposals aims at providing evidence on these three topics.

2. Objectives

The main objective of this Call for Research Proposals is to generate evidence on three core topics: i) the effects of digital payments on MSMEs' growth, ii) the effects of policies to increase competition among digital payment platforms, and iii) the effects of approaches to use financial consumer data like open finance on achieving or deepening financial inclusion.

The project intends to draw comparisons and policy recommendations from the collection of evidence across different countries, institutional backgrounds, or segments of financial systems. This Call for Research Proposals will prioritize proposals that aim at providing rigorous causal evidence based on either field experiments or natural experiments. However, quantitative analyses based on structural modelling applied to LAC are also welcome. We also encourage partnerships between universities or think tanks and central banks or financial institutions.

We appreciate proposals that would provide evidence on either of the following (or related) areas:

- a) Evidence on the effects of digital payments on MSMEs' outcomes. Proposals on this topic should aim at studying how digital payments enable MSMEs to attract new clients, transact with new providers, formalize their operations, improve their business practices or financial management and increase their profits. Evidence on the effects of digital payments in integrating MSMEs into formal credit markets and the mechanisms that explain this relationship are also welcome.
- b) Causal or quantitative/structural evidence on the effects of policies to increase competition in the digital payments industry on access to digital payment services for typically marginalized groups and on access or take-up to other financial products like credit or savings accounts. Proposals on

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this topic should aim at studying the effects of regulations or policy changes on the volume and costs of digital payments to conduct business-to-business (B2B), person-to-person (P2P) or person-to-business transfers (P2B), and on the further interactions of users with other products in the financial system. We also encourage proposals to analyze impacts on provider investments in connectivity or expanding their customer base to underserved segments of the population. Examples of these policies include the rollout of fast payment rails by central banks like PiX in Brazil, Spei-Codi in Mexico, Transfers 3.0 in Argentina, or QR-BCB in Bolivia; or regulations to ensure interoperability across providers of digital wallets like in Peru.

- c) Causal or quantitative evidence on the effects of providers using financial consumer data on financial inclusion. Two topics are of particular interest: first, analyzing how or whether the digital footprint of multiple types of digital transactions (payments) enable firms or individuals to develop a relationship with financial institutions and expand their access to credit, and second, studying the effects of open finance/banking on access and take-up of credit by underserved groups, reductions in borrowing costs, or improvements in borrower screening.

3. Content of the Proposal

Research institutions must submit a short proposal (maximum of 3 pages) detailing the following:

- The proposal should specify the country/countries that will be analyzed and the main research question. The proposal should explicitly state how it contributes to the preexisting literature on the topic.
- A detailed description of the data that will be employed, including whether the datasets are publicly available or restricted. For the latter, the team should show that access to the data is possible and provide a detailed plan for acquiring the data.
- A detailed description of the methodology to be used. For instance, in the case of studies that try to assess the effect of market/policy changes, the proposal should provide a detailed description of the identification strategy, including a discussion of the main obstacles to identifying causal effects and how they will be addressed.

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- The proposals should explicitly mention how the results from the studies are expected to contribute to answering important policy questions or moving the policy debate in new directions.
- **Proposals must be submitted in English.**

In addition, proposals must include:

- The name of the research leader and a list of other researchers involved. The research institution should present a research team whose makeup is justified by its capacity to meet the objectives of the project, including relevance of prior experience. Curricula vitae of all researchers involved in the whole project must appear in a separate annex. Subsequent substitutions for researchers originally specified in the proposal may be made with prior approval from IDB project coordinator, but the research leader should lead the entire project until its full completion.
- A budget (in a separate annex) indicating the time and resources that will be used within the context of the research work plan. The budget proposed by the institution should disaggregate items financed by the IDB contribution and those financed by the institution. The budget should distinguish between amounts assigned to professional honoraria, “overhead” and other major categories of research expenditures. **The proposal and corresponding budget *must* be sent in separate files.**
- Institutions must provide the name and contact information of their legal representative, with authority to sign contracts with the IDB, if selected to conduct the study. **Please note that the contract must be signed by October 30, 2024.**

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4. Selection Criteria

Research institutions only (including think tanks) may present proposals. The IDB seeks to produce up to five (5) studies and will contribute up to **US\$25,000** (or its equivalent in local currency) for each study. The research proposals will be selected based on the following criteria:

- a) Importance of the topic and scope of policy implications.
- b) Quality and feasibility of the proposed case.
- c) Validity of the research design and methodology.
- d) Experience of the research team.

Final papers will be considered for dissemination as IDB working papers or technical notes depending on quality.

In all cases, the final dataset employed in the analysis will be delivered to the IDB along with the research paper and replication codes (an exception may be made in the case of proprietary data, in which case the team should provide the appropriate documentation. In those cases, however, providing the replication codes and data at some level of aggregation may nonetheless be required).

5. Proposal Registration

Proposing research institutions should be registered as Research Network members (contact Elton Mancilla at eltonma@iadb.org) and must be based in the Latin American and Caribbean region. Institutions from other parts of the world do not qualify for submitting a research proposal. However, researchers not based in Latin American and Caribbean can jointly participate with research teams from proposing research institutions.

Proposals should be submitted using the Web Submission Form provided in the Call for Research Proposals announcement. Proposals are due **September 15, 2024**. Please note that there are two options

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within the submission form: one for institutions and another for individual researchers. Please make sure to choose the institution's option.

6. Coordination

The project will be coordinated by Diego Vera Cossio from IDB's Research Department (RES). The coordinating committee selecting proposals includes Diego Vera Cossio and Miguel Talamas from IDB's Research Department (RES), Philip Keefer from IDB's Institutions for Development sector (IFD), Ana María Zarate and Diego Herrera from IDB's Connectivity, Markets and Finance Division (CMF), and a qualified external advisor.

The tentative schedule of activities is as follows:

- **September 29, 2024:** Due date for **receiving proposals**. Institutions should ensure that the complete documentation is submitted to the coordinating committee. Complete documentation includes the registration form with all the information requested, the research proposal, budget, and curriculum vitae (CVs up to three pages long).
- **October 14, 2024:** Announcement of **selected research proposals**.
- **October 30, 2024:** **Submission of signed agreements** between IDB and the awarded institution. The agreement must be signed by the legal representative of each institution. Selected proposals that fail to comply with the deadline will be ineligible to receive research funds from this Call for Research Proposals.
- **November 1, 2024:** **First Discussion Seminar** to be held virtually via **Zoom** with the research leaders of the studies for the purposes of presenting their proposals and the methodologies to be used in the studies, as well as brief preliminary discussions.
- **November 30, 2024:** Due date for receiving a **first draft** of research papers. The drafts should include an outline of the paper, a draft discussion of the related literature, a description of the

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context and institutional background, a detailed description of the methodology, and a description of the data to be used. Though welcome, results are not expected for the first draft.

- **April 2025** (Date to be determined): **Second Discussion Seminar** in Washington, D.C. with the research leaders of the studies (or designated team members previously approved by the IDB) to discuss updated drafts of the research papers.
- **June 1, 2025**: Due date for receiving a **second draft** of the research papers, incorporating the changes associated with the feedback received from the coordinating team during the Second Discussion Seminar.
- **August 30, 2025**: Deadline for **final versions** of the research papers, including summaries that discuss policy implications. Data and replication files should be submitted by this date. Research papers must follow the **IDB Manual of Style** for working papers. Studies that are of good quality at this stage will be considered for publication in the **IDB Working Papers series**.

7. Financial Contribution and Payment Schedule

The IDB will contribute up to **US\$25,000** or its equivalent in local currency as a contribution to the total budget of each study. The payment schedule is as follows:

- **30 percent** within 30 calendar days of the last signature of the **formal agreement** between the IDB and the respective institution.
- **30 percent** within 30 calendar days of presentation and approval by the IDB of the **first draft** of the research paper.
- **20 percent** within 30 calendar days of presentation and approval by the IDB of the **second draft** of the research paper.
- **20 percent** within 30 calendar days of presentation and approval by the IDB of the **final draft** of the research paper, delivery of the datasets utilized by the study, and completion of all the conditions of the terms of reference.

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8. References

- Babina, T., Bahaj, S. A., Buchak, G., De Marco, F., Foulis, A. K., Gornall, W., Mazzola, F., & Yu, T. (2024). *Customer Data Access and Fintech Entry: Early Evidence from Open Banking* (NBER Working Paper No. 32089). National Bureau of Economic Research.
- Brunnermeier, M. K., Limodio, N., & Spadavecchia, L. (2023). *Mobile Money, Interoperability, and Financial Inclusion* (NBER Working Paper No. 31696). National Bureau of Economic Research.
- Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, and Saniya Ansar. 2022. *The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19*. Washington, DC: World Bank. doi:10.1596/978-1-4648-1897-4