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Keeping the Economy in Motion: Financial Technology and the COVID pandemic in Latin America

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Financial technology (fintech) companies are proliferating in regions like Latin America, where on average only half of the adult population have access to a formal bank account. Some of the most outstanding platforms offering these services are the ones within the *Mercado Libre* (free market) conglomerate. Claiming to be "democratizing finance in Latin America," *Mercado Libre* is a Buenos Aires based e-commerce platform that, relying on artificial intelligence (AI), also offers credit and payment means all across Latin America, including the region's two biggest economies, Brazil and Mexico. By January 2021, it was valued at more than $100,000 million, boasting 74 million users. After the strict lockdown imposed in the Buenos Aires area to fight the COVID pandemic in March 2020, *Mercado Libre* began a new marketing campaign. In a place where cash usually reigns and the reach of formal financial networks is limited, but in a context where business was forced to take place remotely, they were the ones keeping the economy moving—anybody was just a tap away from becoming an entrepreneur, getting credit to shop or start a business, or being able to pay or charge remotely using the *Mercado Libre* apps on their mobile phones. Even the logo of the company has changed, from a handshake indicating the closing of a deal to two contracted biceps, elbow to elbow, signaling strength. In a view that seems shared by many of his industry colleagues, the founder and former CEO of *Mercado Libre* stated in many of his public interviews that cash was on its way out; the COVID-19 pandemic was only accelerating the process.

Unlike traditional Latin American banks, who follow assessment models inspired by their North American counterparts, Latin American fintech companies follow a path that was paved by other firms from and within the Global South. While Kenya's M-Pesa, a mobile platform that allows users to send and receive money using PIN-secured SMS text messages, might have set the first stage, the most remarkable influence on Latin American fintech is Ant Financial, a Chinese company that started as a digital payment platform and soon expanded to incorporate credit scoring and money-lending services. These novel technologies try to capture "thin-file borrowers" who lack access to a bank account, a robust credit history, and whose behavior as debtors is thus invisible to traditional credit institutions.

This ongoing research, made possible by the ICI's *Pandemic Worlds* Research Seminar support, looks at the operations of fintech in Latin America during the COVID-19 pandemic, with a focus on Buenos Aires-based *Mercado Libr*e. It asks: How do designers, programmers, and risk analysts jointly develop platforms that can predict the solvency of their users? What is the potential of these platforms to reshape socio-economic life in Latin America? Has the COVID-19 pandemic reconfigured the way people transact in Latin American settings where cash and informality used to dominate commerce and labor?

To explore these questions, I draw on two sources of data. Firstly, in-depth, semi structured interviews were carried out with *Mercado Libre* specialists who work within the three sectors: design, programming, and risk analysis. Secondly, and to incorporate insights outside of the *Mercado Libre* ecosystem, participant observation was conducted in industry conferences and mid- and long-term seminars for executives co-organized by the business schools and industry organizations.

This research project is composed of three parts, the preliminary findings of which are presented in this essay. The first consists of an overview of consumer banking and formal and informal financial networks in Latin America. Until recently, the only alternatives to the use of cash were provided by traditional financial networks; financial networks that only cater to the better-off half of the population, thus underserving entire regions and demographic segments. In this context, the consolidation of Latin America as a fertile terrain for fintech innovation and experimentation should come as no surprise: fintech seems to be exploiting untapped markets in Global South contexts, where many people cannot access formal financial networks and depended on unrecorded cash based practices.

If we look at the strategies that were undertaken to increase financial inclusion and combat "informality," we find that they revolved around the payment of Conditional Cash Transfers (CCTs) to unemployed or underemployed individuals or households. These were disbursed through national banks, which meant beneficiaries had (in many cases their first) a bank account, a debit card, and facilitated access to credit. However, this was used to just get the cash—money lasted 24 hours or less in the system before being withdrawn.

On the policy level, these strategies seem ill-equipped to succeed because they rely on sharp boundaries, such as formal/informal, individual/collective, or cash/electronic, which simply do not hold up in everyday Latin American socio-economic life, as if just a debit card was enough to end "informality" and make people rely on formal financial networks. What is more striking is that certain critical, theoretical accounts of these processes are equally ill-equipped to understand the subject at hand, claiming that the socio-economic lives of the poor are suddenly "financialized" because social programs are paid through banks. An approach that implies that the poor did not have a financial life before CCTs and ignores the multiple connections that can exist between household economies and global financial networks.

The second part of this project looks at the narratives offered by fintech insiders, such as *Mercado Libre* professionals, fintech entrepreneurs, and other representatives of the sector and how they account for the workings of fintech in Argentina in particular and Latin America in general. These accounts revolve around three focal points: 1) the actual process by which new populations are offered credit and other financial services by *Mercado Libre* and other firms; 2) the role of fintech in allowing transactions to happen digitally during the COVID-19 lockdowns, especially in places and businesses dominated by cash and informality; and 3) the present and future of cash and digital forms of payment in Argentina and Latin America.

Interviews with *Mercado Libre* specialists reveal its workings as a platform, putting scalability and the growth of its user base at the forefront of its business strategy. Such growth also fuels its performance as a moneylender. As one informant told me, it would be a bad idea for a borrower to default on a loan given by *Mercado Libre*, the platform on which borrowers also buy, sell, pay, and charge—a scenario exacerbated by lockdowns and quarantines. All this information about users' spending patterns and revenue streams feeds into the company's algorithms, refining their predictive power and letting *Mercado Libre* expand further.

Marcos Galperin, the company's founder, highlighted *Mercado Libre's* role during the pandemic, describing how the platform became "essential." In an interview with Time magazine, he stated that they *literally* saved hundreds of thousands of merchants from bankruptcy while catalyzing financial inclusion; thanks to the QR-code based payment service that the company started to offer, even for transactions that happen outside *Mercado Libre*, Latin Americans could have a record of their financial transactions and build a credit history. Such a service, together with the remote commerce necessitated by the pandemic, is accelerating the disappearance of cash, according to Galperin. While this view is shared by many fintech insiders, some consultants are skeptical: during 2020, the year of global pandemic outbreak, 75 percent of transactions in Latin America were done in cash, leaving cash's crow undisputed.

The third and last part of this project reviews some theoretical attempts to understand the workings of fintech in Latin America and elsewhere. Metaphors stating that "all data is credit data" or that data is extracted "like oil" have been proliferating for some time now. However, these metaphors can obscure the understanding of a process which, through the concatenation of technology and expertise set in motion by fintech firms, lets them convert massive amounts of previously ignored data into commercially valuable knowledge. It is this which allows them, in turn, to offer credit to more people and expand their user base in a way that refines their own processes to evaluate potential borrowers.

In the first place, we need to understand the process by which user data is actively crafted is a valuable asset, key to the workings of platform economies. Thinking of that process as something passively laying underneath, just waiting to be extracted, clouds this understanding. In the second place, none of my informants actually stated that all data is credit data. While there is potential "to get the DNA of a person," there is an expert process involved in demarcating what is relevant and what is not. Some of them even ran a model that concluded that PSG fans were more creditworthy than the rest of soccer fans. Of course, not one even thought of taking this seriously.

To sum up, even though fintech and digital payments were strengthened in 2020, underpinned by the pandemic and the lockdowns that resulted from it, the attachment to cash still prevails in Argentina and Latin America. In order to understand the impact that these processes have on socio-economic life, we need to look closely at the workings that set in motion these developments, without relying on sharp boundaries that do not hold or on metaphors that are good at conveying a point but might not reflect how things work in practice.