



# **The Future of Digital Financial Inclusion in Latin America and the Caribbean**

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Americas Business Dialogue White Paper

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## Overview

The countries of Latin America and the Caribbean (LAC) are focused on promoting development and growth, in part through expanding access to and the use of financial services. Financial inclusion initiatives aim to increase the number of individuals and businesses with access to secure, useful, and affordable financial products that meet their needs. These services need to be delivered responsibly and sustainably and include transactions, payments, savings, credit, and insurance.

In this context, financial health has emerged as a key long-term policy objective. While progress is being made, significant challenges remain, particularly in addressing disparities in access for last-mile and vulnerable populations. Women, rural communities, older people, and other vulnerable groups face persistent barriers, and these gaps are further compounded by differences across LAC countries.

## Part I.

### Policy pillars and cross-cutting goals

#### 1. Financial health as a long-term goal: going beyond financial inclusion

The public policy recommendations compiled in this white paper by the working group of the Americas Business Dialogue (ABD) focus on robust private investment and innovation in financial inclusion and the role of government in promoting financial health in LAC. It offers a comprehensive analysis of the factors shaping the financial landscape, with a focus on three critical pillars.

#### 2. Pillars of the financial inclusion agenda

##### A. Payment ecosystems

The modernization of payment ecosystems has reshaped how people and businesses interact with the financial system. Across LAC, countries have expanded access to digital payments through regulatory reforms, technology adoption, the growth of fintechs, and the implementation of real-time transaction systems. Brazil, Argentina, and Chile have been early leaders in developing frameworks for open finance and seamless payments. Despite this progress, challenges remain. Market fragmentation, limited interoperability, regulatory inconsistencies, and entry barriers for new providers have slowed the pace of innovation. To address these constraints, this paper recommends that policymakers focus on the following priorities:

- Promote interoperability and harmonization of standards to reduce fragmentation and facilitate cross-border payments.

- Encourage regulatory frameworks that enable competitive neutrality, support nonbank participation, and allow innovation within a fair playing field.
- Eliminate tax and regulatory asymmetries across payment methods to prevent market distortions.
- Strengthen governance and transparency, especially where central banks have dual roles, ensuring clear separation between oversight and market participation.
- Expand public–private partnerships for digital payment infrastructure and promote the adoption of digital technologies among government entities, small and medium-sized enterprises (SMEs), and the broader population.

## **B. Financial health**

At the core of this agenda is a commitment to improving financial health. Meaningful progress on financial inclusion requires a broader approach that considers financial resilience, literacy, control, and long-term security. Many individuals across the region, especially the most vulnerable, continue to face significant barriers. These include low levels of financial literacy, underdeveloped pension systems, digital divides, and the growing risks associated with cybersecurity as digital tools proliferate. Demographic trends add urgency to this challenge. LAC’s aging population and the growth of the silver economy call for new, tailored financial solutions. Key actions include:

- Develop collaborative financial solutions through public–private partnerships, targeting the needs of vulnerable and aging populations.
- Leverage technology to improve digital inclusion and access while ensuring robust cybersecurity frameworks and customer education.
- Strengthen national financial education plans, integrate financial literacy into school curricula, and design targeted programs for women, youth, and older adults.
- Modernize pension systems and regulatory frameworks to support an inclusive silver economy, fostering innovation in financial products and services for older people.
- Encourage unified cybersecurity policies and foster a culture of security awareness among both employees and consumers.

## **C. Development banks**

Development banks, both national and multilateral, play an equally important role in shaping the financial ecosystem by addressing market failures and mobilizing resources for sustainable development. Their ability to provide countercyclical financing and support long-term investments in infrastructure and innovation is indispensable, particularly in times of crisis. However, the effectiveness of many public development banks remains constrained by narrow mandates, weak governance frameworks, limited transparency, and low levels of private capital mobilization compared to international peers. The recommended steps to address this limitation include:

- Encourage blended finance and risk-sharing mechanisms to mobilize greater private-sector investment, particularly for infrastructure and climate-related projects.
- Clarify and strengthen the development mandate of public development banks (PDBs), ensuring transparent governance and the presence of independent board members.

- Incorporate green objectives and support technological advancement and SME growth through tailored financial products and technical assistance.
- Align with G20 and multilateral reform agendas to enhance the effectiveness of multilateral development banks (MDBs), foster collaboration, and scale up financing capacity for SDGs.

The following sections will develop key concepts, analyze the current situation in LAC in depth, and provide recommendations to advance toward:

- modern, secure and innovative payment ecosystems,
- better sources of funding and the strategic posture of development banks,
- more widespread financial literacy through national strategies, and
- improved financial health.

## Part II.

### Payment ecosystems

A payment ecosystem connects individuals, businesses, and governments, enabling transactions. These systems determine the speed, security, and convenience of financial interactions, fostering trust and driving innovation in markets. Payment ecosystems also play a vital role in promoting economic inclusion by providing users with access to financial tools and services they might otherwise lack. As these systems evolve, they are redefining commerce and transforming consumption patterns. Digital transfers, in particular, have provided safer, more secure access to payments.

In recent years, technology has revolutionized how people manage their finances and pay for goods and services. The COVID-19 pandemic accelerated this shift, with digital payments becoming the preferred method for purchases. In LAC, the adoption of these payment methods is partly explained by the historically low—though steadily increasing—penetration of credit and debit cards in the region. However, the primary driver has been rapid mobile phone growth, coupled with new innovative business models for finance enabled by legal reforms. These reforms paved the way for a wave of fintech players, including entrants from the tech sector and incumbents investing in new platforms and solutions. In LAC, telecommunications reforms have significantly reduced the cost of mobile devices and data services, leading to greater connectivity and usage. This increased access has been a key factor in the evolution and widespread adoption of digital payments.

## 1. Growth of digital payments

### A. The fintech wave enabled by well-designed regulatory frameworks

Over the past 15 years, several policymakers in LAC set out to modernize the architecture of their financial systems, leading to profound transformations of the landscape, including regulatory frameworks. Notable results include the emergence of new participants providing financial services under novel regulatory frameworks, alongside a transition to a more open market in which acquirers work with all payment networks and platforms—known as the “multi-acquiring model.”

Traditional banks reacted to this transformation by piloting and investing in their own innovative models, unlocking the potential of smartphone connectivity and app ecosystems. In several countries, the word “wallet” came to be used to identify a variety of services and platforms that facilitate transactions among consumers, businesses, and governments.

Regulatory and other policy interventions triggered a Cambrian explosion in personal finance and payments, driven by the hard work and ingenuity of entrepreneurs and traditional bankers who recognized the possibilities the smartphone and wireless revolution had opened up.

In some countries, holistic reform processes are underway, while others—such as Paraguay, Bolivia, or Jamaica—are still at an earlier stage. Likewise, regulatory change and

leadership have not had sufficient traction to enable fintechs in some countries, and others have not yet prioritized the creation of regulatory frameworks that would facilitate the emergence of fintech ecosystems.

Competitive pressure from new financial players led to a breakthrough in a key indicator: the number of individuals opening their first account, as well as frequency of use. This development has connected millions of individuals, mostly from the lowest socioeconomic tiers, who had previously lived in a cash-only economy.

This new account ownership laid the groundwork for subsequent expansion of the digital financial system, including the launch of central bank retail payment systems and the growth of real-time payment systems operated by groups of financial institutions.

## **B. Real-time payment systems**

Real-time payments (RTPs) are continuing the transformation of financial services across LAC countries, bringing significant benefits in affordability, convenience, and customer-focused design. RTPs process transactions instantly, around the clock. Their growing popularity lies in providing individuals and businesses with quick, reliable digital alternatives to cash. Notably, in economies with high levels of informal employment—up to 70% in some LAC countries—RTPs provide in-person digital payment options that go beyond cash.

RTP methods rely on coordination among banks, consumers, and businesses, requiring all three to move in tandem for everyone to fully benefit. However, incentives are not always fully aligned in practice. In countries where RTPs have not developed organically, government-supported systems have emerged, designed to achieve broader objectives such as lowering payment costs, increasing financial inclusion, reducing cash circulation, and promoting formalization.

Nevertheless, the development of RTP systems has revealed a lack of focus on issues such as security and safety, governance standards, transparency in public investments, potential crowding out of private service providers, and the implications for competition, as well as the costs imposed on private financial institutions needing to adopt these systems. A robust financial and behavioral impact and cost analysis should precede any government initiatives to compete with the private sector, including payments. Likewise, guardrails should be put in place before deployment.

According to the World Bank Group's Finance, Competitiveness, and Investment (FCI) team (World Bank, 2024b), RTP adoption has grown rapidly in LAC. Between 2019 and 2024, monthly per capita fast payments rose from around 0 to over 3 in Peru, 12 in Costa Rica, and 24 in Brazil. At the same time, cash in circulation declined across many LAC countries, further reflecting the shift toward digital payments.

Central banks have actively supported the adoption of fast payments, either by operating RTP systems (e.g., Bolivia, Brazil, Costa Rica, El Salvador, Mexico, and others) or by supporting legislative changes to promote fast, interoperable digital payments (e.g., Argentina, Dominican Republic, Peru, and others). Nevertheless, this proliferation has resulted in unintended consequences, including conflicts of interest when central banks act as both regulators and product managers, raising concerns around competition.

Digital payment adoption patterns vary across LAC, and barriers remain, limiting their usage. Despite the steady growth of digital payments, cash remains the preferred payment method for a large share of the population, and many people still experience financial exclusion. Government policies promoting innovation, interoperability, and enhanced private-sector participation are therefore crucial.

### C. Barriers to real-time payment systems

- **Market access.** Many countries lack adequate regulatory frameworks and impose onerous licensing requirements, capital thresholds, and domestic processing and data restrictions. These measures are intended to enhance security, manage costs, and address privacy concerns, but they often create unintentional barriers to market access. Smaller companies, such as fintech start-ups, often lack the necessary capital and personnel to meet stringent requirements. They may also struggle to connect to local processing systems due to limited providers and ad hoc protocols. Additionally, some countries have not yet implemented financial institution charters with lighter regulatory burdens for fintech models that are lower risk than full-service banking.
- **Risks to competitive neutrality.** Leveling the playing field for the private sector to participate in payment ecosystems is imperative, particularly as more and more central banks sponsor digital public payment infrastructure that both complements and competes with private offerings. The Organisation for Economic Co-operation and Development (OECD, 2024) has issued guidance on identifying, avoiding, and reducing distortions to competition arising from government intervention.
- **Regulation and lack of standardization.** The absence of internationally recognized standards—such as ISO 20022 messaging and EMVCo—creates friction. Divergent rulebooks, systems, and technologies increase costs for both merchants and consumers, while also reducing adoption rates.

According to McKinsey’s 2023 survey (McKinsey & Company, 2024), 70% of people in LAC reported using cash within the previous 30 days, though only 30% said they preferred it. This reflects the fact that many merchants still accept only cash, and over half of the region’s workers are informal and typically paid in cash. As a result, cash remains widely used despite changing consumer preferences.

In this context, regulators did not anticipate how players would apply new technological developments to financial services, particularly within the payment systems industry. These emerging business models have exposed how outdated some existing frameworks are, while revealing insufficient supervisory capacity and growing asymmetries among participants subject to different levels of regulatory scrutiny.

## 2. Current regulatory framework and examples from LAC countries

Across LAC, countries have introduced innovative solutions tailored to their unique economic and regulatory landscapes. This white paper highlights specific examples of fast

payment systems in LAC and examines the regulatory frameworks driving them. In many cases, central banks are playing a prominent role.

**A. Brazil**

<b>Instant payment system</b>	<ul style="list-style-type: none"><li>• Launched in 2020 (development decision in 2018), Pix is an RTP system that enables instant payments and transfers.</li><li>• Participation is mandatory for all financial institutions in Brazil with over 500,000 active customer accounts, making it a pivotal element of the country’s financial infrastructure and a critical tool for businesses.</li></ul>
<b>Role of central bank</b>	<ul style="list-style-type: none"><li>• The Central Bank of Brazil (BCB) developed, manages, operates, and owns Pix.</li><li>• As system operator, the BCB developed the infrastructure—a real-time gross settlement system and a proxy database—and is the sole operator.</li><li>• As rulebook owner, the BCB sets all rules and technical specifications, including for APIs.</li><li>• The BCB acts as both payments regulator and system operator, with no formal separation between the two roles.</li><li>• This centralization provides regulatory certainty but may limit flexibility and innovation from market participants, who must fully adapt to BCB timelines and specifications but have no influence over governance processes.</li></ul>
<b>Key takeaways</b>	<ul style="list-style-type: none"><li>• <b>Public–private dialogue.</b> The BCB led the development of Pix using a collaborative approach, involving stakeholders (from PSPs to commercial associations and end users) through the Pix Forum, a formal consultative body without binding decision-making powers.</li><li>• <b>Participation by nonbank PSPs.</b> Pix is an open-loop scheme in which both banks and nonbanks participate, though not all actors do so on equal terms.</li><li>• <b>Diverse use cases.</b> Pix is free for individuals, regardless of the amount or frequency of transactions. It supports multiple low-cost use cases—credit transfers, bill payments, e-commerce, and scheduled/recurring payments.</li><li>• <b>Cross-border potential.</b> Brazil has adopted IBAN standardization, enabling Pix to support cross-border solutions.</li></ul>

## B. Argentina

<b>Instant payment system</b>	<ul style="list-style-type: none"><li>• Transferencias 3.0, launched in 2021, is an open, universal instant payment system supported by the Central Bank of Argentina (BCRA). This low-value scheme streamlines transactions across the financial ecosystem using interoperable QR codes, fostering seamless interactions among financial actors and improving accessibility for users.</li></ul>
<b>Role of central bank</b>	<ul style="list-style-type: none"><li>• The BCRA regulates, oversees, and administers Transferencias 3.0, but does not operate it.</li></ul>
<b>Key takeaways</b>	<ul style="list-style-type: none"><li>• <b>QR standardization and bank-to-wallet interoperability.</b><sup>1</sup> Transferencias 3.0 mandates interoperability with traditional bank accounts and the standardization of QR codes.</li><li>• <b>Participation by nonbank PSPs.</b> Nonbank entities have access to an immediate, interoperable payment infrastructure. However, access is limited to national financial institutions within Argentina.</li><li>• <b>Digital onboarding.</b> In line with Financial Action Task Force (FATF) recommendations, Argentina's anti-money-laundering law mandates compliance with know your customer (KYC) regulations for financial institutions and payment service providers.</li><li>• <b>Cryptocurrency tax reporting.</b> Although cryptocurrency regulations remain limited, crypto service providers are required to report transactions for tax purposes, marking the start of crypto-related oversight.</li></ul>

## C. Dominican Republic

<b>Instant payment system</b>	<ul style="list-style-type: none"><li>• <i>Pagos al instante BCRD</i> is an RTP service through which bank customers can make urgent or high-value payments through their banks' electronic platforms for fund transfers, credit card payments, or loan payments. Transactions can be made in Dominican pesos, US dollars, and euros, debited directly from users' accounts. The Central Bank is updating this system to enable faster processing of lower-value payments.</li></ul>
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<sup>1</sup> In Argentina, all accounts have 22-digit identifiers, known as a CBU for bank accounts and CVU for nonbank/wallet accounts. Central Bank-mandated interoperability allows transfers and QR payments to move seamlessly between the two types of account.

<b>Role of central bank</b>	<ul style="list-style-type: none"> <li>The Central Bank regulates, oversees, and administers an instant, interoperable, and universal low-value payment solution.</li> </ul>
<b>Highlight takeaways</b>	<ul style="list-style-type: none"> <li><b>Cybersecurity.</b> The Central Bank was a regional pioneer in enacting cybersecurity regulations and stands out for the quality, granularity, and frequency of its payment statistics publications.</li> <li><b>Regulation of electronic payment entities.</b> In 2021, the country implemented a comprehensive amendment to its Payment Systems Regulations.</li> <li><b>Sistema de Interconexión de Pagos (SIPA).</b> The Central American and Dominican Republic Payment Interconnection System (SIPA), initiated by the Central American Monetary Council (CMCA), aims to promote the development and integration of Central American financial systems, with the goal of creating a more unified financial space.</li> </ul>

### 3. Current challenges

#### A. Fragmented payment ecosystems and lack of interoperability

Regulatory differences and currency requirements across borders complicate the creation of a unified payment system that works seamlessly across multiple countries. Each country has its own regulatory framework, making it difficult to build a cohesive, interoperable infrastructure.

Consumers are frequently forced to use different apps or payment methods for various services or merchants, creating friction and inefficiency. This lack of interoperability not only discourages adoption of instant payment systems but also limits opportunities to scale.

#### B. Lack of an adequate fintech regulatory framework

One of the most cumbersome barriers for new players is the absence of a fit-for-purpose regulatory framework that allows providers to offer account services such as deposits and electronic payments without needing to include bank-like financial intermediation.

#### C. Pricing regulation and barriers to entry

Recent regional regulatory trends demonstrate that overly rigid pricing regulations can hinder a healthy business environment, jeopardizing both consumers and innovation. Limits on fees create entry barriers for new competitors that lack the volume to operate at the established prices, reinforcing market concentration and stifling competition. Maintaining flexibility in fee structures is crucial to fostering a dynamic ecosystem that benefits both consumers and merchants while supporting long-term financial health.

#### **D. Lack of appropriate investment and cost-recovery reporting**

The deployment of a payment rail by a government or central bank functions as a subsidy similar to those provided in health or education. Accordingly, these systems should report the amount invested by the government and the costs imposed on financial institutions. They should also contemplate cost-recovery standards, follow the rules of other sectors, and, where applicable, be reflected in the national budget adopted by Congress.

#### **E. Potential regulatory asymmetries**

As digital payments evolve and new and innovative approaches are introduced, ensuring regulatory neutrality across them is essential. As the OECD has mentioned, the regulatory environment should be competitively neutral and enforced with equal rigor for all current or potential market participants, including with regard to tax treatment. Legacy regulations that do not consider new payment methods may lead to asymmetries that generate uncertainty around provision and grant unjustified competitive advantages. For example, if card payments are subject to taxes or related withholdings that are not applicable to other digital payment methods—such as person-to-merchant (P2M) transfers made through central bank real-time payments (CB RTP)—distorting both competition and tax collection.

#### **F. Governance issues when central banks hold dual roles**

According to the World Bank considerations on CB RTP infrastructure, when a central bank operates an RTP system, potential conflicts of interest can arise due to its dual role as both a regulator and a service provider. The World Bank (2021a) has acknowledged that “as a regulator, the Central Bank is responsible for overseeing the entire payments ecosystem, ensuring a level playing field and maintaining fairness among all participants. However, when it also runs a real-time payment system, there may be a perception—or reality—of bias toward its own services, potentially leading to favorable regulatory decisions that benefit its system over those of private sector competitors.”

The World Bank has also recognized that “The Central Bank’s objectives as a regulator may sometimes conflict with its goals as a payment system operator. For instance, while regulatory oversight aims to ensure systemic stability and security, the operational arm might prioritize the growth and efficiency of its own payment system, potentially leading to compromises in regulatory rigor. To mitigate these conflicts, it is essential for the Central Bank to establish clear boundaries and transparent governance structures that separate its regulatory functions from its operational roles.”

Additionally, the World Bank suggests that “it is important that CB RT comply with the same reporting, security, and transparency requirements as other payment system participants. Since such public infrastructures rely on public funds, it is also important that it has an independent financial structure, and that costs—including those imposed on private institutions—are accurately calculated and reported.” In this same line, the OECD (2021) has pointed out the relevance of maintaining competitive neutrality when public institutions participate in markets, either by providing public infrastructure or by offering substitute products. They acknowledge the need for a competitive neutrality framework to complement competition law enforcement to achieve a level playing field.

## **4. Recommendations for payment ecosystems**

### **A. Enhance financial inclusion and digital ecosystem growth through subnational government adoption of digital payments**

Digital payment acceptance remains limited among government entities, particularly decentralized ones (e.g., water agencies and subnational governments). Expanding digital payment options in the public sector—including services such as public transport and subsidies—can foster the adoption of financial technologies, encouraging innovation, and driving growth in the digital payments sector. It also promotes financial inclusion by providing more accessible, convenient payment options to individuals without access to traditional banking services, creating gateways to other financial products and ultimately contributing to improved financial health.

### **B. Encourage public- and private-sector cooperation for digital payment infrastructure development in LAC**

LAC's diverse economic and social contexts—income disparities, informal economies, and limited infrastructure in remote areas—and accelerating innovations in payments are creating demand for tailored solutions that governments alone cannot effectively deliver. The public sector must actively engage the private sector and create the conditions for it to test whether proposed regulations encourage efficient product innovation in the financial services sector while mitigating systemic risks. Appropriate governance mechanisms should also be established regarding the role of central banks as a regulator, market participant, and price setter, where these arrangements exist.

In addition, governments and the private sector should actively advance the adoption of digital payment throughout the economy, especially among SMEs, which in most LAC countries account for more than 90% of firms and thus have a multiplying effect on growth and the economy in general.

### **C. Promote best governance practices and regulatory frameworks that reduce barriers to entry and foster competition, particularly when regulators are also competitors**

LAC's economic and social contexts—such as income disparities, informal economies, and limited infrastructure in remote areas—combined with the accelerating trend of innovation in payments, demand tailored solutions that the government alone cannot effectively oversee. The public sector must actively engage and create conditions for the private sector to gather perspectives on whether potential regulations can encourage a competitive landscape which in turn can foster product innovation in the financial services sector while mitigating systemic risks, as well as pursuing a proper governance for the role of central banks as a regulator, market participant, and price setter, where these arrangements exist.

### **D. Eliminate tax asymmetries across payment methods**

Policy measures should balance the need to reduce reliance on cash while ensuring a level playing field across payment instruments. Tax asymmetries create distortions, encourage

arbitrage, and ultimately undermine competition and innovation. Authorities should avoid introducing tax asymmetries across payment systems while applying the functional equivalence rule as a guiding principle: equivalent economic transactions should face the same regulatory and tax and similar burdens, regardless of how they are executed. For instance, person-to-person (P2P) transactions do not typically trigger tax withholdings or split payments, but P2M transactions do. The tax implications for the latter should be consistent across payment methods (RTP, cards, open banking, or future alternatives), in order to advance the shared objective of reducing reliance on cash.

Some jurisdictions have already made regulatory progress on acknowledging equivalence between payment methods, such as Uruguay (through Decree 171/2024).

#### **E. Harmonize standards in the design of instant payment schemes using a technology-agnostic approach**

Companies in LAC would benefit substantially from rules that promote financial inclusion, such as allowing flexible account requirements for low-value and low-risk accounts, combined with the adoption of international standards to reduce regulatory fragmentation and differences in rules and frameworks. This approach would eliminate the need to comply with multiple national standards and facilitate cross-border payments.

Encouraging the development and adoption of a technology-agnostic approach, using proven technologies that prevent fraud without impacting consumers or merchants, would enable new players to unbundle financial products and services on an international scale, further promoting financial inclusion across the region.

## Part III.

### Development banks and funding sources

#### 1. Roles and mandates of development banks

Public development banks (PDBs) play a fundamental role in LAC by mobilizing resources for development and complementing the private financial system. Private financial institutions are often risk-averse—particularly toward disruptive projects or early-stage growth—so PDBs help identify opportunities and provide financing for innovation and projects deemed too risky by the private sector.

PDBs address market failures, such as the lack of long-term financing, and support vulnerable sectors of the population. They often act as collaborators in public policy initiatives or as enablers within early-stage entrepreneurship ecosystems, providing the financial backbone needed to drive innovation and support sustainable national growth. As countries seek funding to achieve the Sustainable Development Goals (SDGs), PDBs can help bridge the financing gap by attracting private-sector investments and fostering public–private partnerships, particularly for infrastructure development.

However, not all PDBs successfully fulfill their policy mandates. According to World Bank (2017) surveys, some struggle with high numbers of nonperforming loans, which jeopardize their long-term solvency and profitability. In some cases, government representatives dominate boards, limiting or excluding the participation of independent board members. In others, development mandates are not clearly defined, and PDBs compete with private financial intermediaries, sometimes crowding out other market participants.

The success of PDBs is closely tied to the ability of governments to cultivate an ecosystem of financial institutions, including robust domestic capital markets that address the diverse needs of customers and support projects until they become “safe” for financing by other institutions. Given their critical role, a deeper understanding PDBs, their functions, and operational strategies is essential to improve their effectiveness and maximize their contribution to sustainable development.

This section summarizes current PDB mandates, their behavior, and participation in LAC, and offers key recommendations to foster financial health in the region.

#### 2. Historical behavior and current performance

PDBs were established in recognition of the fact that traditional financial markets often fall short in addressing society’s most critical challenges. While their origins vary significantly, PDBs’ official mandate focuses on proactively advancing the public policy objectives for which they were created—typically economic and social goals. They can be effective policy instruments for fixing market failures, incubating markets, coordinating public policies with stakeholders, and promoting structural transformation in an equitable and sustainable

manner. Core characteristics that distinguish PDBs from commercial banks and other public entities include:

- **Not profit-driven:** PDBs do not seek to maximize profits; instead, they prioritize public interest over financial gains.
- **Financial instruments as primary tools:** PDBs deploy financial instruments as their main products and services, distinguishing them from other public entities, such as central banks.
- **Address underserved sectors:** PDBs provide credit to sectors and projects that private lenders typically overlook.
- **Countercyclical financing:** PDBs stabilize credit conditions by offering financing during economic downturns to mitigate the effects of crises.
- **Self-financing capabilities:** Beyond periodic government budget transfers, PDBs finance their activities by borrowing from capital markets or financial institutions, differentiating them from aid agencies.

### 3. Types of development banks

PDBs can be categorized into two main types: national development banks (NDBs) and multilateral development banks (MDBs). NDBs are financial institutions established by governments to promote economic development and address market inefficiencies at the national level. MDBs are owned by multiple countries—including both borrowing and nonborrowing members—and focus on fostering economic growth and cooperation across nations.

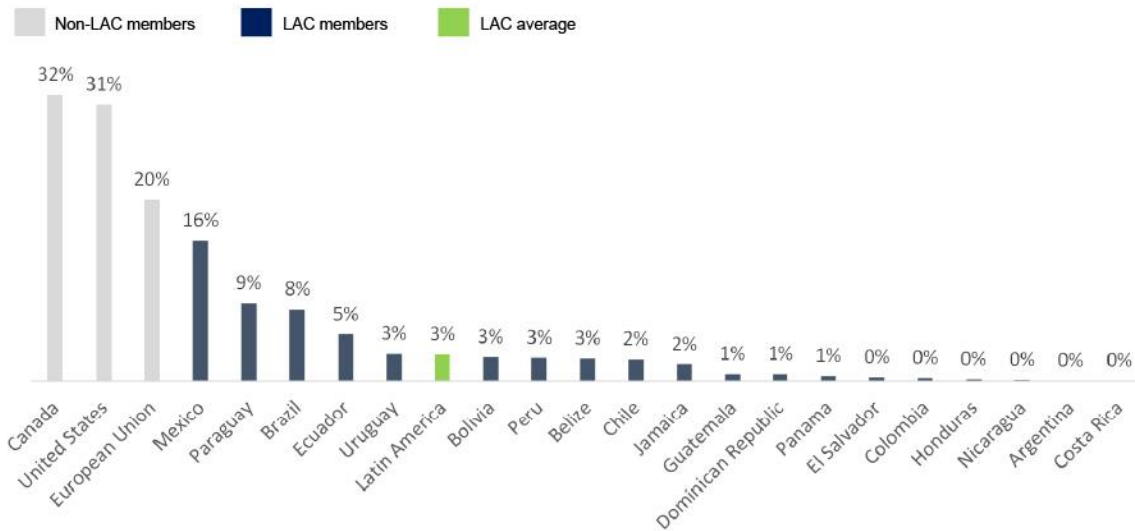
#### A. National development banks (NDBs)

NDBs play a crucial role in supporting economic growth, social development, and poverty reduction in LAC. They have a clear public mandate to address market failures and finance projects that private financial institutions might avoid due to high risk or limited profitability. By leveraging their unique position, they focus on areas that are underserved by private financial institutions, such as infrastructure, housing, agriculture, SMEs, and innovation.

According to findings from a study presented by the Inter-American Development Bank (IDB) during the Finance in Common Summit (FiCS), NDBs were the second-largest source of financing between 2004 and 2021, behind the private sector, for projects developed under project finance schemes, with a 20.5% share. The study shows that 26 entities in 10 countries participated in private infrastructure financing under the project finance scheme.

However, the situation varies significantly across countries in the region. In LAC, NDB financing averages just 3% of GDP, which is markedly lower than in developed countries such as Canada (32%), the United States (31%), and the European Union (20%). While nations like Mexico, Paraguay, and Brazil report NDB financing exceeding 8% of GDP, many others in the region show levels close to 0%.

**Figure 1. LAC NDBs' total assets as a share of GDP (%)**



Source: Peking University data.

In this context, there is a significant opportunity to expand the role of NDBs in financing sustainable infrastructure projects and mobilizing private capital across the region. These institutions are experiencing renewed interest as policy tools for providing rapid countercyclical lending and advancing the financing of the SDGs, while ensuring their financial sustainability.

## B. Multilateral development banks (MDBs)

MDBs are tasked with promoting sustainable development and fostering economic integration across regions. They typically operate under a special status governed by international treaties, which exempts them from national regulations or local laws. Like NDBs, MDBs have a public policy mandate aimed at achieving specific development or strategic objectives, rather than maximizing profits.

MDBs are self-sustaining financial institutions that issue bonds and securities, purchased primarily by institutional investors and governments. Unlike commercial banks, they do not accept deposits or access central bank funding. The funds raised are used to provide medium- to long-term financing for borrowing countries. This mechanism allows nations in need of investments to access global savings for their development needs.

Most MDBs classify their loans into two main risk categories: with or without a sovereign guarantee.

- **Sovereign-guaranteed loans:** These are provided to national governments (central or federal), local governments, or state-owned enterprises, with the national government serving as the guarantor.
- **Nonsovereign-guaranteed (NSG) loans:** These loans aim to promote the economic development of MDB member countries by supporting the private sector's expansion and modernization, thereby complementing public-sector financing. NSG lending

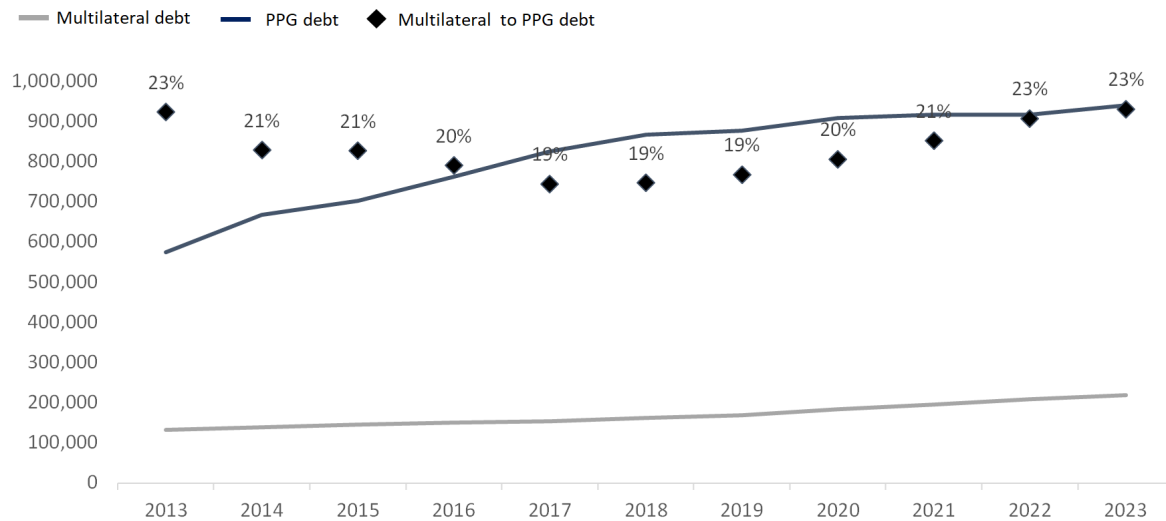
focuses on initiatives with high development impact, which often involve significant risks that the private banking sector may be unwilling to undertake.

In LAC, MDBs have historically been instrumental in addressing the region’s most pressing development challenges, spanning areas such as social progress, infrastructure development, regional integration, and climate change mitigation. MDBs provide critical structural support through funding, technical expertise, and policy guidance, which help to bridge gaps that national governments or the private sector alone cannot overcome.

When crises arise—whether economic, social, or environmental—LAC countries frequently turn to MDBs for immediate resources and strategic advice. For example, during financial downturns, MDBs can inject liquidity to stabilize economies, enabling governments to maintain essential public services and infrastructure projects. In the aftermath of natural disasters, such as hurricanes or earthquakes, MDBs often mobilize emergency funds to rebuild affected areas, restore livelihoods, and reduce vulnerability to future events.

Although multilateral debt has increased in real terms, its share of total external debt declined between 2010 and 2019. However, it has risen again to approximately 23%, a level comparable to 2010. This trend is primarily attributed to the faster growth of public debt financed by private creditors—via bonds and commercial banks—compared to multilateral debt. Additionally, the international donor community has shifted its focus toward Africa, reducing support for middle-income countries like those of LAC.

**Figure 2. Public and publicly guaranteed (PPG) debt and multilateral debt (millions of US\$)**



Source: World Bank (2024a).

According to international debt statistics reports (World Bank, 2024a), during crises, when private lending to LAC countries contracts, MDBs increase their disbursements. This pattern aligns with findings that government borrowing from MDBs is countercyclical, providing critical support during downturns. In contrast, international government borrowing from private-sector lenders tends to be procyclical, particularly during periods of constrained global capital flows.

The mandates and instruments of MDBs have evolved alongside shifting perspectives within the international community on development. These mandates are continuously revised to address the changing needs of their client countries as economic and financial market conditions fluctuate. MDBs' actions reflect the international community's collective response to the challenges posed by critical situations over time.

The COVID-19 pandemic is the most recent crisis to prompt a strong and immediate response from MDBs, underscoring their pivotal role in addressing urgent global challenges and supporting recovery efforts.

In recent months, MDBs have made significant progress aligned with the G20 Roadmap, which seeks to create better, bigger, and more effective multilateral institutions. During 2024, the leaders of 10 MDBs outlined key deliverables for joint and coordinated action to accelerate progress toward the SDGs and address regional and global challenges. They identified five priority areas.

- **Scaling up MDB financing capacity.** MDBs aim to expand their lending capacity while minimizing long-term costs, coordinating efforts across institutions while respecting each's unique mandate, governance framework, priorities, and timelines.
- **Boosting joint action on climate change.** MDBs will enhance support for public and private clients in achieving the SDGs through policy changes, climate finance, and innovative financial instruments.
- **Strengthening country-level collaboration and co-financing.** MDBs are committed to elevating country-level coordination and co-financing among multilateral institutions. By simplifying and accelerating access to financing, MDBs aim to provide joint, multiyear offers to governments, reduce transaction costs, and enhance cooperation while respecting institutional mandates and business models.
- **Catalyzing private-sector mobilization.** MDBs will work closely with governments to address regulatory barriers and create an enabling environment for private-sector investment. They aim to bridge the financing gap and mobilize private capital through financial innovations and capacity building, leveraging their proximity to clients.
- **Enhancing development effectiveness and impact.** MDBs will work toward a shared understanding of impact metrics while respecting their distinct governance frameworks and mandates. They aim to improve the capacity of borrowing countries to measure and enhance project effectiveness and assess outcomes more effectively.

Policymakers worldwide are striving to resume progress on long-standing national economic development objectives, such as improving access to finance for underserved groups—a fundamental mission of national development financial institutions. Their capacity to provide rapid countercyclical lending and support the financing of the SDGs is also garnering them new attention.

Improving the effectiveness of PDBs is urgent and essential to ensure that they are up to the challenges facing them. At their worst, national development institutions can compete unfairly with commercial banks, crowd out private investment, and support the objectives of political elites that may not be in countries' best interests. They may also be inefficient or mismanage and waste public funds.

## 4. Key issues on the agenda

PDBs play a crucial role in shaping LAC's overall financial well-being. Their strategic position improves access to credit, promotes investment and innovation, and helps protect against financial crises, ultimately enhancing the social and economic well-being of the population. The key actions and areas LAC PDBs are currently focusing on include the following:

### A. Mobilizing private capital for infrastructure by strengthening PDBs' capacity to prepare and structure financially viable initiatives

- Clarifying the role of PDBs in developing new infrastructure projects in high-impact social and environmental sectors.
- Channeling public and development resources through PDBs to create risk mitigation instruments that successfully attract private investment.

### B. Positioning PDBs at the forefront of sustainable development efforts to advance the SDGs, particularly climate and environmental goals

- Establishing and scaling development finance institutions to finance green projects and accelerate the digital economy. Several new development finance institutions have been or are being created in both advanced and developing and emerging economies.
- Incorporating green objectives into existing legal mandates, missions, and strategies.
- Continuing to foster collaboration among governments, international organizations, and other stakeholders to test concepts that catalyze green finance.

### C. Supporting technological advancement and creating new opportunities for SMEs

- Offering financial products to help SMEs adopt new technologies and innovate, such as supporting the development of digital platforms and e-commerce strategies.
- Providing technical assistance to help SMEs navigate technological advancements. This includes offering training programs, providing consulting services, and leveraging their network of expertise.

## 5. Multilateral development bank reform agenda

Urgent development and climate finance needs have rightly placed MDBs at the forefront of global attention, as financial leaders work to reshape the international financial architecture to meet today's challenges. The 20th-century MDB model must be transformed to address 21st-century priorities and deliver financing at the necessary scale.

The G20 was established in 1999, following the Asian financial crisis of 1997–1998, as an informal forum for finance ministers and central bank governors of the world's leading industrialized and developing economies to discuss international economic and financial stability. After the global economic and financial crisis of 2007, the G20 was elevated to the level of heads of state and government in 2009, recognizing that effective crisis coordination

could only occur at the highest political level. Today, G20 members represent approximately 85% of global GDP, over 75% of global trade, and about two-thirds of the world's population. The G20 Roadmap (G20, 2024) outlines a comprehensive vision for reforming MDBs so that they can better address regional and global challenges, generate jobs and opportunities, and help countries accelerate progress toward the SDGs and the goals of the Paris Agreement. It outlines recommendations to increase MDB financing capacity and maximize their impact, and also encourages development banks to further work “as a system,” engaging more effectively with governments, national and subnational development banks, the private sector, and other stakeholders.

The reform agenda emphasizes five priority areas:

- Scaling up MDB financing capacity
- Boosting joint action on climate
- Strengthening country-level collaboration and co-financing
- Catalyzing private-sector mobilization
- Enhancing development effectiveness and impact

## **6. Potential areas of work or recommendations for the working group**

Development banks should be encouraged to take on greater risk with the objective of mobilizing private-sector capital to benefit low- and lower-middle-income populations in LAC. By leveraging their strategic position, they can attract private investment and provide critical support to underserved communities.

Blended finance structures should be considered as a tool to encourage greater private-sector investment to achieve the SDGs. Blended finance mechanisms like guarantees and risk-sharing arrangements can lower the perceived risks associated with green investments, making them more attractive to private-sector investors. These mechanisms can be leveraged to boost private-sector investment, address challenges, explore policy recommendations, and enhance the financial viability of projects that contribute to environmental sustainability.

# Part IV.

## Recommendations on financial health

In today's rapidly evolving world, addressing key challenges in financial inclusion, education, and cybersecurity is crucial to building a secure and sustainable future. Financial inclusion for vulnerable groups demands urgent attention, especially through the strengthening of pension systems and the adaptation of regulatory frameworks to support an aging population. At the same time, bridging the gap in financial education is essential to empower individuals with the knowledge they need to make informed financial decisions—an effort that must be supported by government initiatives. Furthermore, as the digital landscape expands, cybersecurity has become a pressing concern. Fostering collaboration and developing common policies to protect consumers from cyber threats will ensure a safer and more resilient digital economy.

Standardized metrics to effectively measure and track progress in financial inclusion and, ultimately, financial health in LAC are urgently needed. As the region increasingly embraces new technologies and secure information sharing, valuable tools are emerging to enhance access to financial services for underserved populations. These innovations have the potential to foster greater competition, improve transparency, and offer consumers more tailored financial products. By developing standardized metrics, policymakers can better assess the impact of these technological advancements and ensure they are fully leveraged to promote inclusive financial systems.

These interconnected areas—financial inclusion, financial education, and cybersecurity—play a vital role in shaping recommendations for improving financial health. By strengthening access to financial services, promoting literacy, and ensuring cybersecurity, policymakers can contribute to enhancing individuals' financial stability and well-being, fostering an environment where everyone has the tools to secure their financial future.

### **1. Financial inclusion for vulnerable groups—the silver economy as an opportunity for inclusion**

Financial inclusion for vulnerable populations and the growth of the silver economy—products and services designed to meet the needs of older adults—are critical challenges that demand coordinated policy action and innovation from both the public and private sectors. Many vulnerable groups face unique obstacles in understanding and managing their finances, including:

- i) **low-income individuals and families;**
- ii) **youth and young adults (millennials and Gen Z);**
- iii) **people with disabilities;**
- iv) **racial and ethnic minorities;**
- v) **migrants and refugees;**
- vi) **rural populations; and**

### vii) older adults or retirees.

These groups often encounter barriers to accessing essential financial services such as savings, insurance, investment opportunities, and payment systems that are tailored to their specific needs. Existing financial products and services can help mitigate immediate risks and reduce inequality, but access barriers often prevent individuals in vulnerable circumstances or at risk of economic exclusion from benefiting from them.

According to the 2021 Global Findex (World Bank, 2022), 1.4 billion adults—nearly 24% of the global adult population—remain unbanked, meaning they do not have an account with a financial institution or mobile money provider. This lack of access compounds challenges such as distrust in financial systems and low engagement with service providers. These issues are often driven by limited financial literacy and a lack of familiarity with available services.

Understanding the specific financial needs of vulnerable groups is essential to addressing their unique challenges. Research from EGADE Business School (2023) highlights that low-income individuals often require immediate support with daily expenses and debt management. They may also need guidance on accessing social services and benefits to supplement their income. In contrast, older adults may need assistance with retirement planning, pension schemes, and protection against financial fraud. Identifying financial needs also requires recognizing the psychological barriers that hinder effective financial management: financial anxiety, lack of confidence in dealing with financial institutions, and past negative experiences. Addressing these factors is crucial to designing supportive interventions that genuinely foster financial inclusion.

Policymakers must tackle these disparities while also addressing broader demographic trends, such as rapid population aging. Structural factors—including low pension contribution rates, high informality in the labor market, and inadequate social security coverage—further exacerbate financial vulnerability, particularly among older adults.

Some challenges faced by vulnerable groups include:

- **Limited access to financial services.** Many vulnerable groups face physical, economic, and eligibility constraints that lead to financial exclusion. Lack of formal identification, strict credit requirements, and high transaction costs are common barriers to accessing essential financial products.
- **Low financial literacy.** This disproportionately affects vulnerable groups, increasing their risk of financial instability. Many individuals lack the knowledge required to manage their personal finances, leading to challenges in budgeting, saving, and managing debt.
- **Informality and pension gaps.** High levels of informality in labor markets result in irregular pension contributions, reducing retirement security. Many workers in nonstandard jobs or self-employment lack access to pension schemes, fueling old-age poverty.
- **Erosion of family support systems.** Urbanization and demographic shifts are weakening traditional family-based support systems for older adults, increasing their reliance on financial products and public protection mechanisms.

- **Mistrust of financial institutions.** Historical exclusion, fraud, and high fees have created skepticism, which must be addressed through targeted financial education and customer-centric banking solutions.
- **Health and insurance constraints.** Limited access to affordable insurance reduces older adults' ability to seek preventive healthcare, leading to worsening health outcomes and increased economic insecurity.

## 2. Silver economy

The silver economy refers to the economic opportunities that emerge from an aging population. As life expectancy rises and birth rates decline, the proportion of older adults within the total population is increasing significantly. In LAC, the percentage of people aged 60 and older is projected to double by 2050, reaching 25% of the total population—up from the current 12%.

This demographic shift presents both economic challenges and opportunities. Older adults are becoming more active participants in consumer spending while simultaneously driving demand for pension payments and healthcare services. At the same time, this change is creating opportunities for financial institutions to develop tailored products and services, such as retirement planning, healthcare financing, and accessible credit options. As a result, businesses and policymakers must adapt to meet the evolving needs of this growing demographic.

Governments and financial institutions are already beginning to develop inclusive financial products that cater to the specific needs of older adults. The International Finance Corporation (IFC) has launched the Silver Economy Initiative, aimed at fostering innovative financial services for the aging population. Through targeted advisory services, financial institutions can better understand this demographic's economic profile and create value propositions that enhance financial inclusion while unlocking new economic potential.

In some LAC countries, financial products specifically designed for older adults are already in place. These products cover retirement income, healthcare, and long-term care financing and are described in more detail below.

- **Reverse mortgages** allow homeowners, typically aged 60 or older, to convert a portion of their home equity into cash while continuing to live in the home. Unlike traditional mortgages, borrowers are not required to make monthly payments; instead, the loan is repaid when they sell the home, move, or pass away. These products provide retirees with additional income but can reduce the value of their estate over time.
- **Retirement savings and pension products** help individuals save and generate income for retirement. They include employer-sponsored plans, government pension schemes, and private pension funds. Some plans offer tax advantages, investment options, and flexible withdrawal rules, allowing retirees to maintain financial stability during their postworking years.
- **Long-term care insurance** provides financial coverage for extended healthcare needs, such as nursing home care, assisted living, and in-home care.

- **Senior-friendly investment and annuity products** are insurance contracts that provide regular payments, either for life or a fixed period, in exchange for a lump sum or series of payments. They help retirees manage longevity risk by ensuring they do not outlive their savings.

Despite these advances, the lack of market-specific data on this segment poses a significant challenge. Limited insights into the financial behaviors, preferences, and vulnerabilities of older adults make it difficult to design tailored financial solutions. Addressing this data gap through targeted research and inclusive financial strategies is essential to fully integrate older adults into the region’s economic landscape. As LAC countries continue to experience demographic shifts, ensuring the financial well-being of older adults and other vulnerable groups must remain a top priority.

### **3. Recommendations on vulnerable groups and the Silver Economy**

#### **A. Collaborative financial solutions for vulnerable groups**

Financial products aimed at mitigating risk and inequality among vulnerable populations should be developed through collaborative public–private partnerships. Government agencies, financial institutions, nonprofits, and community organizations can each contribute their expertise to ensure these products address the specific needs of target groups.

By co-producing financial solutions, stakeholders can integrate diverse perspectives, combining financial sustainability with social impact. This approach enhances the relevance and accessibility of products, ensuring they effectively support vulnerable communities in managing risks and improving their economic stability.

#### **B. Leveraging technology for inclusive digital banking**

New technologies can revolutionize financial inclusion by providing secure, efficient, and affordable digital banking services to vulnerable and unbanked populations. The design of these innovations should address diverse financial needs—for example, older adults may require less digital interaction and more in-person support. Technology can also help overcome tangible and intangible barriers that hinder trust and engagement, making financial systems more accessible to those who need them most.

To maximize the benefits of digital inclusion, policies should prioritize the use of technology. By promoting digital literacy, ensuring strong cybersecurity protections, and fostering regulatory frameworks that encourage innovation, governments and financial institutions can create a more inclusive financial ecosystem that empowers marginalized communities.

#### **C. Strengthening pension systems through early action and long-term reform**

To ensure the sustainability and adequacy of pension systems in LAC, policies should focus on starting social protection measures at an early age, especially for children from disadvantaged backgrounds. Such initiatives should guarantee access to high-quality childcare services and early childhood education, reduce school failure, improve low-performing disadvantaged schools, counteract early school leaving, and combat gender

stereotyping early at school. Key reforms should also focus on creating a more resilient and equitable pension system that can adapt to demographic and economic changes.

#### **D. Adapting a regulatory framework for the silver economy and promoting financial innovation for an aging population**

As populations age and life expectancy increases, the economic potential of older adults is becoming increasingly evident. However, current regulatory frameworks often act as barriers that prevent the private sector from effectively serving this growing demographic. Governments must recognize that outdated regulations fail to accommodate the evolving needs of aging populations, thereby limiting access to tailored goods, services, and financial products.

To foster a more inclusive and dynamic silver economy, regulatory models should be updated to reflect the economic vitality of older individuals. This includes promoting financial innovation by facilitating the creation of products designed specifically for aging consumers. By modernizing regulations, policymakers can encourage private-sector participation, ensuring that older adults have access to the resources they need to maintain their quality of life and contribute to economic growth.

#### **E. Bridging the gap in financial education**

Financial education is fundamental to equipping young people with the skills and knowledge they need to manage personal finances. It empowers them to make informed decisions, manage budgets, save, invest, and borrow responsibly. It also builds credit awareness, reduces financial stress, and prepares them for the future. To ensure these benefits reach everyone, governments play a pivotal role in guaranteeing equitable access to financial literacy for all citizens, irrespective of their socioeconomic status, through comprehensive, state-led strategies (OECD, 2024).

Empowering young people through financial education promotes long-term financial well-being and rational decision-making. Studies show that financially educated individuals are more likely to save for retirement and experience lower financial stress. Furthermore, financial literacy fosters a cycle of knowledge that benefits future generations, strengthening overall economic stability.

The benefits extend beyond individuals and contribute to a financially resilient society. Financially educated young people are better equipped to handle economic challenges and navigate an increasingly complex financial world. Organizations like Junior Achievement emphasize how financial literacy empowers young people to take control of their financial future.

## **4. Current challenges and barriers in financial education**

### **A. Gender disparities in financial literacy**

- The OECD reports the existence of gender differences in financial knowledge across 16 surveyed countries. In all cases, men scored higher than women.

- A lack of understanding of basic financial concepts reduces women’s ability to access and use appropriate financial products, start small businesses, build emergency or retirement savings, and choose financial products that match their needs.
- Research by BBVA and Junior Achievement Argentina (BBVA, 2023) highlights the gender gap in financial confidence and skills: while 57% of men in Argentina report feeling confident in managing their money, only 21% of women say the same.

## **B. Youth and financial education**

- In the era of digital finance, young people have increasing access to digital financial services. The PISA 2022 assessment evaluated financial literacy in 20 countries, finding that many students engage in basic financial activities from a young age. Nonetheless, the lack of formal financial education at school leaves students vulnerable to risks like data breaches or online scams.
- The World Economic Forum (2024) notes that young people are actively investing in capital markets, with 70% of retail investors under the age of 45. Nonetheless, global financial literacy rates for young people remain below 50%, pointing to a significant gap between participation and knowledge.

## **C. Barriers for low-income communities**

- The PISA 2022 assessment also shows that socioeconomically advantaged students outperform their disadvantaged peers, with the background accounting for 12% of the variation in performance. Students from disadvantaged socioeconomic backgrounds not only score lower in financial literacy but also have fewer opportunities to learn about money.

## **D. Financial literacy in older adults**

- According to the World Bank, financial literacy and inclusion among older adults often remain inadequate, resulting in low lifetime savings and poor planning for later years. The rapid digitalization of financial services may compound these challenges. Older adults who lack digital literacy skills may struggle to access online banking and financial management tools. This digital divide affects the way they interact with and learn about financial resources.

## **Part V.**

### **Recommendations on financial literacy and education**

#### **1. Government support through national financial education plans**

Coordinated, government-led plans are essential to ensure that everyone—even the most marginalized—can access reliable financial information. Governments play a key role in guaranteeing equal opportunities to acquire financial literacy at school, regardless of students' socioeconomic backgrounds. A concrete way to achieve this is to adopt a national financial education plan that spans the entire education system, including teachers' training, strengthens citizens' financial capabilities with special attention to socially and economically vulnerable groups, and equips everyone to use financial products and services responsibly.

Governments should seek to boost young people's financial literacy, enabling them to understand key financial concepts and the risks and rewards of financial products. Stronger financial literacy not only improves students' short-term money management but also helps them make smarter financial decisions as they grow older.

Policymakers must also support young people in navigating digital financial services, putting safeguards in place to ensure they are protected from online scams, predatory lending, and online gambling. Some countries have already made financial literacy a mandatory component of the school curriculum, but these efforts need to be deepened.

#### **2. Digital, interactive, and accessible on-demand financial literacy programs**

There is an urgent need for more online platforms that provide reliable and trusted financial learning opportunities, helping people develop positive attitudes toward financial services. The focus should be on creating interactive, participatory learning environments by integrating dynamic digital tools and practical activities that deepen financial literacy using real-life examples to facilitate understanding and help students connect concepts to their everyday experiences. Nationally coordinated, digital on-demand programs should complement financial inclusion initiatives led by financial institutions and other strategic partners, so they can extend quality learning opportunities to diverse audiences at scale.

#### **3. Tailored solutions for vulnerable and underserved populations**

Financial literacy programs must address the specific challenges faced by specific groups in accessing financial education, services, and programs:

**Low-income communities** need programs that reflect the structural challenges of accessing financial education, services, and programs.

**Women** need gender-sensitive approaches that build their confidence in their financial decision-making abilities and help them become financially independent. National financial literacy strategies should explicitly include women and/or girls as target groups.

Older adults need support in developing their basic digital literacy skills and awareness of digital financial tools, with a particular focus on fraud prevention. Programs should address retirement planning and provide clear information on public and private pension schemes.

## **4. Cross-sector advisory boards to coordinate solutions**

To address financial literacy needs holistically and at scale, solutions must incorporate insights from the private, public, and third sectors, ideally through cross-sector advisory boards. Private corporations can co-create educational initiatives that reflect the realities of the financial system and support technology-enabled delivery. Public authorities and civil society organizations can help ensure broad reach and inclusiveness by tailoring programs to gender, cultural, and age-specific needs. Finally, the voices, experiences, and success stories of grassroots organizations should be included to demonstrate value and gain insights from community-based solutions.

## **5. Cybersecurity and consumer awareness**

### **A. Cybersecurity threats and challenges**

Cybersecurity is integral to sustaining the growth of digital financial services and ensuring equitable financial inclusion. As emerging economies continue to embrace digital financial services, they must also strengthen their cybersecurity frameworks to protect institutions and consumers from evolving threats.

Cybercrime has become a major concern in developing and emerging financial markets, threatening global efforts to build more inclusive financial systems. As digital financial services expand, so do the risks associated with cyber threats, particularly in regions like LAC, which are experiencing a rapid increase in cybercrime and data breaches. As developed economies fortify their defenses, cybercriminals are shifting their focus to emerging digital financial services markets, exploiting vulnerabilities and putting inclusion at risk.

Cybercriminals frequently exploit weaknesses across the entire digital financial services ecosystem, including service providers, payment and settlement systems, point-of-sale networks, regulators, and customers. In this way, they gain unauthorized access to critical information that can be monetized through fraudulent activities. The most common cybercrime-related threats include:

**Phishing:** Attempts to trick individuals into revealing sensitive information (like passwords, credit card numbers, or personal data) by posing as a trusted entity, often via email or fake websites.

**Distributed Denial of Service (DDoS):** Flooding a target server or network with traffic, overwhelming it and causing service outages or slowdowns.

**AI fuzzing:** Using AI-generated random or unexpected inputs (“fuzz”) to test software applications or systems for vulnerabilities that attackers could exploit.

## **B. Cybersecurity risk management**

Human error remains the leading cause of both intentional and unintentional cyberattacks on companies, whether through breaches in the protection of confidential information or coding errors that create vulnerabilities. Both employees and customers need to be aware of these risks to prevent such incidents. Employee awareness and training in cybersecurity best practices help reduce the likelihood of human error, while customer education helps individuals remain vigilant against potential threats, safeguarding both personal and organizational data.

Many governments in emerging markets have begun implementing cybersecurity strategies to establish risk management standards and define liabilities. However, effectively monitoring and managing cybersecurity risks requires expertise and resources that many developing economies lack, including: i) a shortage of skilled cybersecurity professionals with sufficient experience; ii) limited training centers to develop cybersecurity capabilities; iii) a lack of specialized cybersecurity assessment and penetration analysis providers; and iv) insufficient financial resources.

Cybersecurity is no longer just a technological issue but a fundamental pillar of consumer trust and financial inclusion. The Global Findex Database 2021 (World Bank, 2022) revealed that 76% of the global population now holds a financial account, demonstrating significant progress. However, the rising adoption of digital financial services also increases exposure to financial risks, including fraud and predatory practices.

According to a joint survey by McKinsey and the Institute of International Finance on financial institutions’ current and planned use of emerging technologies, the financial sector is increasingly adopting innovations such as:

- **Cloud migration systems.** These offer enhanced resilience and advanced security, often surpassing on-premises infrastructure. However, security is a shared responsibility, and misconfigurations or poor governance can still expose institutions to risks such as data breaches or cyber espionage.
- **Applied AI and generative AI.** These are increasingly used for tasks like credit scoring and fraud detection, but they raise regulatory challenges around bias and data privacy. Governments and international organizations are developing regulations to address the risks associated with AI decision-making and data security—the EU’s AI Act is one such example.
- **Next-generation software development and trust architecture.** Modern approaches like infrastructure as code and automated security testing improve efficiency and reduce errors. However, weak implementation can expose companies to vulnerabilities. Ensuring that development teams follow secure integration practices is critical to mitigating these risks.

The shift to remote work models has forced cybersecurity teams to address new risks while contributing to value creation in an increasingly digital environment. The rapid transition to remote operations following the COVID-19 pandemic exposed vulnerabilities in corporate security.

As employees and customers adapt to this new business environment, companies are prioritizing various strategies to strengthen their risk controls. One key focus is enhancing security in new work models, which involves redesigning traditional cybersecurity methods into a remote operational approach and strengthening cloud infrastructure. Ensuring the protection of customer information has also become essential, requiring the use of advanced analytics tools and the integration of privacy regulations from the earliest stages of digital platform design.

Digital forensics is emerging as an important tool for compliance and auditing in the financial sector, especially given that nearly 70% of cybercrimes occur within the finance industry. Cyber attackers often target SMEs, highlighting the need for financial institutions to continuously reinforce their security measures.

To meet these challenges, many regulatory technology (RegTech) start-ups are offering innovative solutions. These include fraud prevention technologies that integrate with existing security systems and gather real-time information to detect regulatory breaches and suspicious activities. They use advanced technological tools to prevent data breaches before they occur and provide robust protection for data generated during KYC processes and onboarding. Raising awareness among both employees and customers is crucial in these efforts, as it ensures proactive vigilance and better protection of sensitive data.

### **C. Recommendations on cybersecurity**

In the face of rapidly evolving cyber threats, collaboration within the cybersecurity industry is essential to strengthening security measures across organizations. Cybercriminals often exploit the lack of information sharing and coordination between sectors, making it harder to establish a unified defense. Raising awareness among employees and customers is a key component of effective protection, fostering proactive vigilance and ensuring better protection of sensitive data.

Many start-ups in the RegTech sector are providing innovative solutions—such as AI, machine learning, and automation—which can help streamline compliance, improve risk management, and facilitate efficient security information sharing.

Adopting innovative fraud prevention technologies that integrate real-time monitoring can help detect regulatory breaches, prevent data leaks, and secure sensitive information in KYC and onboarding processes. By proactively identifying vulnerabilities, businesses can enhance threat detection, ensure swift responses to cyber risks, and maintain compliance with industry regulations.

### **D. Common rules and policies that protect users from cyberattacks**

Public policies should encourage the adoption of unified cybersecurity standards to ensure a more secure and cohesive global digital environment. Inconsistent cybersecurity regulations across countries often create vulnerabilities, leaving systems exposed to cyber

threats, especially as digital transactions increasingly cross borders. The lack of standardization and interoperability of regulatory frameworks can generate confusion for businesses operating internationally and hinder cooperation in the event of cross-border cyber incidents.

The United Nations has already established a general framework for international rules on information transfer, providing a foundation for countries to align their cybersecurity policies. This framework encourages states to adopt common standards for information protection and exchange, facilitating easier collaboration on security matters.

Such policy-driven efforts would strengthen global cybersecurity defenses, promote more seamless international operations, and create a more secure and predictable digital environment.

#### **E. Employee training and cybersecurity culture**

Companies should prioritize employee training and foster a strong cybersecurity culture as key components of their overall cybersecurity strategy. Human error remains one of the leading causes of security breaches, whether through phishing attacks, weak passwords, or unintentional data exposure. Investing in comprehensive and ongoing training programs for all employees is essential to reducing the risk of security incidents.

Equally important is building a culture of cybersecurity throughout organizations, such that security becomes a shared responsibility that is ingrained in every aspect of the company's operations. Such a culture encourages employees to remain vigilant, report suspicious activities, and adhere to best practices, ultimately creating a more resilient and security-conscious workforce. By combining technical measures with human-centered strategies, companies can significantly enhance their cybersecurity posture and reduce the likelihood of successful cyberattacks.

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