

# Technical Cooperation Document

## I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Financial Inclusion as an Opportunity for Latin America and the Caribbean (LAC)
▪ TC Number:	RG-T4419
▪ Team Leader/Members:	Herrera Falla, Diego Mauricio (IFD/CMF) Team Leader; Zarate Moreno, Ana Maria (IFD/CMF) Alternate Team Leader; Barahona Cortes Patricia (ORP/GCM); Barbosa Taves De Gouvea, Heleno (ORP/REM); Diaz Gill Virginia Maria (LEG/SGO); Karina Azar (IFD/CMF); Marquez, Claudia (IFD/CMF); Martinez Lopez, Cynthia (IFD/CMF); Nicolas Moreno (ORP/GCM); Sahara De La Torre Ortiz (IFD/CMF); Sarmiento Monroy Jaime Andres (IFD/CMF); Urquijo, Lee (ITE/IPS)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	.
▪ Beneficiary:	LAC Countries public institutions such as Central Banks, Financial Regulators and Supervisors and Policy Makers
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Project Specific Contribution Account(PSC)
▪ IDB Funding Requested:	US\$1,030,279.00 <sup>1</sup>
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	15 Jan 2024
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	IFD/CMF-Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	IFD/CMF-Connectivity Markets and Finance Division
▪ TC included in Country Strategy (y/n):	n/a
▪ TC included in CPD (y/n):	n/a
▪ Alignment to the Update to the Institutional Strategy 2020-2023:	Social inclusion and equality; Productivity and innovation; Economic integration; Institutional capacity and rule of law; Gender equality

## II. Objectives and Justification of the TC

2.1 **Justification.** Financial inclusion is a state where people and firms can access and use financial services, products, and information that meet their needs. Financial inclusion means access to payments, savings, credit, investments, and insurance. The literature shows how periodic use of financial services can help reduce poverty by facilitating payments, enabling savings to reduce households' cash flows volatility, generating access to basic insurance for health emergencies, and many other

<sup>1</sup> PSG by the Grand Duchy of Luxembourg. The Grand Duchy of Luxembourg expects to commit EUR€950,000 to this project, which is equivalent to US\$1,030,279, based on the FX Exchange Report from FIN Department intranet website as of November 15, 2023.

examples.<sup>2</sup> Through financial inclusion, LAC Countries can empower women, immigrants, rural, and elderly populations, at the time that it can promote economic growth, and improve financial stability through better access to financial services for real sector businesses, enabling competition and robust infrastructures that support financial systems.

- 2.2 Latin America and the Caribbean -LAC- has a significant opportunity for financial inclusion. On the one hand, for individuals, according to the Global Findex, one of the most frequently used metrics for access to financial services, the percentage of the adult population with access to a financial services account, increased significantly in our region, from 51% in 2017 to 73% in 2021.<sup>3</sup> As with every average, this number does not recognize that many countries in the region still have challenges with account access, especially in payments, and that differences in access persist for women, who are seven percentage points less likely than men to have an account in the region. A similar logic applies to the poorest populations or older adults who still lag in account access. Hence, there is an opportunity to change the lives of individuals. On the other hand, Micro, Small, and Medium Enterprises (MSMEs) face substantial barriers that deter them from accessing credit. According to the MSME Finance Gap, the difference between the demand and the supply for MSME credit in the region is as big as 35% of the regional Gross Domestic Product.<sup>4</sup> As with individuals, the region has a challenge in financing business.
- 2.3 As a result of this challenge, increased access to mobile technology, and the dynamics caused by COVID-19, the fintech ecosystem in LAC has grown significantly in recent years, demonstrating its potential to address some of these gaps. Since 2018, the region went from having 1,166 platforms to 2,482 in 2021. In terms of the platform distribution per country in LAC, Brazil has the most significant number of platforms (31% of the total), followed by Mexico (21%), Colombia (11%), Argentina (11%), and Chile (7%). Analyzing by segments, payments consolidate itself as the most important one, driven by recent regulatory developments in Brazil and Mexico, with 25% of the total, followed by Digital Lending (19%), business technology solutions for financial institutions (15%), and enterprise financial management (11%). On the other hand, in terms of growth, Digital Banking (57%), business technology solutions for financial institutions (49%), insurtech (46%), and lending (45%) are the most relevant segments.<sup>5</sup>
- 2.4 LAC's digital payments segment has been particularly dynamic, with an average year-to-year growth of 36% since 2017. One great example of this growth and Fintech's potential for financial inclusion is PIX, the Central Bank of Brazil's Fast Retail Payment System -FRPS. Starting in December of 2020, PIX has increased the participation of financial institutions reaching a total of 793 in November 2023, of which 586 (74% of the total) are credit cooperatives, followed by 93 payment institutions (12%) -with a majority of FinTech's. By the end of 2023, PIX had 147 million individual users, (equivalent to two-thirds the total population of Brazil), and more than

---

<sup>2</sup> Demircuc-Kunt, Klapper and Singer. 2017. [Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence](#). World Bank. Retrieved November 14, 2023.

<sup>3</sup> See: [The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19](#), The World Bank, retrieved on 11/13/2023.

<sup>4</sup> See: [MSME FINANCE GAP](#), SME Finance Forum, retrieved on 11/13/2023.

<sup>5</sup> Inter-American Development Bank and Finnovista. [FINTECH in Latin America and the Caribbean: A Consolidated Ecosystem for Recovery](#), 2022, IDB, Retrieved on 11/14/2023.

462 million accounts connected to the platform and more than 3.8 million monthly transactions.<sup>6</sup> PIX allow FinTech's to amplify the potential of technology for financial inclusion. Another example is the issuance of specific regulations for developing a payment system based on the principles of interoperability and competition in Colombia with the support from the IDB. Among others, the regulation addresses aspects such as the characteristics of payment orders and/or immediate fund transfers, access technologies such as keys and QR codes, directories, clearing and settlement.<sup>7</sup>

- 2.5 While the region has advanced in the creation of an enabling environment for the development of innovation financial and payment services, including technological platforms and regulatory frameworks to promote financial inclusion, more is needed across the region: only five countries have functional FRPS, and only one (Brazil) has implemented open finance. This TC, in partnership with Luxembourg,<sup>8</sup> addresses the need for building the critical mass necessary to achieve these objectives, building on the Bank's current projects and experiences. The realization of increased financial inclusion becomes feasible by working within a triad comprising: (i) implementation of appropriate public policies, which include regulation and institutional capacity; (ii) fostering enabling technology and supporting market infrastructures to stimulate private sector competition; and (iii) knowledge creation through academic documentation, seminars, and cross-knowledge among jurisdictions in the region. In this line, the Dominican Republic, Uruguay, Colombia and Ecuador have identified the need and prioritized actions for the development of digital innovations key for financial inclusion nowadays, such as payment services and open finance.
- 2.6 To this extent, the IDB Group has been working towards supporting regulations, institutional capacity, and knowledge through initiatives that involve the public and private sectors. With an extensive ongoing agenda, the IDB public-private network FintechLAC, aims to increase the levels of digital financial inclusion in LAC, and could be an opportunity to leverage Luxembourg's efforts. For instance, through the network, the IDB has supported the issuance of laws and regulations that have enabled an enhanced supply of financial services in Mexico, Chile, and Brazil. Also, the IDB supports the issuance of regulations to modernize the payment system in Colombia, Ecuador, and Suriname. Regarding the development of institutional capacity, the IDB have advised the governments of Costa Rica, El Salvador, and the Dominican Republic in the development of their Financial Innovation Hubs and is cooperating to implement a multi-jurisdictional Innovation Hub for the Pacific Alliance countries. In conjunction with the University of Cambridge, the IDB have also supported training for more than 200 public servants from financial authorities of 18 countries on Fintech, Blockchain, and Open Finance. Finally, the Bank is supporting the development of institutional capacity through a challenge to fintech companies in Colombia to

---

<sup>6</sup> See: [Pix Statistics - Data related to Pix keys](#), Banco Central do Brasil, Retrieved on 11/14/2023.

<sup>7</sup> See: [Resolución Externa 6 del 31 de octubre de 2023 "Por la cual se expide la regulación sobre la interoperabilidad en los sistemas de pago de bajo valor inmediatos](#) and [Circular Reglamentaria Externa DSP-465 del 31 de octubre de 2023, Asunto 18: Interoperabilidad de los Sistemas de Pago de Bajo Valor Inmediatos](#), BANREP, Retrieved on 11/14/2023.

<sup>8</sup> Luxembourg is not a member of the IDB but has expressed interest in starting to build a relationship with the Bank. The proposed contribution will mark a first milestone in the relationship with the Grand Duchy. In this context, the Luxembourg contribution is instrumental to (i) set the starting point for a longer-term relationship with Luxembourg, and (ii) allow for donor funds to complement the IDB's own resources used in the framework of the partnership with BIS.

participate in the regulatory sandbox of the Financial Superintendence of Colombia. Regarding knowledge, this is an essential part of IDB's work. The Bank generates public goods, such as FintechRegMap,<sup>9</sup> which graphically displays the state of regulation of fast retail payment systems, crowdfunding, trading and robo-advisors, open finance, crypto-assets, regulatory sandboxes, and innovation hubs. All of this is done in constant public-private dialogue, in which twenty-three financial regulators and supervisors participate, thirteen fintech associations and chambers, the Fintech Ibero-American association, banks, and infrastructure providers of the financial system, among other actors. IDB's partners are decision-makers in FintechLAC activities. The ongoing efforts include building infrastructures, open finance, payments regulations, and knowledge building, among others.

- 2.7 **Objective.** This TC aims to support LAC countries in creating an enabling environment to promote digital financial inclusion and payments, allowing for an increase in financial services that can meet the needs of individuals and firms. The specific objectives of the project are: (i) to design and implement effective public policies to enable digital financial inclusion, and market infrastructures including payments, which include regulation and institutional capacity; (ii) to promote the development of enabling technology and supporting market infrastructures to foster private sector competition and innovation; and (iii) to generate policy-relevant knowledge and dissemination of lessons learned on digital financial inclusion and digital payments.
- 2.8 **Strategic alignment.** This TC aligns with the Second Update of the Institutional Strategy 2020-2023 (AB-3190-2) and is aligned with the development challenge of: (i) Social inclusion and equality by contributing to social inclusion and equality by promoting digital financial inclusion of populations excluded or underserved by the financial sector such as rural populations; (ii) Productivity and Innovation by supporting the development and deploying instruments that nurture innovation in the financial sector and supporting countries in creating capacities in regulators, supervisors, and other public sector actors, an innovative sector by nature; and (iii) Economic Integration by harmonizing market infrastructures and regulations allowing for greater coordination and the achievement of common objectives, including cross-border transactions. It is also aligned with the cross-cutting themes of: (i) Institutional Capacity and the Rule of Law by informing improvements in public policy interventions and service delivery; and (ii) Gender Equality, as the TC will contribute to promoting the inclusion of vulnerable populations traditionally excluded or underserved by the financial sector. The project will include the gender perspective in their activities and products when relevant. It is also aligned with the operational area of emphasis, "promoting technology adoption and innovation". Additionally, the TC is consistent with the Long-Term Financing Sector Framework Document (document GN-2768-12) as the project will contribute to the promotion of the technological transformation of the financial sector by fostering the development of digital financial inclusion and fintech; as well as with the Gender and Diversity SFD (GN-2800-13) when contemplating the role of MSMEs led or owned by women.
- 2.9 **Complementarity.** This TC complements IDB's initiatives expected to support Governments in the region towards the enhancement of institutional capacity for Fintech ecosystem public actors such as "Support to the Development of Fintech Institutional Frameworks, Policies, and Regulations in LAC" ([ATN/OC-17042-RG](#)),

---

<sup>9</sup> See: [FINTECH LAC Initiative](#), IDB, 2023.

Support to public policies and institutional capacity for the development of Fintech in Latin America and the Caribbean ([ATN/OC-19844-RG](#)), Toward Regulatory Convergence for the Fintech Regional Ecosystem ([ATN/OC-16998-RG](#)), "FINLAC: Knowledge and Dissemination Initiative on Financial Inclusion" ([ATN/OC-19379-RG](#)), Gender Disaggregated Data for Financial Inclusion II ([ATN/OC-18918-RG](#)); Institutional Support for the Consolidation of the Digital Financial Inclusion Ecosystem in Latin America and the Caribbean ([ATN/OC-19123-RG](#)), Supporting E-Commerce through New Technologies ([ATN/OC-17623-RG](#)), and Deepening of the Program to Strengthen Cross-Border Electronic Transactions in Latin America and the Caribbean (in process of approval) among others. Those projects have been instrumental in promoting regulations and strengthening institutional, legal, and ecosystem particularities in Argentina, Brazil, Chile, Mexico, Paraguay, and Peru, among others. This TC builds upon those results and lessons learned. This TC will complement the funding efforts from Support for developing digital financial inclusion in Latin America and the Caribbean (RG-T4403) through enabling institutional capacity development required for the development and implementation of market infrastructures beyond payments in LAC. Moreover, this TC will complement the regulatory efforts for creating new markets infrastructures. Furthermore, this TC will allow for synergies with IDB Invest, and IDB Lab, in terms of public-private dialogue, technology expertise, infrastructures development, among others. Finally, the TC will allow for cooperation with other multilateral organizations such as Bank for International Settlements -BIS-, Alliance for Financial Inclusion -AFI-, and the G-20 countries initiative Global Partnership for Financial Inclusion -GPFI-, to mention a few.

- 2.10 **Beneficiaries.** Considering the research and dissemination nature of the TC, the project will benefit all member LAC countries, specifically public institutions including Central Banks and financial regulators and supervisors, among other relevant authorities. However, some activities will benefit a specific country. In those cases, the country will be prioritized against demand. The eligibility criteria will be: (i) before starting any activity, that involves physical presence in the territory of a beneficiary country, a letter of no-objection will be requested from the liaison entity in that country; (ii) beneficiary will commit to designating a technical focal point to work with the IDB, and (iii) beneficiary must demonstrate a strong interest in implementing institutional or policy reforms for digital financial inclusion. The TC will prioritize a geographical balance within the LAC region if there is an overdemand.

### III. Description of activities/components and budget

- 3.1 This TC will be supported by the following components:
- 3.2 **Component 1. Public policy and institutional capacity for digital financial inclusion (US\$360,598.00).** This component aims at creating institutional capacities and public policy frameworks conducive to digital financial inclusion and fit for the digital age.
- 3.3 **Activity 1.1. Regulatory support.** Technical assistance activities to issue regulations on payments, open finance, and in general, financial inclusion enablers. This includes: (i) supporting financial sector regulators in providing inputs and advice for the design of fintech laws, regulations, rules, and strategies that enable open finance, and crowdfunding, among other verticals; and (ii) the assessment of the status of different verticals and technical assistance for assessing alternatives and policy interventions for promoting digital financial inclusion and innovation in the market.

- 3.4 **Activity 1.2. Institutional Capacity.** Activities will aim at building or enhancing institutional capacity at the level of central banks, financial regulators, and supervisors. Funds may be used for financing consultancies, assessments, and analysis aiming for: (i) the structural re-organization or supervisory, regulatory, and policy public agencies, including the building of capacity for regulation or supervision units for Financial Inclusion; and (ii) the implementation of tools, methodologies, and technologies to improve the regulatory or policy function. Institutional capacity includes trainings, internships, meetings and workshops related to the Fintech ecosystem and implementation capacity, and other related activities that could strengthen the institutional capacity of the public sector.
- 3.5 **Component 2. Enabling technology and supporting market infrastructures as Regional Public Goods (US\$360,597.00).** This component aims to contribute to creating regional public goods such as open-source back-end infrastructures that could help smaller jurisdictions in our region advance in building safe, sound, and robust financial market infrastructures such as those needed for FRPS. The infrastructures could work as non-similar facilities for larger jurisdictions to back up payments and settlement infrastructures. This component will complement the IDB Group current work with the Bank for International Settlements -BIS-, or any other initiative developing regional public goods for market infrastructures. It could extend to developing pilots with central banks and other financial authorities.
- 3.6 **Component 3. Policy-relevant knowledge and dissemination (US\$309,084.00).** This component aims to systematize and disseminate policy-relevant knowledge products and lessons on financial inclusion, Fintech, and other related topics. These knowledge products include assessments with specific public policy orientations, the development for standards such as Application Program Interfaces -API- Level 3, and ISO 20022 for payments in LAC which have been highlighted as a necessity by LAC governments. IDB has been leading the topics related to Fintech with more than 20 publications on Fintech and financial inclusion. Publications will promote the communication and dissemination of knowledge and lessons learned and are an instrument to strengthen best practices in the field. Activities include encouraging policy discussions within the private and public sector, meetings, presentations, seminars, and regional events, to exchange best practices; and academic and discussion documents stemming from the experiences. This component will also finance the evaluation of the project at the end of execution.
- 3.7 **Budget.** The total cost of this TC will be US\$1,030,279.00 which will be financed by a Project Specific Grant (PSG) provided by the Grand Duchy of Luxembourg to be disbursed and executed in 36 months. A potential extension of these period will follow IDB policies and procedures and will be consulted with Grand Duchy of Luxembourg.
- 3.8 The Ministry of Finance of the Grand Duchy of Luxembourg expects to commit EUR\$950,000 to this project, which is equivalent to US\$1,030,279, based on the FX Exchange Report from FIN Department intranet website as of November 15, 2023. Final resources in US dollars will be dependent on the exchange rate of the date when the resources are received by the Bank and converted into US dollars. If a significant adverse fluctuation in the exchange rate reduces the amount of US dollars in this budget and such amount cannot be covered by the contingency line, the project activities will be decreased appropriately, and the budget will be adjusted accordingly by the project team.

- 3.9 Resources of this project to be received from The Ministry of Finance of the Grand Duchy of Luxembourg through a Project Specific Grant (PSG). A PSG<sup>10</sup> is administered by the Bank according to the "Report on COFABS, Ad-Hocs and CLFGS and a Proposal to Unify Them as Project Specific Grants (PSGs)" (Document SC-114). As contemplated in these procedures, the commitment by The Ministry of Finance of the Grand Duchy of Luxembourg will be established through a separate Administration Agreement. Under such agreement, the resources for this project will be administered by the Bank.
- 3.10 Resources will be allocated for the project evaluation by the end of the execution of the TC. The evaluation will assess the achievement of objectives and indicators and provide lessons for future similar initiatives.
- 3.11 The contribution will finance the hiring of consulting services (individual & firms) for the development of the activities. The table below details this budget:

**Table. Indicative Budget in US\$**

Component	Description	IDB/PSC	Total Funding
<b>Component 1</b>	<b>Public policy and institutional capacity for digital financial inclusion</b>		
	- Technical support to three (3) financial regulators in issuing regulations and/or rules.	195,753	<b>195,753</b>
	- Support to two (2) financial regulators or supervisors to assess institutional capacity and provide recommendations.	103,028	<b>103,028</b>
	- Stock-taking of regulations (regional).	61,817	<b>61,817</b>
<b>Component 2</b>	<b>Enabling technology and supporting market infrastructures as Regional Public Goods</b>		
	- Development of one (1) digital open-source infrastructure (FuSSE).	257,570	<b>257,570</b>
	- Creation of capacities in four countries (4) in new technologies for FRPS.	103,027	<b>103,027</b>
<b>Component 3</b>	<b>Policy-relevant knowledge and dissemination</b>		
	- Development of three (3) policy-relevant documents on financial inclusion, Fintech, and other related topics.	103,028	<b>103,028</b>
	- Dissemination of results and lessons learned in two (2) high level public-private dialogues.	190,602	<b>190,602</b>
	- One (1) project evaluation.	15,454	<b>15,454</b>
<b>TOTAL</b>		<b>US\$1,030,279</b>	<b>US\$1,030,279</b>

#### **IV. Executing agency and execution structure**

- 4.1 The TC will be executed by the IDB through its Connectivity, Markets and Finance Division (IFD/CMF) according to Annex II from OP-619-4. Through its experience and extended networks with governments and financial institutions in the region, the Bank will play a catalyzing role in the success of this TC. In accordance with the operational guidelines of technical cooperation products" (GN-2629-1) updated by the Procedures for the Processing of Technical Cooperation Operations" (OP-619-4). The Execution

<sup>10</sup> PSC stands for the account that the bank uses to receive and manage the contributions from the donors. These donations are received through a PSG, as it is mentioned further in the document.



of the IDB is justified by: (i) prior experience and knowledge of the IDB in the implementation of projects similar to the proposed; and (ii) regional and technical nature of the project, (iii) it is considered that the execution by the Bank will allow greater independence in a highly technical topic and would enhance the independence required for the objectives of the TC, and (iv) it is a Bank initiative that addresses the needs and priorities of the LAC region countries.

- 4.2 Procurement and financial management. All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be contracted in accordance with Bank policies as follows: (a) Regulation Complementary Workforce (AM-650) for Individual consultants; (b) Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-4) and its Guidelines (OP-1155-4) for consulting firms for services of an intellectual nature; and (c) IDB Corporate Procurement Policy (GN-2303-28) for logistics and other related services.
- 4.3 **Supervision and monitoring.** The project team will be responsible for the supervision and monitoring of the TC and preparing and submitting the project reporting to the donor, as well as for all other actions and deliverables pertaining to project execution and agreed with the donor in the Administration Agreement. The team will also facilitate biannual coordination meetings as agreed with the donor to discuss the progress of the activities and communicate significant developments.

## V. Major issues

- 5.1 A possible implementation risks of this TC are:

Risk taxonomy	Risk level	Risk and Mitigation Strategy
Institutional	Medium	Lack of updated and detailed data for the assessments and recommendations. To mitigate this risk, the team is working to strengthen strategic partnerships with relevant actors. Also, a close coordination with public sector counterparts will reduce the probability of difficulties in accessing key data and information.
Political	Medium	Based on the experience of previous operations, the TC has risks of having its products not fully appropriated or implemented by governments due to a change in priorities. To mitigate this risk, the team plans to coordinate closely with Governments to ensure the relevance of activities and products, and to conduct an aggressive communication and dissemination campaign.

## VI. Exceptions to Bank policy

- 6.1 There are not exceptions to Bank policies on this TC.

## VII. Environmental and Social Aspects

- 7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

## Required Annexes:

[Results Matrix\\_23977.pdf](#)



[Terms of Reference\\_30124.pdf](#)

[Procurement Plan\\_50990.pdf](#)