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**PART 5**

**WHAT'S NEXT ?**

# THE DIGITAL FINANCE REVOLUTION PUTS INVESTMENT INTO THE HANDS OF CITIZENS TO ACHIEVE THE SUSTAINABLE DEVELOPMENT GOALS

By Henri Dommel



## THE DIGITAL REVOLUTION WILL CONTINUE TO TRANSFORM LIVES AND ECONOMIES IN LDCS

Digital services have been a lifeline for billions of people to access basic services, sustain work and livelihoods, and achieve resilience during the COVID-19 pandemic. In the global South, many people used digital services for the first time, and most expect to continue to do so after the pandemic. The digital transformation of the economy has accelerated due to the swift response of the private sector, citizens and governments. This rapid change, which is only just beginning, is quickly making digital economies the 'new normal'.

The opportunity of our time is to harness this rapid change and to urgently invest in digital transformation to achieve the SDGs. The challenge of our time is to make digital economies inclusive and citizen-centric and ensure

that they 'leave no one behind'. UNCDF is working with many government partners, as well as the private sector, to overcome these challenges. In sharing insights from UNCDF's work, and that of our community in this report, we hope to convince leaders that the vision of inclusive digital economies should be embraced.

Digital finance is an important lever that will determine whether we achieve that vision, as it becomes embedded into the real economy and increasingly helps to shape it. Not only does digital finance provide the mechanisms to monetize and deliver products and services digitally, it also enables entirely new business models to reach low-income individuals more efficiently. In this way, digital finance is a critical onramp to digital economies.

The following two examples bring into focus the ways in which digital solutions can advance the SDGs. When considering the scale that digital solutions achieve and the transformational impact that they can drive for entire sectors, we see digital revolution in the making – one that can fast-track the SDGs.



- **Social protection.** More than 200 governments around the world introduced or expanded social transfer programmes for citizens in response to COVID-19.<sup>248</sup> Digital payments have enabled government-to-person (G2P) programmes to operate during social distancing measures and to scale in LDCs, from Bangladesh to Senegal. This success builds on earlier efforts to enhance the purchasing power of marginalized groups by bringing efficiency, transparency and improved targeting to government transfers and services, alongside initiatives to improve identification and registries.
- **Food security and livelihoods.** This paper has presented the stories of smallholder farmers in LDCs, such as Godson in Uganda and Mamadou in Guinea. At a time when many farmers like them are struggling financially, solutions are emerging that bundle game-changing finance and non-financial services and deliver services through digital and digitally-enabled providers. For example, the growth of 'agtech' services and platforms in Nepal and Uganda show that farmers can access improved financing, which can be used for better inputs, alongside tailored agronomic advice, and at the right time for reaching markets. Digital solutions also enable farmers to pay school fees in more flexible ways, which allows them to manage the seasonality of their cash flows. Examples such as these, where multiple and various services are brought together and made seamless, demonstrate the power of digital technology to contribute to improved farmer productivity and revenue. Digital solutions are not just addressing challenges faced by smallholders, but also those facing policymakers in LDCs, especially those focused on food security, jobs and work opportunities.

## SOLUTIONS TO THE MOST VITAL SDGs ARE NOW WITHIN REACH

Governments and world leaders are looking to 2030, especially during the Fifth UN Conference on LDCs in 2022, and considering how the setbacks of the pandemic will affect their plans to achieve the SDGs.

At a time when the pandemic has placed enormous stress on budgets, the acceleration of digital transformation is a 'silver lining', opening up more opportunities to solve some of the most pressing challenges that face governments in LDCs.

- **Climate action.** Renewable energy solutions, such as pay-as-you-go solar home systems, are now installed in almost 100 million homes. Digital solutions, including digital finance and sensors, have made much of this possible, especially in Africa. In addition to meeting the energy needs of marginalized rural communities, this is contributing to conservation and biodiversity preservation by reducing household demand for wood and charcoal. In this way, digital finance contributes to mitigating climate change. Digital services are also expanding catastrophic insurance cover and contributing to adaptation.
- **Food security.** With fast-growing populations in LDCs, especially those in Africa, there is an urgent need to expand food production. Productivity has to increase, as climate change threatens to make food production more erratic. Digital technologies stand to play a vital role in feeding growing populations. Digital solutions can protect farmers against weather risks through indexed insurance or encourage investment in climate-smart inputs. Examples in this report highlight how digital agriculture (agtech) solutions can contribute to related SDGs, such as climate action through adaptation with pay-as-you-go water pumps.
- **Expanding jobs and work opportunities.** Achieving food security is dependent on the strength of rural economies and farmer livelihoods. Expanding on-farm and off-farm opportunities, especially for the bulging youth demographic in many LDCs, is intricately linked to finance, skills and market access. The emergence of digital models to bring these services together empowers rural populations to expand their micro, small and medium-sized businesses (MSMEs) and work opportunities. This will also help to slow the rural exodus, which has further increased employment tensions for youth.

The preceding chapters demonstrate that solutions are emerging to address many challenges faced by marginalized groups (women, youth, migrants, refugees and other forcibly displaced people, MSMEs) and in key sectors (agriculture, energy, education, health).

<sup>248</sup> See <http://documents1.worldbank.org/curated/en/378931596643390083/pdf/Digital-Cash-Transfers-in-Times-of-COVID-19-Opportunities-and-Considerations-for-Womens-Inclusion-and-Empowerment.pdf>.

## BY PUTTING CITIZENS AT THE CENTRE OF THE DIGITAL REVOLUTION, THE SDGs CAN BE FINANCED

Not only can digital solutions help us to deliver solutions to citizens and communities, they can also shape how we finance those solutions. The scale of these challenges requires an additional US\$2.5 trillion per annum to be invested in achieving the SDGs by 2030.<sup>248</sup> Troubling signs of declining official development assistance and inadequate volumes of blended finance going forward mean that governments will have to consider bold approaches to financing the SDGs. As this report and the UN Secretary-General's Digital Financing Taskforce highlight, governments can look to their local digital economy for financing.<sup>249</sup>

One of the core opportunities made possible by the digital revolution is the ability to place citizens at the centre of the financial system. The introduction of non-bank finance licensing, such as for e-money issuance, has already resulted in greater competition, and with it, a drive to serve low-income segments for the first time. Through the introduction of new fintech providers and open banking regimes, for example, we can see digital transformation of the finance sector itself. These developments provide citizens with greater choice of where and how to save and invest and with whom to engage.

We are already seeing policymakers leverage digital finance to enable citizens to invest more readily in the domestic economy. As a result, the private sector should be able to access retail investors more efficiently through digital platforms. Likewise, governments can more directly attract investments from citizens. For example, as shown in Chapter 4 of this report, Bangladesh is embarking on a national initiative to mobilize domestic sources of micro-deposits – through widely adopted digital channels and wallets – to invest in the community infrastructure required to meet the SDGs. This could help the country to reduce the amount of foreign financing it takes on by half, as it invests up to US\$120 billion per year.<sup>250</sup>

## NAVIGATING THE CHALLENGES OF EXCLUSION AND QUALITY WORK IN THE DIGITAL AGE

While solutions to achieve the SDGs are within reach, significant challenges stand in the way of progress. Many of these revolve around central issues that all LDCs will need to navigate as economies digitalize: overcoming exclusion so that no one is left behind, and ensuring quality work in the digital age. These two challenges require preparedness and proactive approaches to investment, private and public sector partnerships, and policy engagement.

### Overcome exclusion

The digital divide excludes many people from participating in and benefiting from the digital economy. Many rural communities lack connectivity at the last mile and lag in terms of device ownership and digital literacy. This gap is further deepened by a gender divide; even when digital services are available, fewer women can use them<sup>251</sup> because fewer (8 percent) have devices and fewer (20 percent) use the Internet<sup>252</sup> on a phone. This contributes to fewer women than men using financial services. The COVID-19 pandemic has deepened the gender divide, as women have disproportionately borne the burden of job losses and childcare during school closures.

Investment in last mile connectivity and devices needs to be prioritized in SDG financing strategies and policies. Such investment unlocks economic opportunities for a large population who stand to benefit from digital solutions. More must be done to improve the enabling environment and business case for investing in last mile services. Working with the private and public sector, we also have the opportunity to make women the builders of the digital economy. For example, our experience shows that better product design involving women can improve the adoption of digital financial services. It can also lead to increased work opportunities, with gender-smart recruitment strategies. We have also learned that it is essential to ensure that women are included in shaping policy agendas, in order to identify and capitalize on these opportunities.

<sup>248</sup> United Nations Conference on Trade and Development, *World Investment Report 2014*.

<sup>249</sup> See [www.un.org/en/digital-financing-taskforce](http://www.un.org/en/digital-financing-taskforce).

<sup>250</sup> See [www.un.org/ldcportal/uncdf-oecd-report-focuses-on-potential-of-blended-finance-for-ldcs-response-to-COVID-19](http://www.un.org/ldcportal/uncdf-oecd-report-focuses-on-potential-of-blended-finance-for-ldcs-response-to-COVID-19).

<sup>251</sup> World Bank, *Global Findex Database 2017* (Washington, DC, 2018).

<sup>252</sup> Global System for Mobile Communications Association (GSMA), *Connected Women: The Mobile Gender Gap Report* (London, 2020).

## Ensure quality work in the digital age

While dialogue on the quality of work in a digital age mainly centres around experiences in the global North, where digital platforms may displace or push workers into the informal economy, the global South needs space to define its own approach. Economies in the South are already highly informal; there are signs that digital platforms contribute to gradual formalization, as workers generate data and become visible with the entities that stand to provide them with improved services, especially safety nets, skills development and productive assets. However, the degree to which digital platforms consolidate and abuse market power could lead to a digital backlash for governments.

How do we ensure that digital transformation results in quality work for people in LDCs? As with any work-related issue, regulation and policymaking to limit abuse and encourage safeguards represent a cornerstone approach. Transparency and exposure of abusive practices can also provide powerful incentives for the private sector. The unique challenge for the digital economy is to engage platforms that operate across borders. This will require regional and global coordination. Data for monitoring and tracking will be important. Because the digital revolution is just beginning, it is equally important to focus on policies and programmes that enable the domestic innovation community to spur services which respond to the needs of communities. Examples from China, India, Indonesia, Kenya, Senegal and many other countries demonstrate that digital economies flourish when they satisfy the needs of domestic communities. A healthy, domestic innovation ecosystem is critical to achieve this.

## INCREASED INVESTMENT IN INCLUSIVE DIGITAL ECONOMIES CAN UNLOCK THESE OPPORTUNITIES

Fostering digital economies to achieve the SDGs, while navigating the risks, requires an integrated approach to setting in place the critical building blocks for inclusion. The Inclusive Digital Economy Scorecard (IDES, see Chapter 4) provides policymakers with a tool to guide their approach and investment in these building blocks. With UNCDF support, the IDES is now being implemented in 25 LDCs and is poised to become a global public good that could also benefit middle-income countries.

Increased investment in inclusive digital economies generates a leverage effect, which will be essential if we are to bridge the financing gap for the SDGs. Not only can solutions for the SDGs be delivered more efficiently with digital technology, they can also be funded with digital finance. Increased investment in inclusive digital economies should therefore be a priority for governments and the development community.

Digital business models tend to be profitable at scale. The world's largest companies are now predominantly technology companies, supplanting the industrial corporations of the last generation. Inclusion can also be made profitable over the long term, especially when relevant digital solutions are nurtured, and marginalized groups are equipped to use them.

Enabling the private sector to invest in solutions for the SDGs, while ensuring that people are not left behind and that marginalized groups can participate on an equal footing, is at the heart of the UNCDF's approach. This agenda is larger than just UNCDF and our partners; it is one that we hope will be embraced by all LDCs and development partners.

