



Unlocking Public and Private
Finance for the Poor

A large, stylized circular graphic composed of concentric, wavy lines in shades of blue and grey. Various icons are placed along these lines, including a smartphone with a dollar sign, a globe, a classical building, a group of people, a lightbulb, a piggy bank, a factory, a graduation cap, a book, a person with a magnifying glass, a person with a checkmark, and a person with a dollar sign.

LEAVING NO ONE BEHIND IN THE DIGITAL ERA

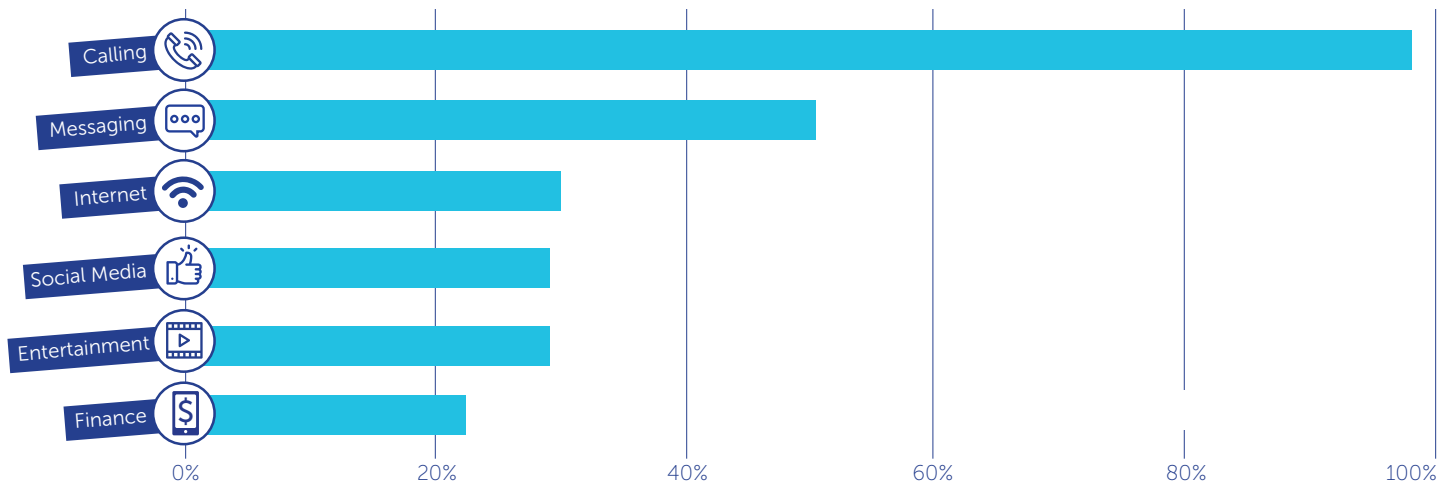
Our vision is to promote digital economies that leave no one behind.

Our goal is to equip millions of people by 2024 to use innovative digital services in their daily lives that will empower them and contribute to achieving the Sustainable Development Goals.

LEAVING NO ONE BEHIND


The past two decades have seen a phenomenal change in the adoption of mobile and digital technology in emerging markets. As a result, the sector predicts that the number of unique mobile subscribers will reach 5.9 billion by 2025, equivalent to 71 percent of the world's population; yet, a more significant opportunity lies in mobile Internet reaching 61 percent of the population in the same period.¹ **Mobile technology can serve as a key accelerator and ensure no one is left behind.**

The growing ubiquity of mobile phones has led many people to use them as their primary means to access a wide range of services. Still, common barriers such as cost, literacy and availability have prevented users from progressing beyond basic services such as calling and messaging.



Source of data: Financial Inclusions Insights (2017). Note: These are average numbers from a dataset covering Bangladesh, India, Kenya, Nigeria, Pakistan, Uganda and United Republic of Tanzania.
 * Figure based on one from Pathways for Prosperity Commission, 'Digital Lives: Meaningful Connections for the Next 3 Billion,' p. 7 (n.p., 2018). Copyright 2018 by Pathways for Prosperity Commission. Used with permission.

Digital financial services such as mobile money and agent banking have reached scale due, in no small part, to initiatives led by the UN Capital Development Fund (UNCDF) that have connected 18 million people in Africa, Asia and the Pacific to the financial ecosystem. It is clear to us at UNCDF that digital finance is the primary route to financial inclusion. However, financial inclusion is not the end goal; it is a means to multiple ends. Meaningful digital financial inclusion has to provide outlets for low-income accountholders to engage in the economy in order to meet their daily needs and to improve their skills, productivity and marketability in the digital-economy age.⁴ To do so, we must strive to make sure no one is left with just basic voice, messaging and mobile money services; everyone should be able to access, use and benefit from a broad range of meaningful services built on digital platforms. **Digital financial inclusion is directly contributing to the emergence of digital economies, and vice versa.**

 GLOBALLY,
1 billion FINANCIALLY EXCLUDED ADULTS


690 MILLION PEOPLE

 already own a MOBILE PHONE AND ABOUT
480 million have INTERNET access.²

 **The mobile money** sector alone is responsible for

690 MILLION PEOPLE
 

gaining access to formal FINANCIAL SERVICES WORLDWIDE.³

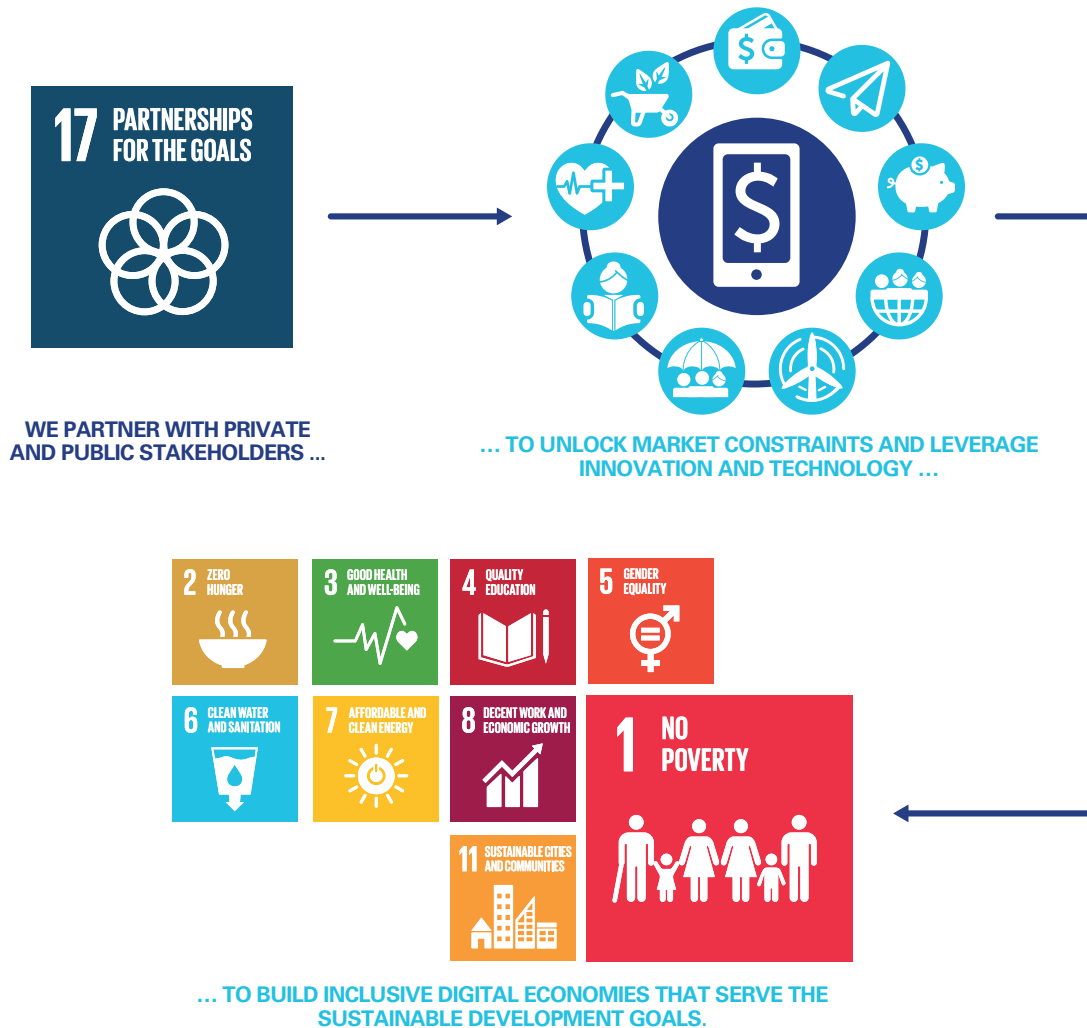

As a wider set of services are provided via digital platforms (in agriculture, energy, health, education, entrepreneurship) these new services are built on the rails of digital financial services. Similarly, companies currently seeking revenue streams in emerging markets, such as Facebook and Google, are turning to financial transactions as an alternative to advertising revenues. Whether digital finance serves as the basis for new services such as energy access or provides revenue streams for popular apps and products, it is at the centre of emerging digital economies and therefore digital inclusion.

Inclusion in the digital era is not a given. Technology in and of itself is neutral, and it can lead to either inclusion or exclusion based on how it is deployed and whether it is accompanied by measures to ensure new forms of exclusion are not introduced. Although digital technologies can leapfrog traditional models of market expansion, adoption often depends on whether the intended clients understand, accept and perceive real value added from those financial and non-financial digital services.

BUILDING DIGITAL ECONOMIES AT COUNTRY LEVEL

Inclusion has been at the heart of our work at UNCDF, for instance when increasing access to and usage of a range of financial services by the unbanked. Achievement of several of the Sustainable Development Goals requires that everyone have access to a range of financial services that enable them to become active participants in their local economies. That can only be achieved when financial access interventions are deliberately guided by the core principle of inclusion. We are uniquely positioned at UNCDF to address this need and to develop effective, measurable strategies to establish the infrastructure and enabling policy framework necessary for inclusive and sustainable national digital economies to thrive.

We will continue our work in **20+ least developed countries in East and West Africa, Asia and the Pacific**, strengthening our position and presence in the current footprint before expanding to additional strategic countries. Our strong in-country presence and recognized technical expertise are major assets for implementation of this strategy. They allow us to deeply understand markets, build long-term relationships and trust, engage on a continuing basis with policymakers and private-sector organizations, and facilitate dialogue among them to promote innovation. Moreover, our status as a UN organization allows us to serve as an impartial and neutral broker—a unique comparative advantage of UNCDF.



UNCDF, AN EXPERIENCED HAND

We are well positioned to help develop inclusive digital economies because of our experience and success in previous digital finance initiatives, dating back to 2004. The success of past and present UNCDF interventions is measured by the 18 million people now using mobile financial services in Africa, Asia and the Pacific. Focused primarily on the poorest, hardest to reach users, these interventions have given our team members unique experience in accelerating digital finance usage in key markets and in scaling up impactful services to new users. Digital adoption in emerging markets is not a case of replicating the 'build it and they will come' strategy of Silicon Valley but a nuanced process of understanding the markets, the constraints of affordability and literacy, and the role of agents and on-the-ground teams in adoption efforts. These are all areas in which we have demonstrable experience and reach—reach achieved by a global team of more than 60 UNCDF experts in digital markets. Their unique local knowledge is key to the segmentation and empowerment of customers that leads to successful innovation and change.



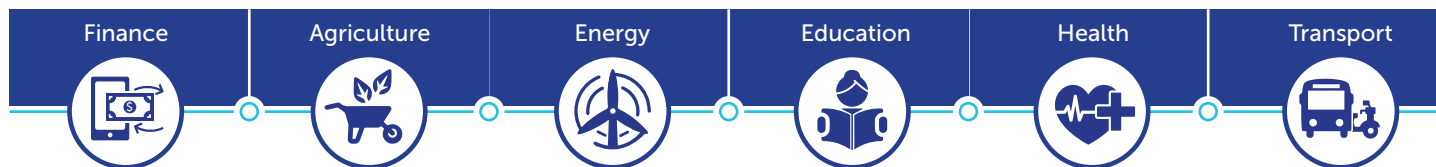
AN INCLUSIVE MARKET DEVELOPMENT APPROACH

Inclusion continues to be at the heart of our strategy at UNCDF to promote digital economies that leave no one behind, which can only be achieved if the digital economies are developed at the national level and if there is a focus on making them inclusive—without any new form of exclusion.

We place particular importance on **youth, women, migrants, refugees, and micro-, small- and medium-sized enterprises (MSMEs)**, customer segments that are often marginalized and denied digital innovation and technology due to social norms, societal status, and limited revenue and capacity. We place the empowerment of these customer segments at the centre of UNCDF initiatives to develop innovative services in various sectors.

Our approach focuses on accelerating the development of digital economies at the country level with the government, the private sector and academia, with specific attention given to the development of the right services to reduce the digital divide and to empower key customer segments. To achieve that objective, we will focus on understanding the intersection of six categories of digital services across the five customer segments.

The six categories of digital services cover the following sectors:



Underpinning all of these efforts is an acknowledgement that digital financial services are foundational, in that they enable local entrants to innovate in markets, provide sustainability to new services, and create marketplaces for a wide range of products and services—both digital and non-digital. We have seen, for example, the central role mobile money plays in facilitating new energy markets via products such as M-KOPA Solar⁵ and in forging new ride and delivery infrastructure via transport companies like Bolt⁶ and GO-JEK.⁷

To implement the UNCDF strategy, we apply a country-level market development approach. The objective of such an approach is to continuously aim to understand and intervene in select market systems to address underlying market dysfunctions in order to improve efficiencies, effectiveness and sustainability. The approach seeks to (1) leverage the roles and behaviours of current players in the marketplace, support them to do what they do better or to change their behaviour; (2) strengthen the systems and relationships among the various market and sector actors; and (3) work with current players to de-risk new business models in order to make digital solutions more inclusive for key segments and reduce the digital divide.

We developed an inclusive digital economy scorecard to track the development of inclusiveness in a digital economy at the country level. Key components of an inclusive digital economy are the policy and regulatory environment, the digital payment infrastructure, the innovation ecosystem and the access to required skills. The level of development of the digital economy varies by country, and the types of intervention are tailored accordingly. To do so, we carry out a diagnostic of the key components in order to analyse the main market dysfunctions and to plan the necessary activities to ensure the development of an inclusive digital economy. We measure the development of each market over time with the scorecard in order to continuously adapt the approach based on fast-changing market dynamics.

The approach is organized in four workstreams, which constitute the strategy for achieving this goal. The key strategic instruments comprise the tools that UNCDF employs across the workstreams.



We believe that, beyond the uniqueness and timeliness of the UNCDF approach, our success will stem from three key strengths: (1) The strategy is grounded in country-level experience; (2) The approach to deliver digital services is cross-sectoral; and (3) The impact of the strategy is measurable by the inclusive digital economy scorecard.

OUR WORKSTREAMS

Our strategy will have four key components (workstreams), which build upon our existing strengths:



EMPOWERED CUSTOMERS

Recognizing from the start how users acquire the necessary skills (digital and financial) to adopt new digital services, and leveraging digital services to increase their soft and hard skills



INCLUSIVE INNOVATION

Supporting local entrepreneurs and MSMEs to build inclusive services for the local digital economy, making sure that the value offered by digital services improves the livelihoods of those living within the market and is not spirited away to global platform providers



OPEN DIGITAL PAYMENT ECOSYSTEM

Building on our past work in digital finance, understanding the importance of digital payments as the basis for sustainable, economically impactful digital services



ENABLING POLICY AND REGULATION

Working with governments via our existing in-country contacts and relationships to develop policies that support and provide the necessary incubation for an inclusive digital economy

OUR INSTRUMENTS

Our key strategic instruments are integral to our programme's theory of change. These instruments constitute the core tools that we employ in all of the UNCDF workstreams.



EXPERT TECHNICAL ADVICE AND TRAINING

Engagement at the country level only adds value to our private and public partners if we have the right team with the right skills and if capacity-building occurs on an ongoing basis in the market. We have developed a skilled team at UNCDF with expertise in the various customer segments and sectors we target to meet market and stakeholder needs.



STAKEHOLDER ENGAGEMENT

We take a multi-partner approach towards building a digital ecosystem and improving access to basic services. This approach involves working with a broad range of public, private and non-profit actors that engage with the programme's target beneficiaries. One of the reasons we focus so heavily on ecosystem building and technical support is that they lead to longer-term commitment and greater sustainability.



CUSTOMER CENTRICITY

Customer-centred research and design ensure that our interventions with market players create value for each target segment (youth, women, migrants, refugees and MSMEs) and foster inclusion.



DATA AND RESEARCH

Data and research allow us to clearly identify our purpose, establish a roadmap, receive ongoing guidance, and monitor progress and outcomes that public and private sectors can leverage to develop an inclusive digital economy.



DE-RISKING FINANCIAL INSTRUMENTS

We at UNCDF have a unique financial mandate within the UN system, which is to provide investment capital and technical support to both the public and the private sector. The ability to provide capital financing in the forms of grants, soft loans and credit enhancements—and the technical expertise in preparing investment portfolios—makes our mandate highly complementary to other UN agencies. It also positions us as an early-stage investor to de-risk opportunities that can be scaled up later by institutional financial partners and increasingly private-sector investors.

RISK MANAGEMENT

Financial inclusion efforts have always come with risks, and the need to address those risks and ensure client protection emerged before the digital revolution. The nature and scope of the risks have evolved with the rise of digital economies and need to be carefully assessed and monitored. Some of the risks include the following:

- Risk that, as the capacity for data analysis accelerates through machine learning and becomes more granular, it may prevent some populations that are considered too risky from accessing a range of financial and non-financial services
- Risk that, in the absence of strong in-country capacity in policy and regulation, power dynamics may emerge in favour of a new oligopoly (moving from a market dominated by financial institutions to one dominated by data-driven technology companies)
- Risk around digital identification and data usage that may restrict individuals' privacy and freedom

We will monitor these risks and others that may arise with the expansion of digital finance and innovation throughout the implementation of the UNCDF strategy, and we will be ready to raise the issues and address them within our capacity.



LEAVING NO ONE BEHIND IN THE DIGITAL ERA

The UNCDF strategy 'Leaving no one behind in the digital era' is based on over a decade of experience in digital finance in Africa, Asia and the Pacific. UNCDF recognizes that reaching the full potential of digital financial inclusion in support of the Sustainable Development Goals (SDGs) aligns with the vision of promoting digital economies that leave no one behind. The vision of UNCDF is to empower millions of people by 2024 to use services daily that leverage innovation and technology and contribute to the SDGs. UNCDF will apply a market development approach and continuously seek to address underlying market dysfunctions.

THE UN CAPITAL DEVELOPMENT FUND

The UN Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments—through fiscal decentralization, innovative municipal finance, and structured project finance—can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

For more information, please contact:

 digital.info@uncdf.org

 UNCDF.ORG  [@UNCDF](https://twitter.com/UNCDF)  [in UNCDF](https://www.linkedin.com/company/uncdf)

¹ GSM Association, *The Mobile Economy 2018* (London, 2018).

² Asli Demirgüç-Kunt and others, *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution* (Washington DC, World Bank, 2018). doi: 10.1596/978-1-4648-1259-0. Licence: Creative Commons Attribution CC BY 3.0 IGO.

³ GSM Association, '2017 State of the Industry Report on Mobile Money: Executive Summary' (London, 2018).

⁴ "The digital economy refers to a broad range of economic activities that use digitized information and knowledge as key factors of production. The Internet, cloud computing, big data, fintech and other new digital technologies are used to collect, store, analyse and share information digitally and transform social interactions. The digitization of the economy creates benefits and efficiencies as digital technologies drive innovation and fuel job opportunities and economic growth. The digital economy also permeates all aspects of society, influencing the way people interact and bringing about broad sociological changes." Source: Asian Development Bank Institute, 'Understanding the Digital Economy: What Is It and How Can It Transform Asia?' Available from <https://www.adb.org/news/events/understanding-digital-economy-what-it-and-how-can-it-transform-asia> (accessed April 2019).

⁵ See <http://www.m-kopa.com/>

⁶ See <https://bolt.eu/>

⁷ See <https://www.go-jek.com/>