



Unlocking Public and Private
Finance for the Poor



ENABLING POLICY AND REGULATION

| Leaving No One Behind
in the Digital Era

THE PACE OF CHANGE REQUIRES SYSTEMATIC POLICY SUPPORT

As technology and information rapidly force the evolution of global and local markets, we must act quickly to support policymakers and regulators to adapt to a swiftly advancing future full of opportunity and uncertainty.

An interconnected digital economy requires an agile, well-informed approach to risk management. For example, as new and old customers use digital channels from multiple and diverse providers, protecting customer data has become a policy focus area. Complementarily, as more people use formal financial accounts and expect their money to be accessible on demand, protecting funds will continue to be a priority issue.¹ Rapid economic development will be driven by increasing customer trust.² In a competitive environment that evolves rapidly, engendering customer trust is a constant process, and governments represent one of the few actors at the national level to which customers can look for protection from abuse and endorsement of reliable systems.

Super-platforms such as Airbnb, Alibaba, Alipay, Facebook, GO-JEK, Google and Tencent,³ among others, exemplify the new types of market players with which governments will soon contend.⁴ These global entities will require the focused attention of regulators, whether they are ready or not.⁵ The platforms will (by definition) cut across multiple areas of the market, overlapping many regulatory jurisdictions. They will challenge existing licensing and regulatory regimes and put pressure on infrastructure and oversight, simply because of the sheer volume of transactions these platforms process, regardless of the service. Regulators must seek solutions to ensure a level playing field, leveraging the network effect of these platforms and their high-volume capacity, while allowing smaller, local innovations to flourish.



WE SEEK IMPACT ACROSS A BROAD RANGE OF SECTORS THROUGH DIGITAL SERVICES

As a UN agency, our mission at the UN Capital Development Fund (UNCDF) is to create conditions that reduce the impact of external shocks on the lives of poor and vulnerable people. Achievement of the Sustainable Development Goals (SDGs), such as improved health outcomes, quality education, clean water and sanitation, or affordable and clean energy, can dramatically improve people's lives. Numerous governments with which we work have formally endorsed the intended outcomes of the SDGs, many in explicit terms. Their public policy objectives therefore often align with the intent of the SDGs, creating a natural narrative for collaboration between UNCDF and government partners.

New technological solutions and digital services can reach many more people than traditional means. Moreover, appropriate digital financial services are seen as contributing to 12 of the 17 SDGs. In most cases, such services require partnerships among market actors to achieve multiple development outcomes. Hence, we see SDG 1 (No Poverty) as our desired impact and SDG 17 (Partnerships) as our means of achieving that impact (see figure I). This approach helps us work with policymakers and regulators to ensure that an enabling environment delivers real value to people and can drive the impact we seek.

Figure I | Approach of UNCDF to the Sustainable Development Goals



¹ David Medine, 'Making the Case for Privacy for the Poor,' 15 November 2016. Available from <http://www.cgap.org/blog/making-case-privacy-poor>

² Mike Sturm, 'Rachel Botsman: An Economy of Trust,' 4 February 2018. Available from <https://www.nbforum.com/nbreport/rachel-botsman-economy-trust/>

³ Mention of any firm or licensed process in this article does not imply endorsement by the United Nations.

⁴ See, for example, the WeChat Wallet in Africa (more information at <https://www.standardbank.co.za/southafrica/personal/products-and-services/bank-with-us/digital-wallets/wechat-wallet/>) and Facebook Pay in the Philippines (more information at <https://newsroom.fb.com/news/h/an-easy-way-for-people-in-the-philippines-to-access-their-money-on-messenger/>).

⁵ David Porteous and Olga Morawczynski, 'The Superplatforms are Coming ... And They Will Transform Financial Inclusion,' 21 December 2018. Available from <https://nextbillion.net/the-superplatforms-are-coming-and-they-will-transform-financial-inclusion>

WE HELP GOVERNMENTS NAVIGATE THE DIGITAL REVOLUTION

We at the UNCDF have been working with national governments to improve access to financial services for over 25 years. In the last decade, we have focused specifically on the role that digital technologies play in accelerating usage of financial services by low-income people. In over 40 markets, we have worked with policymakers and regulators, who have proven to be natural partners, on the common goal to use technology to build inclusive markets for sustainable economic development.

The role of UNCDF as a neutral broker underpins our capacity to contribute to market development.⁶ We believe that, if the right stakeholders are supported with expertise and capital, then appropriate products and services can reach customers, who will use them to improve the quality of their lives and to reduce their financial vulnerability. Policymakers and regulators are the stakeholders that directly influence market dynamics in the financial services sector and other sectors. As a neutral broker with in-country presence and experience working with the private sector, including financial service providers, we are uniquely positioned to facilitate government engagement with the industry to provide legal clarity, reduce business obstacles and protect customers within a widely endorsed roadmap in which public policy and market objectives align.

WE ARE STRUCTURED BY HOW WE RESPOND TO DEMAND FOR SUPPORT

At UNCDF, we stand fully behind the principle of sustainable solutions and orient our technical support to ensure this outcome for all of our partners. We understand the case for change, and we leverage our local and global presence to provide government counterparts with the support they need using a structured approach to our technical and financial assistance. We provide a constant local presence with staff who deeply understand local market dynamics and can offer support for the duration required to bring about market change—a process that can take years. Our local teams have gained the trust of regulators and private sector actors alike by demonstrating that they are able to respond to their needs and are willing to stay the course to support positive change. In this context, we have organized an 'Enabling Policy & Regulation Workstream' with three categories of support:⁷



Acceleration of policy reforms:

Structured approach to policy and regulatory design, focused on removing specific market barriers.



Building of data systems:

Development of data collection and analysis systems that improve market monitoring and encourage evidence-based policymaking.



Strategic advice for inclusive innovation:

Guidance on policy decisions for the treatment of innovations that harness digital technologies and new business models.

Collectively, these categories of support improve policymaking and regulatory capacity to manage systemic stability and to protect customers. Individually, each category corresponds to a demand for support from most policymakers and regulators who want to facilitate inclusive markets. Underpinning this support is a structured set of four activities that are implemented collectively to bring to bear all of the necessary skills and information that can enable policy and regulation for a digital economy. The activities are developed with the main actors to secure buy-in and to keep the legal reform process moving forward and maintaining alignment with the pace of the market.

FOUR ACTIVITIES DEVELOP THE ENABLING ENVIRONMENT

The four categories of activities resulting from the UNCDF approach address the following needs of policymakers and regulators:



Expert guided policy development



Data driven decision-making



Constructive stakeholder dialogue



Exposure to relevant global practice

Our broad portfolio of work allows us to use all four activities to shape how we provide strategic advice to our partners, often through advising government counterparts on the design and implementation of inclusive national or institutional strategies, which address issues such as the legal treatment of untested technologies, or through systematic engagement with the private sector. The global dialogue around 'regulatory sandboxes,' for example, has caught the attention of regulators, informing how they adapt supervisory approaches to embrace innovation, use data more deliberately and develop rules through systematic dialogue with innovators in the private sector. Another example of an issue that attracts demand for strategic advice is how to treat untested technologies such as distributed ledgers, which can affect fundamental aspects of trust and immutability in customer verification or legal contracting. Yet another example is how to move from rules-based to principles-based regulation (as recommended by global best practice), which often requires a deliberate shift in engagement with the private sector and moral suasion to be wielded as effectively as legal enforcement.

⁶ See <http://www.uncdf.org/mm4p/home> for more information.

⁷ See [Digital@UNCDF strategy](#).

FOUR ACTIVITIES DEVELOP THE ENABLING ENVIRONMENT



EXPERT GUIDED POLICY DEVELOPMENT

Expert guided policy development requires careful consideration of policy options, their potential market impact and their alignment with industry incentives.

Expert advice is a necessary requirement, although insufficient by itself, to **accelerate policy reforms**. Providing timely expertise can unlock reforms more quickly when using a structured approach to policy and regulatory design. The acceleration is most effective when narrowly focused on specific market barriers that prevent large-scale use of digital services for development. Examples include lowering requirements for account-opening, improving data protection to increase trust in digital services, installing new licensing regimes for innovative service providers and promoting service interoperability.

In Liberia, for instance, we consulted on agent banking guidelines in light of global best practices, which resulted in regulations that have enabled greater service outreach. In Nepal, we advised the country's central bank on the development of a payment service provider licence, which led to the licensing of the main cross-border remittance provider and the entry of the first non-bank in the country to the digital finance space. In Zambia, we supported the central bank and the Office of the UN High Commissioner for Refugees (UNHCR) to negotiate changes to the country's anti-money-laundering provisions, which helped refugees use UNHCR identification to access digital accounts.



DATA DRIVEN DECISION MAKING

Data driven decision-making implies systematic collection and assessment of market data (both supply and demand) to inform regulation and guide policy priorities.

In addition to the system itself, policymakers and regulators require clear measurement frameworks and the technical capacity to monitor data. We work to build the capacity of all users of the systems we develop, including the capacity of private sector actors who report data directly to the government. It is also important to note that the best data are open data. Thus, we promote open systems and freely available market data to provide customers and private sector actors the opportunity to see the emerging landscape of services and make decisions best suited to their respective needs.

For example, we worked with MIX Market to create dashboards for regulators in Benin, Senegal and Zambia so that they could better understand their local landscape.⁸ In Nepal, we partnered with the central bank to build a fully automated geospatial mapping system to help locate financial infrastructure, in response to the 2015 earthquake.⁹ In the Pacific Islands, our teams worked with regulators on a multinational demand-side study to understand the real impact of inclusive financial policies.¹⁰

With the lessons learned from these initiatives, we are now looking at building regulatory technology ('regtech') solutions with open source platforms that allow for flexibility and portability of solutions. As technologies change rapidly, the use cases to build the systems will adapt and expand over time. Our intent is to ensure that policymakers and regulators invest in systems that can evolve with their needs.



CONSTRUCTIVE STAKEHOLDER DIALOGUE

Constructive stakeholder dialogue is enabled by regular engagement of public and private stakeholders to discuss specific market constraints and public policy objectives. This effort includes dialogue among regulators, to clarify jurisdictions, share data and rally behind a common economic vision.

This activity is key to the acceleration of policy and regulatory change. It relies heavily on consulting with local stakeholders and clearly defining the market barriers that legal reforms can address. Engagement with the private sector is a central component of the UNCDF methodology, specifically seeking to identify issues that are common to a critical mass of private sector actors so that policy change can have the widest possible impact. Such engagement most often results in the presentation of various options available to policymakers and regulators, which ensures that governments can identify the choice that works best for their respective objectives.

In Zambia, for instance, we brokered a solution to raise digital wallet limits so that service providers could offer mobile money to merchants. In Malawi, we convened a working group to regularly meet and discuss how banks and mobile network operators could own the national switch. And during the Ebola crisis in Sierra Leone, we helped the regulator create the legal space for a mobile payment solution that helped health workers tend to the sick without worrying about their next payment.



EXPOSURE TO RELEVANT GLOBAL PRACTICE

Exposure to relevant global practice allows local regulators to understand their choices in the context of emerging trends and how they can be applied (or avoided) in their domestic markets.

Policymakers and regulators have been actively collaborating and sharing lessons on how they have respectively responded to financial exclusion. Over the last decade, we have seen significant progress in terms of emergent practices that provide a roadmap for inclusive policy and regulation. The progress is seen in the work of individual countries to establish leadership in this regard as well as the community of global standard-setting bodies, such as the Bank for International Settlements¹¹ and Financial Action Task Force.¹²

The One Household One Account policy in Myanmar was developed based on a discussion of lessons from global peers, such as India and South Africa. The Better Than Cash Alliance supported Benin and Senegal to design their government-to-people programmes based on an exchange visit to Colombia. We have worked closely with the Alliance for Financial Inclusion, CGAP, GSMA and other global partners to ensure that our government counterparts can leverage the growing knowledge base and experience in scaling up digital solutions in developing economies.

⁸ See <http://finclusionlab.org/> for examples of interactive dashboards.

⁹ Nepal Rastra Bank, 'Financial Inclusion Map.' Available from https://dev.nrb.org.np/analytical/map/usage_deposit# (accessed March 2019).

¹⁰ Daryl Collins and Amolo Ng'weno, 'Do Financial Inclusion Efforts Really Have an Impact on Poverty?,' 29 January 2018. Available from https://ssir.org/articles/entry/do_financial_inclusion_efforts_really_have_an_impact_on_poverty

¹¹ See, for example, Bank for International Settlements and World Bank Group, *Payment Aspects of Financial Inclusion* (n.p., April 2016). Available from <https://www.bis.org/cpmi/publ/d144.htm>

¹² See, for instance, Financial Action Task Force, *Anti-money laundering and terrorist financing measures and financial inclusion - With a supplement on customer due diligence* (Paris, 2013-2017). Available from <http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf>

WE FOCUS ON CLEAR OUTCOMES THAT COLLECTIVELY CONTRIBUTE TO CHANGE

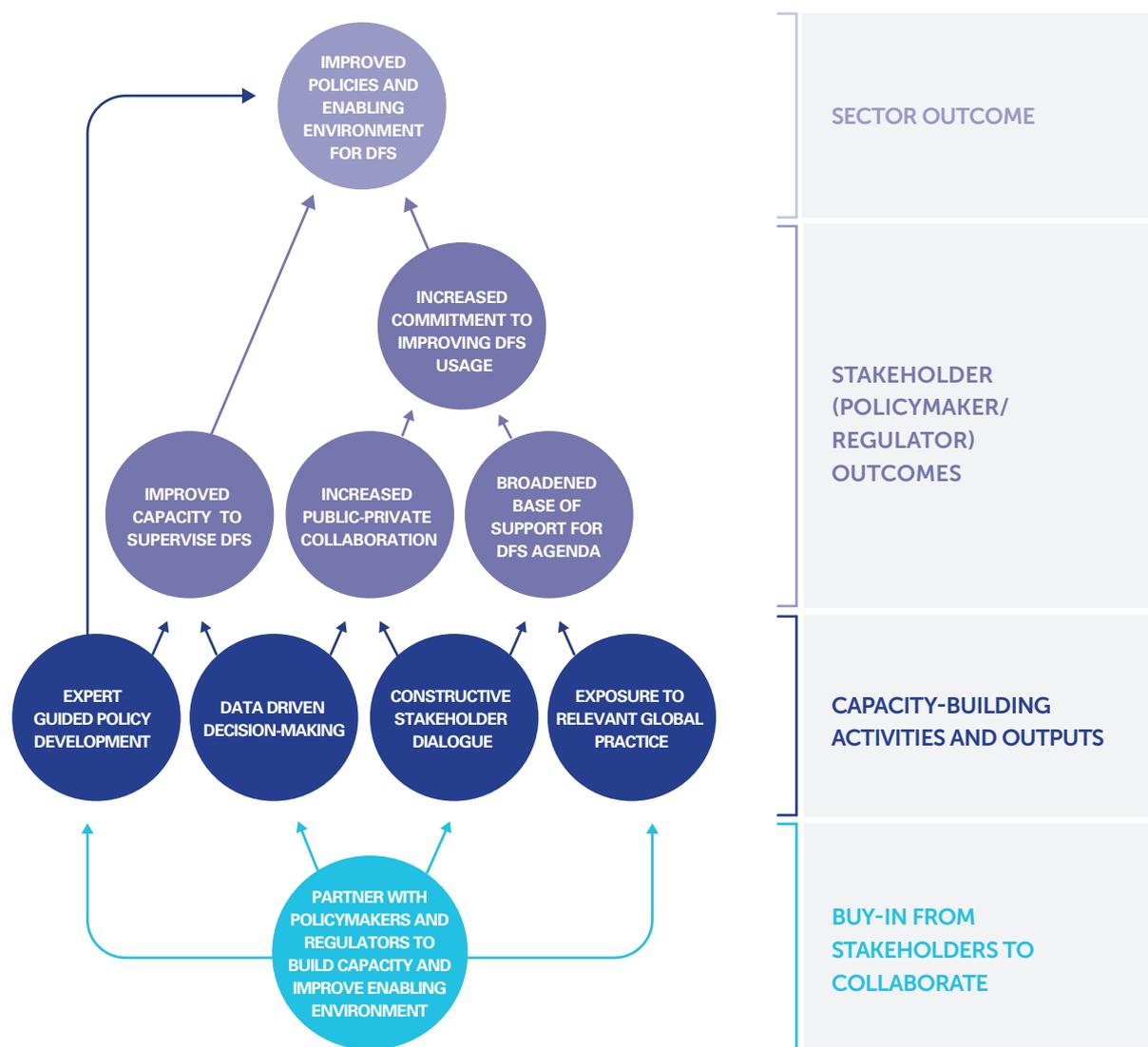
The four categories of activities together affect specific government stakeholder outcomes that can then influence improvements to the enabling environment for digital finance and innovations across other sectors (e.g., agriculture, energy, health, education and transport).

Using data well to make policy and regulatory decisions can directly improve the capacity to monitor and supervise the market, which in turn enables risk-based policymaking and more space for innovation and new market entrants. Constructive stakeholder dialogue facilitates better collaboration among sectors and helps align public and private objectives. This collaboration allows for difficult and complex issues to be dealt with systematically and in a coordinated fashion.

Public-private dialogue and exposure to relevant global practices together set the stage to develop a broad base of support for a digital agenda. Transparent engagement with local and global peers and learning from emerging models help citizens and local media to understand how their government seeks to address domestic challenges.¹³ It is critical to recognize that a broad base of support from citizens and media, along with private sector collaboration, can collectively increase government commitment to the process of improving usage of digital financial services.^{14,15}

These systematic improvements in the legal and regulatory environment (see stakeholder outcomes in figure II) can promote local innovation, increase competition, as well as drive infrastructure investment and other market reforms that together encourage customers to trust and use formal financial services.

Figure II | Intended outcomes of UNCDF activities



Acronym: DFS, digital financial services

¹³ Ghiyazuddin Ali Mohammad, 'Five trailblazing DFS and FinTech regulatory trends not to miss in 2018,' 10 January 2018. Available from <https://www.afi-global.org/blog/2018/01/five-trailblazing-dfs-and-fintech-regulatory-trends-not-miss-2018>

¹⁴ Akinkunmi Akingbade, 'Here are 5 of Africa's most financially inclusive countries,' 19 August 2016. Available from <http://venturesafrica.com/here-are-5-of-africas-most-financially-inclusive-countries/>

¹⁵ Alliance for Financial Inclusion, 'Maya Declaration.' Available from <https://www.afi-global.org/maya-declaration> (accessed March 2019).

WE BRIDGE THE 'SOLUTIONS GAP' BETWEEN KNOWLEDGE AND IMPLEMENTATION

Nearly all policymakers and regulators are seeking to build their capacity and expressly request support from experts and peers to avoid the risk of 'being left behind' if legal reforms fail to capture the potential of new business models and technologies.

Organizations such as the Alliance for Financial Inclusion, Bill & Melinda Gates Foundation, GSM Association, Omidyar Network and World Bank, among others, have all worked to define what is expected from governments to leverage digital solutions for positive change. Through research, publications, conferences, peer networks and case studies, policymakers and regulators today can be confident of the skills and systems required to keep pace. However, there is still a significant gap between the availability of information about appropriate solutions and the capacity to implement said solutions. **At UNCDF, we are committed to ensuring that policymakers and regulators can successfully bridge the gap between knowledge and implementation with the skills and systems necessary to adapt to the future.**

WE ARE PROUD TO SOLVE 'LOCALLY' AND THINK GLOBALLY

Even with this systematic approach, we again acknowledge that all markets are unique. The activities and outcomes discussed are effective in different forms and combinations based on the respective market needs. However, from our broad experience, we believe that taken together they can contribute to improvements in the legal and enabling environment for retail financial services. And, they are necessary to keep pace with the digital revolution cascading across the world.

We at UNCDF are proud of our work with national governments, policymakers and regulators on this journey. We are committed to continuing our support in order to assist these stakeholders in the development of policies that can alleviate poverty and bring real value to people's lives. We have high expectations of our colleagues at all levels of government, and they hold us to the same rigorous standard.¹⁶ We look forward to continued partnership.



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 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.

ABOUT 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. The UNCDF finance 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 localized investments—fiscal decentralization, innovative municipal finance and structured project finance—that drive the 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 the eradication of poverty and SDG 17 on the means of implementation. By identifying those market segments in which innovative finance models can have a transformational impact in reaching the last mile while addressing exclusion and access inequalities, UNCDF contributes to a number of different SDGs.

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¹⁶ Ahmed Dermish, 'Digital Finance 10 years from now: What we expect from policymakers,' 26 January 2018. Available from <http://www.uncdf.org/article/3210/digital-finance-10-years-from-now-what-we-expect-from-policymakers>