



Unlocking Public and Private
Finance for the Poor



OPEN DIGITAL PAYMENT ECOSYSTEM

| Leaving No One Behind
in the Digital Era

DIGITAL ECONOMIES SHOULD LEAVE NO ONE BEHIND

The expansion of mobile money, the rise of fintechs and the introduction of blockchain technology, artificial intelligence and super platforms represent a tremendous opportunity to transform the lives of millions of people in the least developed countries and to accelerate the achievement of the UN Sustainable Development Goals (SDGs).

How digital innovations are helping to bring people access to financial services at the 'last mile' is just one example of this potential. World Bank data in *The Global Findex Database 2017* clearly show that "recent progress in financial inclusion has been driven by digital payments, government policies, and a new generation of financial services accessed through mobile phones and the Internet."¹ New evidence regarding the benefits of digital finance for the achievement of the SDGs, in particular the one concerning poverty reduction, is especially striking. For example, the results of a long-term impact study on a mobile money service in Kenya, M-PESA, found mobile money has lifted as many as 194,000 households—2 percent of the country's population—out of poverty and has been effective in improving the economic lives of poor women as well as members of female-headed households.²

However, a prerequisite for developing digital economies in which the most vulnerable people are empowered, is having an open, regulated payment ecosystem and 'rails' accessible by all individuals, providers and enterprises. The existence of such an ecosystem can increase digital payment usage and the business case to develop, test and scale up more digital innovations with the potential of speeding the path to reach the SDGs. For us at the UN Capital Development Fund (UNCDF), building the rails for open, inclusive digital payment systems and removing key barriers to access and usage of digital services are necessary steps to leaving no one behind in digital era.

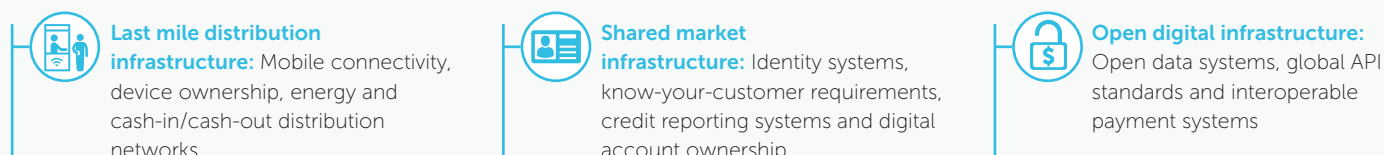
CONNECTING THE UNCONNECTED

Our goal is to empower millions of people by 2024 through improved access to and usage of services that contribute to the SDGs, by leveraging digital innovation and technology. **Our strategy has four key workstreams, which build upon our existing strengths:**



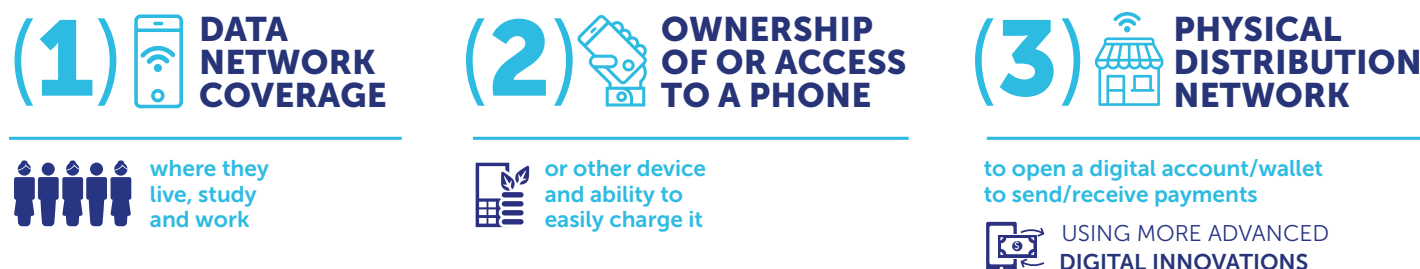
The Open Digital Payment Ecosystem workstream focuses on digital payments because they provide a stepping stone to more **transformational digital services**. Our objective is to facilitate universal access to digital systems and networks that enable vulnerable population segments to be more productive and that facilitate access to basic services. We work to remove the key barriers in customers' digital journeys, from adoption to connectivity, devices, account ownership and active usage.

We address three levels of market failures in the Open Digital Payment Ecosystem workstream:



OVERCOMING THE DIGITAL DIVIDE

The digital divide will narrow when everyone can access and use affordable digital services, which requires that vulnerable segments (1) have data network coverage where they live, study and work; (2) own, or can access, a phone or other device and be able to easily charge it; and (3) have access to a nearby physical distribution network to open a digital account/wallet, easily send/receive payments and leverage these services to access and use more advanced digital innovations.



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

² Tavneet Suri and William Jack, 'The long-run poverty and gender impacts of mobile money,' *Science*, vol. 354, No. 6317 (9 December 2016), pp. 1288–1292.

IMPLEMENTING AN OPEN DIGITAL PAYMENT ECOSYSTEM STRATEGY

We seek to catalyse investments in last mile distribution infrastructure and build coalitions/alliances to expand open and shared digital infrastructure. Our strategy is threefold:

1

We identify market failures at the last mile that no one else is addressing. We do so through our field presence as well as demand- and supply-side data that we generate and analyse.

2

We incentivize behaviour change to address those market failures. We provide performance-based grants and technical assistance to support market players to invest in last mile infrastructure as well as to design and launch multiple products for underserved markets.

3

We focus on scale and replication. We work with governments and financial service providers to get the right policies in place and to scale up what works.

A MARKET DEVELOPMENT APPROACH

To implement our strategy, we will continue applying a country-level market development approach. **Based on countries' market maturity and ecosystem development, we will engage in three key areas:**



LAST MILE DISTRIBUTION INFRASTRUCTURE

We advocate for and support governments and regulators to optimally allocate universal access funds to expand and deepen connectivity in rural and underserved areas. We incentivize the expansion of innovative, low-cost alternatives for devices, connectivity (e.g., Wi-Fi balloons and low-orbit nano-satellites) and energy solutions (e.g., pay-as-you-go for smartphones and solar energy products). We continue our work with service providers to extend rural cash-in/cash-out networks, and moving forward we will investigate the contributions of e-commerce and super platforms to last mile digital inclusion.



SHARED MARKET INFRASTRUCTURE

We address foundational barriers and advocate for a broader reach of digital infrastructure. We support governments, regulators and service providers to build digital identity and



OPEN DIGITAL INFRASTRUCTURE

e-know-your-customer schemes for seamless remote digital account opening. We leverage partnerships and technical assistance services to broaden ecosystems for formal digital payment account usage through ecosystem accelerators (e.g., digitizing high-volume government/corporate/value-chain payments and building merchant payment acceptance networks).

We support regulators and providers to harness the power of data and open systems to develop and deliver innovative financial services and accelerate the expansion of digital payment rails. In particular, we support open API and interoperability projects.

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.



28

Developing countries



+20

Development partners, including funders



+130

Private sector partners



+20

Technical support agreements with UN agencies



+18m

Clients reached in 2018



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.

More information:

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