G20 INDONESIA 2022

GPFI

Global Partnership for Financial Inclusion

Yogyakarta Financial Inclusion Framework
G20 Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable, and Inclusive Economy of Women, Youth, and MSMEs

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Nirmala Songket
SMEs development program provided by
Bank Indonesia Representative Office South Sumatra Province

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Yogyakarta Financial Inclusion Framework

G20 Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth and MSMEs

2022

Apip's Batik
SMEs development program provided by
Bank Indonesia Representative Office Special Region of Yogyakarta Province

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FOREWORD

Her Majesty Queen Máxima of the Netherlands, UN Secretary-General's Special Advocate for Inclusive Finance for Development and Honorary Patron of the G20 GPFI

Over the past 10 years there has been a remarkable difference that inclusive digital infrastructure and digital financial services has made to people's lives, as well as to the fortunes of MSMEs. From Indonesia to East Africa, millions of small merchants are now paid and making payments with the phones in their own pockets — transforming their ability to invest and grow. During the COVID pandemic, governments from Brazil to Togo sent emergency digital payments directly to vulnerable households — offering essential financial support at unprecedented speed.

These and so many more achievements are made possible through digital infrastructure designed to meet the needs of the poor and underserved segments of societies — such as women, youth, and MSMEs. Greater connectivity and digital IDs allow access to financial services for millions previously left behind. Fair competition and interoperable payment systems help markets work better for even the smallest-scale customers. Cybersecurity, consumer protection, data governance, and digital literacy allow marginalized communities to navigate these services in ways that work for them. In addition, where MSMEs gain access to new digital opportunities, they can make their businesses more efficient, overcome labor shortages, and reach new markets.

New fintech services are helping small businesses across the Global South to digitize their inventory management, marketing, payments, credit, and sales. However, many MSMEs are still missing out on these opportunities. This is a challenge for both advanced economies and developing economies — and one we must meet together, by increasing access to digital public goods, finance, and digital skills. MSMEs — especially start-ups and firms with large growth prospects — need a range of financial services like payments, equity, short- and long-term debt, savings, and insurance. To get there, we need to tailor to these specific needs as well as improve the whole digital finance ecosystem, such as credit reporting systems and insolvency regimes. The good news is that we see innovation around the world, as showcased in the GPFI's database digital and innovative financial products and services for MSMEs beyond credit.

I warmly welcome the work of the GPFI this year in developing the implementation guide for the G20 High-Level for Principles for Digital Financial Inclusion. It is time to move from principles to action in how we can help women, youth, and MSMEs thrive — by embracing digital uptake, investing in skills, and improving the finance ecosystem. It is also important to understand our small businesses, and design and deliver to meet their needs. This includes the GPFI's work on a creating a regulatory toolkit for MSMEs' access to digital financial services, and a focus on harmonizing MSMEs financing data.

As the Honorary Patron of the G20 GPFI, I congratulate the Indonesian G20 Presidency and the GPFI, under its co-chairs, for the high quality of your work, including in developing this financial inclusion framework building upon the strength of the reports produced this year. I hope governments, businesses, and development champions will use these valuable resources — enabling entrepreneurs everywhere to grow their businesses more effectively and safely, and to thrive in the future. Together we can really drive action to help us recover and build a more inclusive, resilient, and responsible digital financial system, with expanded opportunities for all.

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A. Statement of Support from Governor of Bank Indonesia

The role of women and Micro, Small and Medium enterprises (MSMEs) for the advancement of the nation is a necessity. MSMEs are the main pillar of the economy in a country, which account for the majority of businesses worldwide and also are important contributors to job creation and global economic development. Yet, despite the large policy strides made by both the national and local governments to foster the development and prosperity of MSMEs, their welfare continues to be uncertain. Classical and prevalent challenges such as credit constraints, supply chain frictions, and institutional barriers continue to hinder the sustainability of MSMEs. The COVID-19 pandemic has dramatic ramifications around the world, including to MSMEs. Financial inclusion plays an essential role for financial resilience and economic recovery during this challenging time, especially for these groups and MSMEs. The use of financial products and services allows individuals and MSMEs to seize opportunity, manage risk, smooth consumption, and build emergency funds for stronger future resilience.

It is no surprise that COVID-19 crisis has fostered digitalization processes in both financial and manufacturing in most countries, albeit at varying speeds, triggered by the requirements for social distancing and other COVID-19-related regulations imposed by governments, and by changing consumer demand throughout the pandemic. The digital transformation of MSMEs also has become a shared global agenda as it will unleash their potential contribution to the economy and promote inclusive growth. Advances in digital technology provides opportunities to foster a more inclusive and sustainable economic growth by further spurring innovation, generating efficiencies, and improving access to finance among underserved groups. However, countries progress in terms of the development of digital finance are varying and making progress to meet the important preconditions of digital finance ecosystem that enable financial inclusion are imperative. These include having an adequate digital infrastructure, putting in place legal and regulatory requirements as well as balancing between promoting growths and preserving stability. As part of our main priorities for Indonesia G20 Presidency, we have strived to promote ways to harness digitalization to increase productivity and create an inclusive economy for women, youths and MSMEs. Indonesia G20 Presidency with the Global Partnership for Financial Inclusion (GPFI) have formulated a "Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy" with a focus on women, youth, and MSMEs. This framework contains a set of guidance for regulators to maximize the benefits of digitalization and promote financial inclusion among target groups. We expect that this framework would serve as a coherent reference for countries in taking regulatory responses to address issues on digital financial inclusion and MSMEs finance.

As the Governor of Bank Indonesia, I would like to convey my greatest appreciation to GPFI members, along with every other parties involved in the drafting and delivery of this framework. As we step forward into the post-pandemic era, putting special attention to the empowerment of underserved groups' financial and economic capacity will be a crucial action for stimulating economic recovery, as well as building resilience for future challenges. I have full confidence that the set of guidance and references contained within this framework will help financial regulators in fostering a more inclusive and sustainable economic growth and helping to contribute to a stronger recovery among all G20 and non-G20 member nations. "Recover Together, Recover Stronger".

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B. Statement of Support from Ministry of Finance, Republic of Indonesia

Digitalization has been a game changer, especially in responding to the Covid-19 pandemic and recent crises. Studies show that during mobility restriction measures to prevent the spread of the Covid-19 virus, firms that embraced digitalization experienced increased transactions. In this regard, on-boarding firms to digital platforms is one of the measures taken by governments to protect and develop MSMEs.

Digital technology can be utilized to provide wider access to finance and new markets as well as to promote productivity and to ensure a sustainable and inclusive economy, particularly for underserved and vulnerable groups, including women, youth, and MSMEs. World Bank reports that the adoption of digital technology, such as mobile money, has improved financial inclusion levels in many developing countries.

Digital transformation also has the potential to become the driver of growth, especially for low and middle-income countries. It drives efficiency, lowers entry barriers, and creates new opportunities. The size of digital economy is estimated around 15.5% of global GDP, and it has been growing by two times faster than the global GDP over the past decade.

The potential benefit of digitalization is enormous, and very much in line with the pillars of Indonesia G20 Presidency. Digitalization is also in line with the 2020 G20 Financial Inclusion Action Plan, which emphasizes Digital Financial Inclusion and SME Finance as its priorities. Therefore, taking into consideration the ever-increasing importance of digitalization, Indonesia G20 Presidency set upon developing a Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth, and MSMEs. Building upon the deliverables of the GPFI, the framework will be a tool that supports us in advancing global financial inclusion through digitalization. Indeed, this is a very ambitious agenda. Nevertheless, understanding that it will benefit not only G20 member countries, but other countries as well, the Government of Indonesia is fully committed to completing the Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth, and MSMEs.

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C. Statement of support from GPFI Co-Chair

In 2022, the GPFI made substantial progress in bringing forward the 2020 G20 Financial Inclusion Action Plan. The work carried out confirmed that accessible digital financial services, developed in regulated and safe financial environments, allow economic agents – being them individuals, households or businesses – to improve their financial well-being. A ready access to well diversified and well suited digital financial services contributes to the ability to withstand real and financial shocks and to plan for the future, improving social inclusion of vulnerable and underserved individuals (such as women, young people) as well as the resilience and the productivity of micro- and small- and medium-sized enterprises (MSMEs).

The outbreak of the COVID-19 pandemic catalyzed the growth in the use of digital financial services, with tangible results in terms of financial inclusion. However, many challenges still need continued attention by regulators, concerning people's digital skills, lack of adequate digital infrastructure, cyber security, and data protection. While we are still addressing these issues, in 2022, a new dramatic shock hit the world economy: the war in Ukraine, whose economic consequences are being felt harder by the most vulnerable segments of our societies, those that have not fully recovered yet from the hardship of the COVID-19 crisis. In such difficult times, progressing financial inclusion of these segments becomes even more urgent to make our economies more resilient and less unequal.

As the Co-Chair of the G20 GPFI, I would like to congratulate the Indonesia G20 Presidency for the quality of this year's output. Focusing on women, young people and small businesses. Offering a practical guidance on how to further spur digital financial inclusion. Providing an updated picture of the emerging best practices in terms of innovative digital financial services available to MSMEs. Laying the foundations of a new tool able to support regulators in the setting up of the most appropriate legal environment to spur the development of digital financial services. Updating key international standards covering financial consumer protection and SME financing. These are all the relevant results the GPFI has been able to reach this year in spite of everything and, I am convinced of this, they will soon end up representing a reference point in our path towards a greater financial inclusion. These substantial achievements, created in cooperation with GPFI members, will serve as a future reference point for expanding financial inclusion to the benefit of all.

Recover together, recover stronger!

D. Acknowledgement

This document was produced by the G20 GPFI in 2022, during the Indonesia G20 Presidency, under the direction and supervision of the G20 GPFI Co-Chairs. It is built on the reports that comprises of:

1. Implementation Guide for the G20 High-Level Principles for Digital Financial Inclusion by the World Bank in collaboration with BTCA, CGAP and OECD.
2. Database on Digital and Innovative Financial Products and Services for MSMEs beyond Credit by SME Finance Forum in collaboration with BTCA, IFAD, IsDB and WWB.
3. G20/AFI Preliminary Regulatory Toolkit for MSME Access to Digital Financial Services, prepared by AFI.
4. Progressing the Agenda on MSMEs Data Harmonization Framework by SME Finance Forum and GPFI Co-Chairs.
5. 2022 G20/OECD High-Level Principles on Financial Consumer Protection, prepared by OECD.
6. 2022 Updated G20/OECD High-Level Principles on SME Financing, prepared by OECD.

The reports have benefited significantly from inputs and comments from GPFI Member Countries, Implementing Partners, Affiliated Partners, and other key stakeholders, as well as the invaluable support from Her Majesty Queen Máxima of the Netherlands in her capacity as the UN Secretary-General's Special Advocate for Inclusive Finance for Development and GPFI Patron.

The Indonesian G20 Presidency would also like to express gratitude to the GPFI Co-Chairs team—Alessio Ciarlone, Daniela Marconi, and Maria Iride Vangelisti—for their assistance throughout the year.

E. Introduction

The COVID-19 pandemic has widened inequality especially for the most vulnerable and underserved groups including Micro, Small, and Medium Enterprises (MSMEs). The increase of vulnerability due to the loss of income during the economic hardship and the limited access to finance is experienced by the most vulnerable groups including social benefit recipients and households who were impacted by COVID-19 and MSMEs, especially women and youth.

In addition to the impact of the pandemic, the increase in global energy and food prices has become a new challenge for the economic recovery, since it has also been affecting global supply chains. This condition can exacerbate disparities in the most vulnerable and underserved segments of world population. In order to cope with this issue policy makers need to address the challenges and opportunities through an integrated strategy from the supply and demand side of the financial sector to promote financial inclusion of the target groups and increase productivity and economic inclusion. Furthermore, the COVID-19 crisis has shown that countries with well-developed social protection systems, payments infrastructures and wide access to digital financial services are able to mitigate the effect of the pandemic more quickly and effectively than other countries lacking this infrastructure. The emergence of digital transformation can be one of the possible ways to promote more inclusive and sustainable growth by promoting innovation and efficiency and, at the same time, by increasing access to financial services that can be used to support the resilience and productivity of the target groups.

As a response to the digital transformation, under the G20 Presidency of Indonesia and in line with the 2020 G20 Financial Inclusion Action Plan (FIAP) – the Global Partnership for Financial Inclusion (GPFI) has formulated a **"Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth, and MSMEs"** – so called the **"G20 Yogyakarta Financial Inclusion Framework"**.

F. Structure of the Framework

The framework was meant to serve as a coherent guidance for regulators in their efforts to maximize the benefits of responsible digitalization to promote the economic potential of the most underserved groups – particularly women, youth and MSMEs – and favor the shift towards an economy that is more productive and sustainable. In this regard, the framework comprises the following deliverables

1. Implementation Guide for the G20 High-Level Principles for Digital Financial Inclusion by the World Bank in collaboration with BTCA, CGAP and OECD.
2. Database on Digital and Innovative Financial Products and Services for MSMEs beyond Credit by SME Finance Forum in collaboration with BTCA, IFAD, IsDB and WWB.
3. G20/AFI Preliminary Regulatory Toolkit for MSME Access to Digital Financial Services, prepared by AFI.
4. Progressing the Agenda on MSMEs Data Harmonization Framework by SME Finance Forum and GPFI Co-Chairs.

These outcomes are also complemented by: (i) 2022 G20/OECD High-Level Principles on Financial Consumer Protection, prepared by OECD; and (ii) 2022 Updated G20/OECD High-Level Principles on SME Financing, prepared by OECD. The proposed revisions in these principles will further strengthen the shift

towards a more inclusive and sustainable economy, helping to develop regulations that can mitigate the impacts and risks to consumers, MSMES associated with digitalization, and lay a stronger foundation for financial well-being amongst consumers and MSMEs alike.

F.1. Implementation Guide for the G20 High-Level Principles for Digital Financial Inclusion

In 2016, under China's G20 Presidency, the GPFI endorsed the G20 High Level Principles for Digital financial Inclusion. This set of eight principles could be viewed as a pre-requisite for promoting financial inclusion in a digital environment. In accordance with the priorities of the Indonesia G20 Presidency in 2022 to promote effective implementation of these High Level Principles, the implementation guide has been developed. It aims to provide good practices that could prove very useful for both G20 and non-G20 countries in their path towards greater digital financial inclusion. The Guide, which focuses on HLPs no. 1 to 6, serves a dual purposes as follows:

1) Guidance: the Report describes (i) general implementation approaches; and (ii) best practices and lessons learned. In these areas, existing and effective approaches, tools, and reference guides have been established and are cataloged for easy reference.
2) Assessment: based on the guidance provided in the initial chapters, a self-assessment tool is developed to help both G20 and non-G20 members understand their position with respect to the adoption of the HLPs.

F.2. Database on Digital and Innovative Financial Products & Services for MSMEs beyond Credit

The Regulators and financial industry around the world have plenty innovative ways in producing and creating financial products and services to apply the digital approaches to promote financial inclusion for a sustainable and productive economy, especially for the underserved group. It is deemed necessary that those products and services are to be collected in one platform that will serve as the reference for the regulator in creating the product in line to their current situation.

The development of "Digital and Innovative Financial Products and Services for MSMEs beyond Credit" Database is aimed to collect and feature good practices that can be useful examples for all countries. It is a living database designed in ways that allow users to search for relevant case studies based on the following characteristics: Savings; Cash Management; Credit Guarantees; factoring, financial educations, insurance, risk management, payment, and others. Based on the case studies submitted, there are several lessons learned needed to prioritize when designing the products and services: (1) the user-friendliness, (2) consumer data protection, completed by providing (3) financial education and (4) supportive financial regulation.

F.3. G20/AFI Preliminary Regulatory Toolkit for MSME Access to Digital Financial Services

The preliminary regulatory toolkit developed this year by AFI is part of a biennial project and based on the best practices on policies, regulations, or initiatives that may offer solutions to address constraints of MSMEs in accessing digital financial services.

More specifically, the toolkit once completed provides guidance and assist financial regulators and policy makers from G20 and non-G20 jurisdictions in different stages of their policy implementation process to enhance the regulatory environment for MSMEs to access to innovative digital financial services, and complement existing financial landscape. Moreover, it also aims to provide a range of specific practical

policy interventions which can be taken by regulators in accordance to their individual situations and priorities.

Regulators can use this toolkit to identify opportunities for improving access to Digital Financial services through policy interventions in their regulatory environment. The toolkit further provides examples of policy interventions for each category, thus also serving as a practical guide of reference for decision-makers.

F.4. Progressing the Agenda on MSMEs Data Harmonization Framework

MSMEs data harmonization is aimed (1) to improve the availability of disaggregated data (i.e. gender and age groups) to support policy makers with more reliable data on MSMEs financial inclusion, (2) to identify the gap, and (3) to design required policies to close the gap.

This report contributes to data harmonization on MSMEs in two ways. First, it presents a recognition of the available data sets or surveys that contain information on MSME finance that could be used or adapted to obtain indicators of enterprises financial inclusion, such as those managed by the World Bank, the IMF or the OECD. Second, it reports the results of a workshop held in July 2022, during which the WE-FI Secretariat proposed to GPFI members an initiative (WE Finance Code) to support women entrepreneurs and address related data gaps. The We-Fi Secretariat also invited G20 GPFI members to reach out to participate in the consultative process during the planning phase of the WE Finance Code, which is scheduled to be launched with country pilots in spring 2023. This report is meant to be a solid and shared starting point for next year discussions on data harmonization for MSMEs.

Annex

1. 2022 G20/OECD High-Level Principles on Financial Consumer Protection
2. 2022 Updated G20/OECD High-Level Principles on SME Financing

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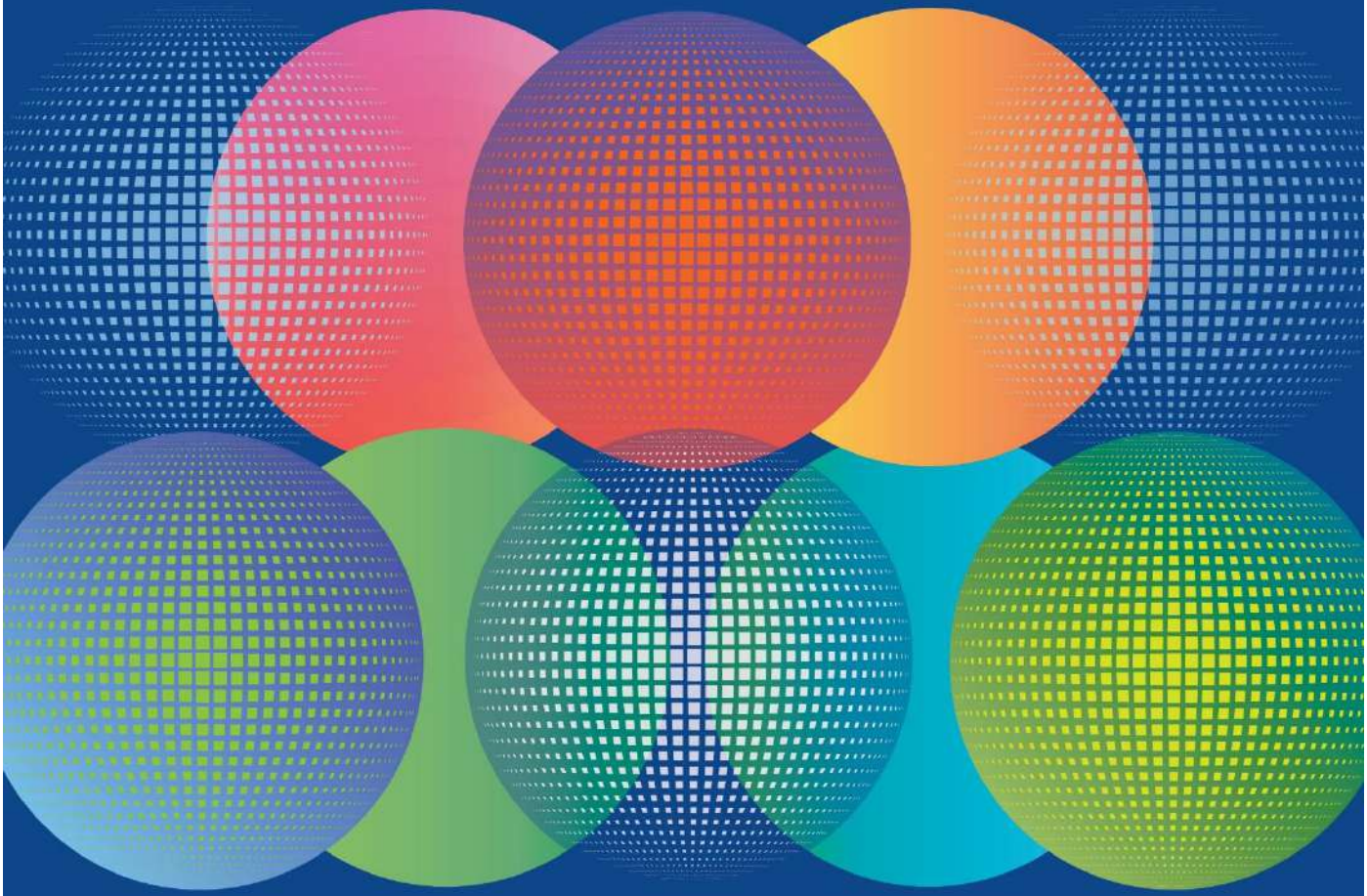
Implementation Guide for the G20 High-Level Principles for Digital Financial Inclusion

(PRINCIPLES 1–6)



G20 INDONESIA 2022

GPFI Global Partnership for Financial Inclusion

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BETTER THAN CASH ALLIANCE

CGAP

This Implementation Guide for the G20 High Level Principles for Digital Financial Inclusion (Principles 1-6) has been jointly prepared by the staff of the Better Than Cash Alliance, Consultative Group to Assist the Poor, Organisation for Economic Co-operation and Development and The World Bank for the G20 Global Partnership for Financial Inclusion.

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Table of Contents

Acronyms and Abbreviations ..... **iii**

Acknowledgments ..... **v**

Executive Summary **1**

Background and Context **6**

I. HLP 1: Promote a Digital Approach to Financial Inclusion **9**

1.1 Context: Importance of the HLP, Statement of Challenges in Current Market Contexts 9

1.2 A Framework for Implementing HLP 1 10

1.3 Challenges in Implementing HLP 1 17

1.4 Looking Forward 17

II. HLP 2: Balance Innovation and Risk to Achieve Digital Financial Inclusion **18**

2.1 Context: Importance of the HLP, Statement of Challenges in Current Market Contexts 18

2.2 A Framework for Implementing HLP 2 19

2.3 Looking Forward 27

III. HLP 3: Provide an Enabling and Proportionate Legal and Regulatory Framework for Digital Financial Inclusion **28**

3.1 Context 28

3.2 A Framework for Implementing HLP 3 29

3.3 Challenges in Implementing HLP 3 39

3.4 Looking forward 40

IV. HLP 4: Expand the DFS Infrastructure Ecosystem **42**

4.1 Context: Importance of the HLP, Statement of Challenges in Current Market Contexts 42

4.2 A Framework for Implementing HLP 4 43

4.3 Challenges in Implementing HLP 4 49

4.4 Looking Forward 50

V. HLP 5: Establish Responsible Digital Financial Practices to Protect Consumers **51**

5.1 Context: Importance of the HLP, Statement of Challenges in Current Market Contexts 51

5.2 A Framework for Implementing HLP 5 52

5.3 Challenges in Implementing HLP 5 62

5.4 Looking Forward 63

VI. HLP 6: Strengthen Digital and Financial Literacy and Awareness **65**

6.1 Context: Importance of the HLP, Statement of Challenges in Current Market Contexts 65

6.2 A Framework for Implementing HLP 6 66
6.3 Challenges in Implementing HLP 6 75
6.4 Looking Forward 75
Appendix: Self-Assessment Tool 77
Glossary 89
Compendium of Resources 93

Acronyms and Abbreviations

AFI	Alliance for Financial Inclusion
AI	artificial intelligence
AML/CFT	anti-money-laundering/countering the financing of terrorism
API	application programming interface
B2G	business to government
BIS	Bank for International Settlements
BTCA	Better Than Cash Alliance
CBDC	central bank digital currency
CDD	customer due diligence
CFI	Center for Financial Inclusion
CGAP	Consultative Group to Assist the Poor
CGD	Center for Global Development
CPMI	Committee on Payments and Market Infrastructures
DFS	digital financial services
DLT	distributed ledger technology
EMDE	emerging market and developing economy
FATF	Financial Action Task Force
FinCoNet	International Financial Consumer Protection Organisation
FSB	Financial Stability Board
FSI	Financial Stability Institute
G2P	government to person
GPFI	Global Partnership for Financial Inclusion
HLP	High-Level Principle
IADI	International Association of Deposit Insurers
IAIS	International Association of Insurance Supervisors
ICCR	International Committee on Credit Reporting
ICT	information and communications technology

IFC	International Finance Corporation
IMF	International Monetary Fund
INFE	International Network on Financial Education
IOSCO	International Organization of Securities Commissions
ITU	International Telecommunication Union
ITU-T	ITU Telecommunication Standardization Sector
KYC	know your customer
ML	machine learning
MSME	micro, small, and medium-sized enterprise
NFIS	national financial inclusion strategy
OECD	Organisation for Economic Co-operation and Development
P2G	person to government
P2P	peer to peer
POS	point of sale
PSP	payment service provider
SME	small and medium-sized enterprise
UNCDF	United Nations Capital Development Fund
UNSGSA	United Nations Secretary-General's Special Advocate for Inclusive Finance for Development

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This implementation guide for the G20 High-Level Principles for Digital Financial Inclusion (Principles 1–6) was prepared at the request of the Indonesian G20 Presidency, as one of the deliverables under the G20 2020 Financial Inclusion Action Plan. This document was jointly drafted by a team led by the World Bank and comprising the Better than Cash Alliance, Consultative Group for Assistance of the Poor (CGAP), and Organisation for Economic Co-operation and Development (OECD).

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Executive Summary

Digital financial inclusion is a key priority topic for the Global Partnership for Financial Inclusion (GPFI), based on its potential to expand financial access and inclusion globally. This sustained focus has generated key guidance, such as the High-Level Principles (HLPs) for Digital Financial Inclusion in 2016, the G20/GPFI report Digital Financial Inclusion: Emerging Policy Approaches in 2017, and the G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs in 2020. Each of these GPFI deliverables has been aimed at driving the adoption of trustworthy digital financial services (DFS) and products to achieve financial inclusion goals, as well as the related G20 goals of inclusive growth and increasing women's economic participation.

This implementation guide for the High-Level Principles (HLPs) for Digital Financial Inclusion builds on the GPFI's work and aims to provide practical guidance on effective implementation of the HLPs. The guide is for policy makers from countries in various stages of development. The guide dedicates individual chapters to HLPs 1–6 and emphasizes practical "how-to" approaches and replicable examples of good practices, as well as highlighting potential risks. Each chapter also features additional resources that policy makers can consult on that topic.

HLP 1: Promoting a Digital Approach to Financial Inclusion: Promote DFS as a priority to drive the development of inclusive financial systems, including through coordinated, monitored, and evaluated national strategies and action plans. The following activities are key for implementation of HLP 1:

1. Understand the financial inclusion landscape to develop appropriate, effective, and timely measures to increase digitally enabled financial inclusion. Policy makers should first undertake a detailed assessment of the financial landscape with a focus on determining how DFS have (or have not) played a role in achieving inclusion objectives.
2. Develop a national financial inclusion strategy that reflects the challenges and opportunities detailed in the data collection and diagnostics. Having applied the diagnostic frameworks to highlight the gaps in inclusion and identified the DFS levers to address those gaps, these insights should then be channeled into the development of a strategy. The development and implementation of a national financial inclusion strategy should ensure the participation of the private sector as a key partner and consider the various use cases for stimulating DFS—for example, the digitization of large-volume government payments.

The challenges around implementing HLP 1 include collecting the accurate and comprehensive data needed to ensure that a national financial inclusion strategy is targeted to the conditions on the ground, and coordinating the various and necessary stakeholders from the public and private sector, as well as from outside the financial sector.

HLP 2: The Importance of Balancing Innovation and Risk to Achieve Digital Financial Inclusion: Balance promoting innovation to achieve digital financial inclusion with identifying, assessing, monitoring, and managing new risks. The following activities are key for effective implementation of HLP 2:

1. Identifying the risks in a jurisdiction is a critical first step. Risks particularly relevant to DFS include consumer, stability, and integrity risks. The regulatory and supervisory framework around DFS should be established to mitigate these risks without unduly constraining innovation in the market. Applying

the principle of proportionality for effective and balanced risk mitigation is essential to supporting innovation and achieving the benefits of greater inclusion.
2. Develop the tools needed to support innovation: Once the risk assessment is complete, policy makers should explore how further to support innovation while remaining vigilant about new risks that may arise from the same.

The challenge around implementing HLP 2 is getting the balance right between protecting the stability, integrity, and users of a financial system while creating an inclusive innovation-driven sector.

HLP 3: Provide an Enabling and Proportionate Legal and Regulatory Framework for Digital Financial Inclusion: Provide an enabling and proportionate legal and regulatory framework for digital financial inclusion, taking into account relevant standards and guidance from the G20 and international standard-setting bodies. The following activities are key for for effective implementation of HLP 3:

1. Ensure that the fundamentals of regulating the DFS landscape are in place, including entry requirements, prudential requirements, market conduct and integrity, financial consumer protection, safeguards for anti-money-laundering and countering the financing of terrorism, and an insolvency regime.
2. Ensure that the basic regulatory enablers for digital financial inclusion are in place.
3. Put in place public policy measures and initiatives that support the development of fintech activities.
4. Consider how the issues around regulatory perimeter, competition, outsourcing, and so on relate directly to fintech. Evaluate the regulatory treatment of the latest technological developments, of third-party providers/outsourcing, and of platform finance. Also, identify interventions that increase the value of data for poor and excluded customers, and mitigate risks. And finally, particularly because of the emerging role of bigtech and the impact it may have on small fintechs, evaluate the issue of competition.

A key challenge around implementing HLP 3 is that regulators and supervisors need to anticipate and respond to rapidly changing market conditions that may be especially challenging for small, low-income countries. Also, supervisory capacity and resources in the context of the current state of suptech and regtech are limited.

HLP 4: Expand the Digital Financial Services Infrastructure Ecosystem: Expand the DFS ecosystem—including the financial and the information and communications technology infrastructures—for the safe, reliable, and low-cost provision of DFS to all relevant geographical areas, especially underserved rural areas. The following activities are key for effective implementation of HLP 4:

1. Design key payment infrastructures that consider the use of new and existing technologies, products, and access modes in a balanced way to expand access to and usage of transaction accounts.
2. Ensure that information and communications technology and shared market infrastructures are effective in supporting financial inclusion efforts by providing critical information to financial service providers, including an identification infrastructure, a credit reporting system, and other data-sharing platforms.
3. Design effective transaction account and payment product offerings to meet a broad range of transaction needs of the target population and at low cost.
4. Ensure that access points are readily available to augment the usefulness of transaction accounts.

5. Conduct and coordinate ongoing and effective education and outreach with public- and private-sector stakeholders' efforts to support awareness and financial literacy.
6. Leverage large-volume and recurrent payment streams, including remittances, to increase the number and usage of transaction accounts.

Key challenges around implementing HLP 4 include aligning policy objectives with technology implementations, a lack of domestic interoperability, a lack of harmonized data standards for cross-border payments, the lack of a level playing field in accessing shared infrastructures, investment and operational costs, operational and cyber resilience challenges, a strong cash culture, digital exclusion and a lack of digital literacy and digital financial literacy, and market concentration.

HLP 5: Establish Responsible Digital Financial Practices to Protect Consumers: Establish a comprehensive approach to consumer and data protection that focuses on issues of specific relevance to DFS. The following activities are key to implementing HLP 5 successfully:

1. Follow key international standards and guidance, most notably the G20/OECD High-Level Principles on Financial Consumer Protection.
2. Update the legal, regulatory, and supervisory framework to address risks from digital innovations and new business models. Some of the key risks include (a) fintech operator fraud or misconduct, (b) platform/technology unreliability or vulnerability, (c) consumer disclosure and transparency in a digital context, (d) increased risk of product unsuitability, (e) conflicted fintech business models leading to conduct that is not in consumers' interests, and (f) algorithmic decision-making leading to potentially unfair outcomes and/or systemic biases against vulnerable populations.
3. Articulate clear requirements for financial service providers and their intermediaries to ensure the fair and equitable treatment of consumers and effective disclosure and transparency.
4. Introduce and enforce data-governance and privacy rules and protect consumers against fraud and misuse.
5. Have an accessible, affordable, timely, and transparent complaint-handling and redress mechanism that helps build customer trust.

The challenges around implementing HLP 5 include constant technological evolution and rapidly changing market conditions, with new non-bank actors, while ensuring a timely and adequate regulatory and supervisory response given capacity and resourse constraints faced by regulators.

HLP 6: Strengthen Digital and Financial Literacy and Awareness: Support and evaluate programs that enhance digital and financial literacy based on the unique characteristics, advantages, and risks of DFS and channels. The following activities are key to implementing HLP 6 successfully:

1. Follow key international guidance, most notably the G20/OECD INFE Policy Guidance on Digitalisation and Financial Literacy.
2. Collect evidence and develop a diagnostic to establish the level of awareness of, demand for, and usage of DFS, as well as the level of digital financial literacy.
3. Develop coordinated cross-stakeholder and cross-sectoral strategic approaches to strengthening digital financial literacy.
4. Develop competency frameworks on digital financial literacy.
5. Ensure the effective delivery of programs to enhance digital financial literacy.
6. Facilitate the evaluation of financial-education programs to enhance digital financial literacy.

The challenge around implementing HLP 6 is ensuring that digital-literacy programs keep pace with rapid innovation in DFS. Also required is a more empirical approach to evaluating the impact of initiatives aimed at supporting digital financial literacy.

In addition to providing guidance on implementation approaches and best practice, this guide also provides a self-assessment tool that will allow countries to evaluate their progress on each HLP and consider prerequisites and sequencing for given actions. The questions in each HLP-specific checklist are organized as they correspond to the building blocks in the guidance chapters and are ordered according to two levels: the first focuses on minimum standards that should be in place in any jurisdiction where digital financial products and services are being delivered, and the second focuses on additional policy and regulatory levers and tools that can be employed to address newly emerging risks specifically and more effectively.

HLPs 7 and 8 have not been discussed in separate dedicated chapters considering the existing and ongoing work on these topics and still evolving international good practice. But these HLPs, and the resources relevant to their implementation, also warrant attention.

HLP 7: Facilitate Customer Identification for Digital Financial Services: Facilitate access to digital financial services by developing, or encouraging the development of, customer identity systems, products and services that are accessible, affordable, and verifiable and accommodate multiple needs and risk levels for a risk-based approach to customer due diligence.

Among existing guidance on HLP 7, the GPFI note on Digital Identity Onboarding published under the Argentinian Presidency in 2018 outlines seven policy measures, that governments should consider in order to have an identity effective ID system that meets the goal of including everyone in the financial sector:

1. Ensure an integrated identity framework
2. Consider the appropriateness of the regulatory framework to capture the challenges related to digital ID, and risks to its appropriate implementation; deliberate updates to the regulatory framework;
3. Establish a reliable oversight model to include stakeholders beyond the traditionally regulated financial institutions who can introduce risks to digital ID systems
4. Build authentication and service delivery systems that protect user privacy, and provide individuals with the right to access their data and oversight over how their data is shared
5. Establish clear and well-publicized procedures for citizen redress, including defining where the responsibility lies if errors emerge or if the security of a person's identity is compromised
6. Support and empower development of private sector led services to leverage the legal ID infrastructure for building out digital layers. These services should be safe, reliable efficient, and interoperable, and the market should be competitive
7. Public authorities should closely monitor new approaches to ID that are emerging, with a view to share knowledge and establish common legal frameworks at the domestic and international levels.

Additionally, the GPFI report on Advancing Women's Digital Financial Inclusion delivered under the Saudi Presidency, has prioritized universal access to official identity systems and documents for all women and girls. This is particularly relevant as the lack of ID was cited as the main barrier for bank account access for one in five women globally.

Other resources relevant to HLP 7

- BTCA: Reaching Financial Equality for Women, 2021
- CGAP: Risk-Based Customer Due Diligence: Regulatory Approaches, 2019
- FATF: COVID-19-Related Money Laundering and Terrorist Financing: Risks and Policy Responses, 2019
- FATF: FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion, with a Supplement on Customer Due Diligence, 2017
- ID4D/World Bank Group: Principles on Identification for Sustainable Development: Toward the Digital Age, 2021
- ITU: Digital Financial Inclusion, 2021
- ITU: e-KYC Use Cases in Digital Financial Services, 2021
- ITU: Implementation of Secure Authentication Technologies for Digital Financial Services, 2020
- World Bank: Digital ID Assessment Instrument: Financial Sector Module, 2021
- World Bank: Digital ID to Enhance Financial Inclusion: A Toolkit for Regulatory Authorities, 2021

HLP 8: Track Digital Financial Inclusion Progress: Track progress on digital financial inclusion through a comprehensive and robust data measurement and evaluation system. This system should leverage new sources of digital data and enable stakeholders to analyze and monitor the supply of—and demand for—digital financial services, as well as assess the impact of key programs and reforms.

The G20 Financial Inclusion Indicators serve to inform policy makers and to enable monitoring of financial inclusion development, both at national and global levels, when used in conjunction with additional country-specific indicators. The World Bank's Global Findex Database comprises a comprehensive list of key digital financial inclusion indicators for countries to track progress against and is sex-disaggregated, which makes it particularly useful to increase women's digital financial inclusion. Findex data is also used to track progress against SDG8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

The World Bank and CPMI's Payment Aspects of Financial Inclusion: Application Tools contains the PAFI questionnaire, which is a tool for authorities that are interested in carrying out a self-evaluation exercise in their application of the guiding principles.

Other resources relevant to HLP 8

- AFI: National Financial Inclusion Strategy Monitoring and Evaluation Toolkit, 2021
- AFI: Digital Financial Service Indicators, 2019
- CPMI: Payment Aspects of Financial Inclusion in the Fintech Era, 2020
- CPMI: Payment Aspects of Financial Inclusion, 2016
- OECD: OECD/INFE Toolkit for Measuring Financial Literacy and Financial Inclusion 2022, 2022
- World Bank: Global Financial Inclusion and Consumer Protection (FICP) Survey (database and reports)
- World Bank: How to Measure Financial Inclusion, 2015

Background and Context

The Global Partnership for Financial Inclusion (GPFI) is an inclusive platform for all G20 countries, interested non-G20 countries, and relevant stakeholders to carry forward work on financial inclusion. The GPFI's efforts include helping countries put into practice the 2020 G20 Financial Inclusion Action Plan, strengthening data for measuring financial inclusion, and developing methodologies for countries wishing to set targets. Digital financial inclusion is a key priority topic under the 2020 G20 Financial Inclusion Action Plan.

Digital technologies offer a powerful solution for expanding access to financial services to the estimated 1.4 billion adults globally who are still excluded from the formal financial system. By enabling innovative business models, digital technologies can help connect more people at lower costs—including those living in rural and remote areas—to critical financial services that help people manage their financial lives. Leveraging the opportunities that technology offers to reduce costs, expand scale, and deepen the reach of financial services will be critical to achieving universal financial inclusion. (See boxes A.1 and A.2 for detailed definitions of "financial inclusion" and "digital financial inclusion.") Digital financial inclusion promotes efficient interconnection among participants in economic activities.

Increased levels of financial inclusion can reduce poverty, enhance resilience, and improve the lives of the poor and underserved segments, women, youth, micro, small, and medium-sized enterprises (MSMEs), and displaced populations. The 2010 G20 Principles for Innovative Financial Inclusion spurred initial efforts and policy actions to promote financial inclusion. In 2016, the G20 published the High-Level Principles (HLPs) for Digital Financial Inclusion to build on that success by providing a basis for country action plans reflecting country context and national circumstances to leverage the huge potential offered by digital technologies. These eight HLPs are based on the rich experience reflected in standards and guidance from the G20 and international standard-setting bodies.

The G20 HLPs for Digital Financial Inclusion are a catalyst for action for the G20 to drive the adoption of trustworthy digital approaches to achieve financial inclusion goals, as well as the related G20 goals of inclusive growth and increasing women's economic participation. The HLPs recognize the ability of digital approaches to scale the access to financial products and services in a more effective and efficient way, particularly for those who are financially excluded and underserved. COVID-19 has also accelerated the acceptance and adoption of digital products, services, and platforms; for these gains to endure and close financial inclusion gaps, digital financial products and services need to serve customer needs adequately and be secure and trusted. They also need to align with global standards, including standards for anti-money-laundering and countering the financing of terrorism (AML/CFT), and to protect user privacy. Underserved groups—which typically include poor people, women, youth, and people living in remote rural areas—require special attention.

One of the priority action areas for the GPFI in 2022 is encouraging effective implementation of the 2016 G20 HLPs for Digital Financial Inclusion in G20 and non-G20 countries, particularly with respect to underserved and vulnerable groups, according to national circumstances. An effective way to implement the HLPs is through applicable national strategies and related country action plans or other country-level actions that consider country context and national circumstances. This implementation guide builds on

the work undertaken under previous G20 Presidencies to facilitate these objectives. For instance, the 2017 G20/GPFI report Digital Financial Inclusion: Emerging Policy Approaches discusses emerging country strategies and policy approaches to increase the use of digital financial services (DFS), with a focus on the roles of policy makers and regulators with respect to HLPs 1–4. The 2020 G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs further provides sets of featured policy options targeting financial inclusion gaps for youth (subject to child-protection frameworks where relevant), women, and small and medium-sized enterprises (SMEs) through DFS to reach conditions in which all people can live, work, and thrive, as well as utilize and share benefits of innovations and digitization. This implementation guide draws on examples related to digital financial inclusion of the underserved and vulnerable groups (including the poor, youth, women, migrants, the elderly, persons with disabilities, and forcibly displaced persons) and MSMEs.

This implementation guide focuses on HLPs 1–6 and dedicates a chapter to each HLP, emphasizing practical "how-to" approaches and replicable examples of good practices. HLPs 1–6 are pertinent for three reasons: The first is the significant supply-side innovations and regulatory responses that have emerged in the last five years since the HLPs were issued. Second is the urgent need to acknowledge and mitigate the resulting risks faced by lower-income or formerly excluded customers who have been onboarded rapidly and in significant numbers because of the pandemic. This includes the more digitally savvy youth and MSMEs and the disproportionate risks and bias faced by women. Third, HLPs 1–6 are the most relevant to the Indonesian Presidency's goals of supporting productivity, inclusive growth, and financial-sector resilience and reforms.

HLP 7 (Facilitate Customer Identification for Digital Financial Services) and HLP 8 (Track Digital Financial Inclusion Progress), while equally important to furthering these goals, have been discussed only briefly in this document, considering the existing and ongoing work on these topics and still evolving international good practice. Furthermore, the implementation of HLPs 7 and 8 depends heavily on individual country context and national circumstances. The compendium of resources at the end of this document lists further resources relevant to HLPs 7 and 8 for reference and guidance. *(See Executive Summary for a brief discussion on HLPs 7 and 8.)*

This implementation guide has the dual objectives of guidance and assessment:

- **Guidance:** Each HLP-specific chapter reviews (i) common implementation approaches and (ii) good practices and lessons learned. To the degree that existing effective approaches, tools, and reference guides have been established in these areas, these are cataloged for ease of reference.
- **Assessment:** Leveraging the guidance provided in the earlier chapters for the implementation guide, a self-assessment tool has been developed in the appendix to help both G20 and non-G20 members understand where they stand with regard to adoption of HLPs 1–6. These questions are closely aligned with the policy options, innovations, and good practices that are discussed in earlier chapters specific to each HLP. This tool may serve as the basis for the progress reports planned in 2023 on the adoption of HLP by countries considering the rapid progress of digitization.

Box A.1: A Working Definition of "Financial Inclusion"

The GPFI's working definition of "financial inclusion" refers to a state in which all working-age adults[1] have effective access to the following financial services provided by formal institutions: savings (defined broadly to include transaction accounts), payments, credit, insurance, and investments. However, formal products and providers might not offer customers better value than informal products and providers in all cases, as may be evident from cases where there is access but limited or no usage by financially excluded and underserved customers.[2]

"Effective access" involves convenient and responsible delivery of services that are responsive to the needs of financially excluded and underserved customers at a cost affordable to the customers, suitable for customer needs, and sustainable for the providers. The demonstration of effective access is usage. The fact that a customer can access services offered by a formal financial service provider (FSP) does not mean she or he is "financially included." For this, the conditions of "effective access" must be met.

"Financially excluded and underserved" refers to those who do not have access to or are underserved by formal financial services. An estimated 1.4 billion adults worldwide do not have a savings or credit account with a bank or other formal financial institution (Global Findex 2021). This figure, however, is only a rough proxy for the number of persons worldwide who are financially excluded, as it sheds no light on factors such as the quality, affordability, sustainability, cost, or convenience of the savings and credit accounts to which others have access, and it does not measure access to payment services, insurance, or investments.

"Responsible delivery" involves both responsible market conduct by providers and effective financial consumer protection oversight. The specific characteristics of excluded consumers have significant implications for effective consumer protection regulation and supervision, and therefore relevance for guidance from standard-setting bodies. Relevant characteristics include limited experience with, and sometimes distrust of, formal FSPs, lower levels of education and financial capability, few formal providers to choose from, and often remote locations.

"Formal financial institutions" refers to FSPs that have a recognized legal status and includes entities with widely varying regulatory attributes and subject to differing levels and types of external oversight.

Other commonly used definitions of "financial inclusion" include the following:

- Access to, and use of, formal financial services by households and firms (Sahay et al. 2015).
- Universal access to, and use of, a wide range of reasonably priced financial services (HM Queen Maxima of the Netherlands, United Nations Secretary-General's Special Advocate for Inclusive Finance for Development)

[1] This focus on working-age adults is not intended to ignore the distinct financial service needs of youth, those in old age, or SMEs. Similarly, it should be acknowledged that it does not capture gender-linked barriers to financial inclusion.

[2] There are specific challenges to women's financial inclusion, given, for example, difficulties in account opening, among other constraints. The Global Findex database shows that women in developing countries are less likely to have an account than men, even after controlling for income and other individual characteristics. In developing economies, the gender gap has fallen to six percentage points in 2021 from nine percentage points in 2014, which had remained unchanged for several years.

Sources: G20/GPFI: Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape, 2016; UNSGSA: https://www.unsgsa.org/the-unsgsa; IMF: https://www.imf.org/external/pubs/ft/sdn/2015/sdn1517.pdf, 2015.

Box A.2: Definition of "Digital Financial Inclusion"

The GPFI describes digital financial inclusion broadly as "the use of digital financial services to advance financial inclusion." Digital finance covers a broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances, and insurance. The concept also includes mobile financial services. Digital financial inclusion involves the deployment of digital means to reach financially excluded and underserved populations—recognizing the particular significance for women—with a range of formal financial services suited to their needs, delivered responsibly at a cost affordable to customers, and sustainable for providers. This includes the deployment of secure and responsible digital-enabled services that extend the reach of formal financial services on a sustainable basis and addressing the potential risks of such technologies, including data-protection and privacy issues, cybersecurity, overindebtedness as well as money-laundering, the financing of terrorist proliferation, fraud, and other illicit finance risks. Financial education and consumer protection complemented with regulation are key factors in protecting and empowering the most vulnerable groups.

I. HLP 1: Promote a Digital Approach to Financial Inclusion

Statement of the HLP: Promote digital financial services as a priority to drive development of inclusive financial systems, including through coordinated, monitored, and evaluated national strategies and action plans.

1.1 Context: Importance of the HLP, Statement of Challenges in Current Market Contexts

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs—transactions, payments, savings, credit, and insurance—delivered in a responsible and sustainable way. Digital financial inclusion involves the deployment of the cost-saving digital means to reach populations that are currently financially excluded and underserved with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers.

This chapter discusses key guidance on how authorities may promote DFS as a key lever of financial inclusion. Since 2016, when the HLPs were first adopted, fintech-led innovations in technology, business models, applications, processes, and products have resulted in the rise of DFS that are contributing to lower costs and greater speed, transparency, and security, as well as new channels for offering tailored

financial services at scale to the poor and financially underserved.[3] In recent years DFS have become an important driver of financial inclusion, especially in emerging markets and developing economies (EMDEs). In fact, in many EMDEs, the recent gains in inclusion have been catalyzed in large part by the growth of DFS. This has been the case particularly for vulnerable populations such as women, youth, rural dwellers, and low-income earners. The G20 High-Level Policy Guidelines (HLPGs) on Digital Financial Inclusion for Youth, Women and SMEs provides more detail on leveraging DFS for the underserved. In particular, HLPG 4 (Support the Adoption of Targeted Policies and Initiatives in National Strategies), which is focused on supporting the adoption of targeted policies and initiatives and policies in national strategies, is highly relevant to this HLP.

On the supply side, digitally enabled business models can significantly lower costs for providers, improve competition and choice in the provision of DFS, and increase convenience and accessibility for consumers, thereby addressing the low uptake and usage of financial products and services. DFS also provide the means for consumers to make necessary financial transactions without physical interaction, something that is particularly beneficial in the COVID-19 era. On the demand side, digitally enabled business models provide tools to address volatility and low incomes for the poor and offer solutions for overcoming the lack of an ID, a lack of trust in formal financial systems, and geographical barriers.

Beyond their impact on individuals, DFS also have a significant benefit to MSMEs, particularly by facilitating access to finance. In addition, some countries have been deliberate in promoting DFS because of their contribution to the achievement of sustainable development goals, most notably those related to reducing inequality, eradicating poverty, and increasing employment and economic empowerment.

1.2 A Framework for Implementing HLP 1

Given all the potential benefits that DFS can stimulate for both individuals and MSMEs, it is important to outline how policy makers can successfully promote DFS as a key lever for achieving financial inclusion. In promoting DFS, it is necessary to ensure the following:

- Economic and technological feasibility: It is impossible to encourage (stimulate) the use of digital technologies to ensure the availability of financial services if digital channels for the provision of financial services are more difficult and more expensive than traditional channels).
- Exclusion of regulatory arbitrage with traditional financial services: The way a certain service is regulated should not be affected by the channel used to provide it.
- Competitive access: When expanding the ecosystem of DFS or encouraging the use of digital technologies, any form of support—as well as access to the digital services market (including information and infrastructure)—should be provided on a competitive, fair, and transparent basis.

Countries can take the following steps to maximize inclusion gains as catalyzed by DFS:

(a) Understand the Financial Inclusion Landscape

[3] CPMI, World Bank: Payment Aspects of Financial Inclusion in the Fintech Era, 2020.

To develop appropriate, effective, and timely measures to increase digitally enabled financial inclusion, policy makers must first undertake a detailed interrogation of their financial landscape with a focus on determining how DFS have (or have not) played a role in achieving inclusion objectives. The diagnostic should aim to identify specific groups that are underserved by financial services and by DFS—for example, women, rural populations, the elderly, and the poor.[4] The insights resulting from this diagnostic exercise can then be used to develop and implement the policy efforts needed to develop a broader DFS ecosystem. Below are three frameworks that are complementary and can be applied concurrently to reveal those insights.

Framework 1 deploys the Payment Aspects of Financial Inclusion in the Fintech Era[5] (PAFI) framework, which details how to advance financial inclusion primarily through digital payments. The framework guides policy makers to evaluate their strengths, weaknesses, opportunities, and threats as they relate to the following critical enablers:

- Financial and information and communications technology (ICT) infrastructure
- Legal and regulatory framework
- Public- and private-sector commitment

The framework specifically calls for regulators to understand the opportunities and constraints within the following four drivers of access and usage:

- Transaction account and payment product design
- Readily available access points
- Awareness and financial literacy
- Large-volume recurrent payment streams

A PAFI application tool report has also been issued to provide detailed guidance to policy makers on using the PAFI framework. The guide contains several tools designed to assist national authorities by (i) supporting country diagnostics, with particular regard to a thorough collection of information to ensure a consistent application of the PAFI guidance; (ii) proposing core indicators for each of the guiding principles to measure and track progress in enhancing access to and usage of transaction accounts;[6] (iii) enabling comparisons with international benchmarks and/or with a jurisdiction's own situation over time; and (iv) facilitating internal follow-up and reporting of actual reform efforts in the area of financial inclusion from a payments perspective.

Framework 2 requires policy makers to identify constraints related to the following policy actions, which might inhibit the safe and efficient development and growth of DFS:

- Enabling financial and digital infrastructure (payment systems, credit infrastructure, and digital connectivity infrastructure)
- Ancillary government support systems (data platforms, digital ID,[7] and financial-management platforms)

[4] Findings from the Global Findex 2021 show that gender gaps and rural-urban gaps in account ownership and digital access persist across many countries.
[5] The PAFI framework will be discussed in greater detail in HLP 4.
[6] This is also relevant to the implementation of HLP 8.
[7] See also HLP 7 on facilitating customer identification for DFS.

- Conducive legal and regulatory frameworks (enabling new players to offer DFS and new approaches by incumbents, promoting competition and a level playing field, safeguarding consumer protection, and fostering demand for DFS and customer confidence in DFS)

Given a country's appraisal of which stage of DFS development they are in—stage 1 being the very early stages and stage 4 being fully digital—policy makers can determine which of the following actions they should take within each of the relevant categories of enablers. For more information, HLP 3 delves more deeply into regulatory enablers, and HLP 4 does so on infrastructure.

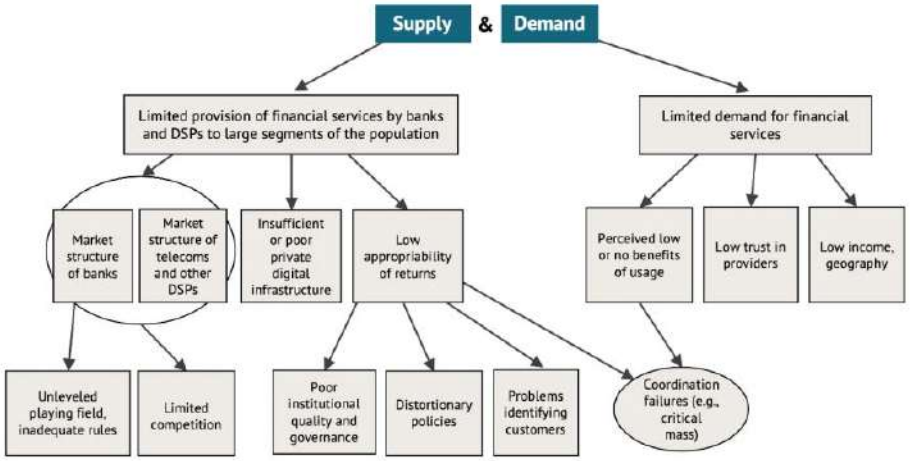
Figure 1.1: Policy Actions and Enablers by Development Stages[8] [9] [10]

Policy Actions and Enablers	Stage 1: Basic access to transaction accounts	Stage 2: More intensive usage of transaction accounts for digital payments	Stage 3: Moving beyond payments to other DFS products (e.g. credit, insurance)	Stage 4: Widespread adoption and usage of DFS by individuals and SMEs
Enabling financial and digital infrastructures	• Foster good penetration of mobile phones and connectivity	• Foster functioning payment systems and enabling interoperability	• Establish credit infrastructure and enhance coverage of credit-relevant data	• Support universal broadband connectivity • Facilitate high penetration of smartphones
Ancillary government support systems		• Enhance financial management system to support intensive shift of G2P payments to digital	• Establish and expand coverage of digital ID	• Enable automated access to digitized government data platforms
Conducive legal and regulatory frameworks	• Allow non-bank issuance of e-money • Implement simplified customer due diligence (CDD) • Enable development of widespread agent network	• Adopt payment systems law • Enable non-banks access to payment systems • Robust consumer protection framework in place • Develop and implement competition policy	• Establish comprehensive regulatory framework for DFS providers • Adopt comprehensive legal measure for data protection and privacy • Enable and encourage DFS providers to expose and use APIs	• Adopt legal measures to enable open banking

Framework 3 takes a decision-tree approach to diagnosing constraints to DFS development. While some countries are achieving impressive inclusion gains through DFS, others face significant challenges. A decision tree can be used to diagnose the country-specific root causes of shortfalls and prioritize needed actions. The tree framework divides binding constraints (branches of the tree) into two categories: those affecting digital service providers and banks that are providing financial services (the supply side of the tree), and those affecting the customers of those services (the demand side of the tree), recognizing that some constraints affect both sides.

Figure 1.2: Determinants of Inadequate Financial Inclusion Using Digital Services[11]

[8] World Bank: Digital Financial Services, 2020.
[9] The first enabler, Enabling Financial and Digital Infrastructures, is discussed in chapter 4.
[10] The fourth enabler, Conducive Legal and Regulatory Frameworks, is discussed in chapter 3.
[11] CGD: A Decision Tree for Digital Financial Inclusion Policymaking, 2020.



The following additional exercises can be undertaken to determine which constraints dominate and/or are binding:

- Test to establish if the pricing of financial services reveals price to be a supply-side or a demand-side constraint. (For example, is low uptake of DFS due to high price, or is low price indicative of low demand?)
- Establish whether the relaxation of a constraint produces significant improvements in inclusion (for example, opening up e-money issuance to non-bank financial institutions).
- Remove a constraint to reveal which ones are truly binding (for example, enacting a law to remove a supply constraint only to expose the more binding constraint of low demand stemming from low digital literacy).

(b) Develop a National Financial Inclusion Strategy That Reflects the Challenges and Opportunities Detailed in the Data Collection and Diagnostics

After having applied the frameworks in subsection 1.2(a) above to highlight the gaps in inclusion, and having identified the DFS levers to address those gaps, these insights can be channeled into the development of a national financial inclusion strategy (NFIS) that speaks directly to the challenges and opportunities identified. An NFIS provides an effective instrument to chart a clear and coordinated path toward improved financial inclusion. It enables stakeholders jointly to define financial inclusion objectives, identify obstacles and opportunities relevant to the achievement of those objectives, and outline a prioritized set of actions to pursue in a coordinated manner. Box 1.1 highlights the example of Ghana's DFS policy, which was launched alongside its NFIS. Also refer to G20/GPFI Digital Financial Inclusion: Emerging Policy Approaches for examples of strategies with a digital focus featuring China, Mexico, Pakistan, the Philippines, and Tanzania.

Box 1.1: Ghana Launches a DFS Policy alongside Its NFIS

In 2020, Ghana launched a DFS policy alongside its NFIS. The policy was born out of a need to specify how DFS could be deployed to support the country's financial inclusion goals. Indeed, DFS has had a monumental impact on inclusion in the country. The percentage of people over 15 years old with an active mobile money account rose from 2 percent in 2012 to 65 percent in 2018. The DFS policy—consisting of 43 actions to be taken by the public or private sector—serves as a blueprint for achieving short- and medium-term progress in Ghana's cash-lite vision.

Sources: Ghana Ministry of Finance and Economic Planning; CGAP, 2018.

Each country must determine based on its needs assessment which policy areas to pursue in its NFIS. A sample NFIS might focus on the following policy drivers:

- Widespread and accessible delivery channels: agents, branches, ATMs, point-of-sale (POS) terminals, mobile phones
- Diverse, innovative, customer-centric products: DFS, savings, credit, payments, insurance, pensions, and so forth
- Finance for SMEs and agricultural-sector growth: SME finance, agricultural finance, and so on, in light of growing opportunities to formalize small businesses and improve their access to finance through digitization
- Financial consumer protection and capability: disclosure, dispute resolution, business practices, financial education. This is particularly important given the emerging consumer risks related to digital products in view of the vulnerable population that tends to use DFS. *(See chapter 5 for a detailed discussion of financial consumer protection.)*

Regardless of an NFIS's areas of focus, the following are key levers that have been shown to propel digitally enabled inclusion. Policy makers should consider them as they develop their strategy.

(i) The Opportunities to Digitize Large-Volume Payment Streams

As mentioned above, the PAFI framework identifies digitizing large-volume recurrent payment streams as a catalytic pillar for driving the uptake and usage of transaction accounts.[12] Digitizing government payment flows has significant potential to reduce costs dramatically, increase efficiency and transparency, and help recipients build familiarity with digital payments. Digital wage and social transfer payments can also provide the on-ramp to inclusion and often the first account that recipients have in their own name and under their control. In light of this, an NFIS should specifically explore how government-to-person (G2P) and person-to-government (P2G) payments can be leveraged to drive inclusion.

The benefits of digitizing government flows notwithstanding, it is not without its challenges. It may require significant up-front investments to build an adequate physical payment infrastructure that is able to process such payments, as well as a financial identification system and a consumer protection and

[12] This report also has a dedicated application tool that can be found here.

education framework to ensure that recipients have safe, reliable, and affordable access to the digital payment system. The NFIS should therefore leverage public-private partnerships and cross-stakeholder engagement to identify lasting solutions to these challenges. Box 1.2 highlights an example of G2P payment digitization, and box 1.3 provides an example of P2G digitization. See also G20/GPFI Digital Financial Inclusion: Emerging Policy Approaches (2017) for examples of G2P digitization in Brazil and Mexico.

Box 1.2: Government-to-Person Payments: The Case of India

In 2013, the Government of India digitized the payment of cash subsidies and benefits, directing those payments into bank accounts that were linked to a digital biometric ID card called Aadhaar. By March 2022, more than 440 direct benefit transfer schemes covering farm and non-farm subsidies, social protection payments, scholarships, conditional cash transfers, and other government payments were disbursed to some 450 million beneficiaries, many of whom previously had no bank account. Globally, digitizing G2P payments could increase the number of adults with an account by up to 160 million by bringing into the financial system the 11 percent of government transfer recipients worldwide who receive either government wages or transfers only in cash (as opposed to those who receive it in a combination of cash, in-kind, vouchers, and so forth). Evidence further suggests that digitizing G2P payments might be especially valuable to women, who benefit from the greater confidentiality and control such payments offer and can contribute to their economic empowerment within their households. In India alone, the direct benefit transfer schemes have reached more than 250 million women.

Source: Government of India: Pradhan Mantri Jan Dhan Yojana, March 2022.

Box 1.3: Person-to-Government Payments: The Case of Côte d'Ivoire

In 2015, the Central Bank of West African States issued regulations that encouraged non-banks to issue e-money. Mobile money providers in Côte d'Ivoire then partnered with the government to launch what would become a very successful solution for the payment of school registration fees. As a result of this initiative, 99 percent of the country's 1.5 million secondary school students paid their school fees digitally—94 percent via mobile money transactions and 6 percent via online payments. The initiative has also driven cost and operational efficiencies and generated important transaction values for mobile money providers, all of which have improved the viability of the DFS ecosystem.

Source: The World Bank Research Observer, 2017; GSMA, 2015; Taylor & Francis Online, 2019.

(ii) The Importance of Having a Multistakeholder Engagement and Collaboration Model

Particularly as it relates to centering DFS in an inclusion strategy, having close collaboration between public- and private-sector actors is critical in each step of designing and implementing the NFIS. In addition to the central bank, which often takes the lead with the strategy, the following stakeholders should be involved: financial-sector authorities, the ministry of finance, the ministry of justice, the ICT regulator, industry associations (banks, payments, microfinance institutions, cooperatives, telecoms), fintech companies, and the ministry of social affairs—with consideration to any conflict of interest. As an example, South Africa's National Treasury, which is in the process of developing an NFIS, held in-person consultations with 15 government agencies and incorporated written feedback from more than 50 other private-sector actors/associations.[13] Particularly as it relates to DFS, the private sector is a key partner that can shed light on how NFIS action items can be supported by supply-side initiatives aimed at low-income populations. The private sector also has a significant role to play in providing inputs to the monitoring and evaluation of NFIS targets. Finally, operationalizing NFIS governance entities—including a high-level NFIS Council, an NFIS Implementation Committee, an NFIS Secretariat, and working groups—is important to ensure effective collaboration and consultation. These entities should have clear mandates and be composed of relevant and effective individuals.

(iii) Other Key Success Factors in NFIS Development

The following key success factors for NFIS development and operationalization have been highlighted:

- Early and sustained engagement of relevant stakeholders—including the private sector—to create broad buy-in and align efforts across financial and nonfinancial policy areas
- Investment in data and diagnostics work to ensure that the NFIS is grounded in a robust evidence base and accurately identifies constraints and opportunities relevant to the achievement of greater financial inclusion
- Identification of high-level champions within key institutions who can integrate relevant NFIS actions into institutional work plans and advance their implementation
- Clear articulation of NFIS objectives and targets to ensure a shared understanding of expected outcomes
- Prioritization of forward-looking NFIS actions that emphasize digital approaches, proportionality, and the needs of financial consumers
- Establishment of inclusive but efficient governance arrangements to facilitate collaboration and consultation throughout the NFIS implementation period
- Mobilization of resources prior to NFIS launch—including those needed for "quick win" actions and Secretariat staff—to build momentum and demonstrate credibility
- Effective communication and branding of the NFIS, including the signaling of early implementation successes
- Flexibility to adapt NFIS elements during implementation to reflect market developments and emerging policy priorities
- Well-resourced and robust system of monitoring and evaluation to track implementation progress, identify bottlenecks, and inform course corrections

[13] National Treasury of the Republic of South Africa, 2022.

Box 1.4: Mexico Uses Technology to Facilitate and Monitor Digitization

In 2017, the Central Bank of Mexico began developing a payment scheme called Cobro Digital (Codi) to digitize payment transactions securely and at no additional cost. This was part of the bank's goal of transitioning to a cashless economy. In addition, it also launched a real-time progress-monitoring platform that is used to monitor the transparency and accountability of their NFIS. This tool includes interactive data visualizations launched online and—along with frequent demand- and supply-side surveys—has facilitated evidence-based approaches that have helped Mexico drastically reduce the gender gap in inclusion.

Source: Inter-American Development Bank, 2019.

1.3 Challenges in Implementing HLP 1

One common challenge associated with implementing a digital-first approach to financial inclusion is coordinating the various stakeholders—from the public and private sector and from outside the financial sector (for example, telecom ministries, ministries of justice, competition authorities, data-governance entities)—all of whom need to be involved for a successful outcome. These stakeholders must all demonstrate a high level of commitment and buy-in, particularly in light of varying objectives, conflicts of interest, and differing priorities. This buy-in is critical because, without it, everything from development to implementation will suffer from inertia.

Another challenge that often presents itself during the diagnostic phase is the inability to collect the accurate and comprehensive data—including on underserved and vulnerable groups—needed to ensure that strategies and action plans are appropriate and do lead directly to improvements in financial inclusion. This is particularly the case in data-poor environments or where budgets are constrained, making it difficult to justify what is often a heavy cost for data collection at a national scale.

1.4 Looking Forward

DFS are increasingly catalytic tools for financial inclusion. Understanding and optimizing the role they play in national inclusion goals starts first and foremost with broad diagnostics to highlight the binding constraints, whether these be from the supply or demand side. The data and insights collected from these assessments will then inform the objectives, policy areas, and action items of an NFIS. Of course, low digital literacy, limited digital financial literacy, the digital gender divide, poor ICT and payment infrastructure, and other challenges slow inclusion through digital means. These challenges should not deter policy makers, however, from centering DFS in inclusion plans, given the positive role DFS have played in achieving inclusion, particularly in EMDEs. *Chapter 2 discusses other initiatives being adopted by authorities to foster innovations by the public and private sector to further digital financial inclusion.*

Developing digital approaches to financial inclusion is catalytic for both SMEs and individuals. This is particularly true because in the developing world, SMEs make up 90 percent of the private sector and create more than 50 percent of jobs in their corresponding economies. What's more, in Africa, SMEs provide an estimated 80 percent of jobs across the continent, representing an important driver of economic growth. As such, driving financial inclusion for individuals, the vast majority of whom are working in the informal SME space, directly supports inclusive growth overall.

Resources Relevant to HLP 1

- World Bank: FISF Learning Series (videos on NFIS development and operationalization), 2021
- AFI: National Financial Inclusion Strategy Monitoring and Evaluation Toolkit, 2021
- AFI: Bringing the Informal Sector Onboard (toolkit), 2021
- CPMI, World Bank: Payment Aspects of Financial Inclusion in the Fintech Era, 2020
- CPMI, World Bank: Payment Aspects of Financial Inclusion: Application Tools, 2020
- World Bank: Digital Financial Services, 2020
- G20/GPFI: High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, 2020
- CGD: A Decision Tree for Digital Financial Inclusion Policymaking, 2020
- World Bank: Developing and Operationalizing a National Financial Inclusion Strategy: Toolkit, 2018
- UN, BTCA, UNCDF, World Bank: Igniting SDG Progress through Digital Financial Inclusion, 2018
- CGAP: Customer Centric Guide, 2016
- World Bank: Coordination Strategies for Financial Inclusion Strategies and Reforms, 2013

II. HLP 2: Balance Innovation and Risk to Achieve Digital Financial Inclusion

Statement of the HLP: Balance promoting innovation to achieve digital financial inclusion with identifying, assessing, monitoring, and managing new risks.

2.1 Context: Importance of the HLP, Statement of Challenges in Current Market Contexts

Maintaining the stability and integrity of the financial system and fostering the development of a system that is open and inclusive is a balancing act that can be hard to achieve. Innovation in financial services has provided ample opportunity to extend the reach and usability of financial services, making them more accessible than ever before. However, with greater innovation comes new and at times unforeseen risks. The G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs provides more detail on balancing innovation and risks. HLPG 6 (Consider Developing a Regulatory Framework That Supports Responsible Innovation in Private and Public Sectors) is particularly relevant.

The introduction of new products utilizing new methods for reaching and interacting with clients can bring about new threats. Providing services to newer consumers, who may be less familiar with engaging with financial services and/or innovative products, can leave them vulnerable; the speed of change in how customers engage with financial services can see regulators playing catch-up with the industry. This is

particularly true for EMDEs, where one finds a greater proportion of vulnerable groups that are excluded from the formal financial system.

Finding the right balance means creating an environment that adapts agilely to the changing landscape of financial services while also understanding the types of consumers that innovative services are trying to reach. This translates to having an evidence-based financial inclusion strategy, outlining clear objectives for meeting the needs of the target populations, and coupling this with a proportionate regulatory framework *(see chapter 3, on HLP 3)* that will allow for innovative services to grow and thrive, to serve these groups in a safe and efficient way.

It is important to note that many of the tools and approaches outlined in this chapter will be relevant to, and discussed in, subsequent chapters of this guide. Their reference here is to highlight their importance to achieving an overarching policy environment that protects consumers and financial systems while facilitating access for all. The context for which these tools are discussed in subsequent chapters will be relevant to the specific context of those chapters.

2.2 A Framework for Implementing HLP 2

(a) Understanding and Managing the Risks in a Jurisdiction

Understanding and managing risks will be essential to establishing an effective framework. In the context of DFS, risks can come in many forms:

- Financial stability risks
- Financial integrity risks
- Risks to consumers

The regulatory and supervisory framework for overseeing the provision of various DFS in a given jurisdiction should be designed to address these challenges while ensuring that the approach taken is implemented in a manner that safely ensures access for excluded groups. There are a number of international standards, guidance, and resources that authorities should reference when working to produce a balanced policy environment for promoting innovation.

(i) Implementing a Proportionate Approach to Regulating and Supervising Banks and Non-Banks

The Guidance on the Application of the Core Principles for Effective Banking Supervision to the Regulation and Supervision of Institutions Relevant to Financial Inclusion examines the risks presented by banks and other financial institutions in their endeavors to reach unserved and underserved customers and, using the lens of the Basel Core Principles for Banking Supervision, guides prudential supervisors on the application of a proportionate regulatory and supervisory approach. Getting the balance right between promoting innovation and managing risk requires, at a foundational level, the effective application of the underlying principle of proportionality to how financial institutions are regulated and supervised. To do this effectively, regulators can learn from experiences in their own and other jurisdictions, recognizing that an agile approach will also be important.

A critical aspect of this is the application of proportionality to how non-bank financial institutions—including payment service providers (PSPs), microfinance institutions, and fintechs—are regulated and supervised—particularly because they tend to be the drivers of inclusion-focused financial services. Ensuring a regulatory regime that adequately addresses the risk in their business models will be a key component to allowing for greater innovation in a market. Given that many of these providers are PSPs offering transaction and store-of-value services, there is an important role for payment system overseers to ensure that they conduct their activities in a manner that is safe for consumers and doesn't undermine the stability of the overall financial system. Ultimately, several fundamental questions need to be asked, and the guidance provides a useful overview against each of the Basel Core Principles. Box 2.1 provides an example of how the principle of proportionality has been applied in regulating non-banks in Malaysia.

In many markets, the primary providers of financial services for previously unserved and underserved consumers are non-bank financial institutions, including PSPs and postal systems. An effective proportionate approach under HLP 2 requires a comprehensive view, and coherent alignment, of the rules, as they apply to all institutions serving customers, not just banks. This is essential to achieve a regulatory regime that adequately addresses the risk in their business models will be a key component to allowing for greater innovation in a market.

The guidance also touches on managing illicit financing and consumer protection risks. These are broadly in line with principles/guidance specific to these areas. These are discussed separately below.

Box 2.1: Malaysia: Effective Application of Principle of Proportionality and Approach to Regulating Non-Banks

The Development Financial Institutions Act of 2002 takes into consideration the diverse characteristics and unique roles, functions, and objectives of development finance institutions in Malaysia. While Basel III standards have been implemented for banking institutions in Malaysia, they have not been applied to development finance institutions in Malaysia, so as not to harm their development objectives. The central bank has applied specific prudential requirements to development finance institutions, recognizing their specific role within the financial market related to agent banking, microfinance, microsavings, and SME lending.

Recent research has shown that it is not always easy for EMDEs to weave proportionality into their approach to regulating and supervising financial institutions. The following studies provide a helpful summary of challenges faced, which are particularly relevant for developing countries.

- Bank for International Settlements (BIS) and World Bank: Proportionality in Bank Regulation and Supervision—A Joint Global Survey, 2021
- BIS: Fintech and Payments: Regulating Digital Payment Services and E-money (FSI Insights on Policy Implementation No. 33), 2021

(ii) Applying a Risk-Based Approach to Managing Risks of Money Laundering and Terrorist Financing

Undertaking an effective AML/CFT risk assessment allows policy makers to understand the specific risks of money laundering and terrorist financing potentially facing a jurisdiction and to highlight areas of low risk, enabling officials to focus AML/CFT resources on areas of higher risk and to conduct simplified customer due diligence (CDD) where the risk of money laundering and terrorist financing is proven to be lower (for example, to facilitate financial inclusion involving certain low-value transactions and/or account balances). The Financial Action Task Force (FATF) outlines how authorities should conduct a national risk assessment and adopt the risk-based approach to the global standards to implement an effective AML/CFT regime that mitigates risks of money laundering and terrorist financing while facilitating financial inclusion.[14]

The application of an effective risk-based approach (just as with the application of the principle of proportionality when developing financial regulations) is essential to achieving an appropriate balance between promoting innovation and managing the risks of digital financial inclusion and DFS. In many countries, failure to apply the risk-based approach can present unnecessary obstacles to the use of innovative financial services to address financial inclusion barriers.

Chapter 3 provides a detailed overview of the importance of adopting a risk-based approach when developing an effective AML/CFT framework as part of a broader regulatory framework.

(iii) Making Reasonable Adjustments to the Consumer Protection Frameworks to Account for Innovative Financial Services

Ensuring that consumers are always protected and possess effective mechanisms for redress is a critical aspect for consideration when wanting to drive greater innovation for financial inclusion. The importance of effective consumer protection is recognized in the HLPs, and HLP 5 is dedicated to the issue. *How to implement an effective financial consumer protection regime is discussed in chapter 5*.

(b) Developing the Tools Needed to Support Innovation:

Once policy makers have a handle on the risks in their jurisdictions, the next step is to consider how to take a proportionate approach to mitigating them. Policy makers can begin to explore how further to promote innovation in their market, to address specific financial inclusion challenges. It is important to remember that new risks will also emerge with the entrance of new approaches and innovations to delivering financial services. As such, an agile approach is needed, and where required, a reassessment of mitigation processes will be required.

(i) Creating Effective Knowledge-Sharing Mechanisms with the Private Sector, with Good Representation and Clear Communication Channels

[14] FATF: FATF Guidance: National Money Laundering and Terrorist Financing Risk Assessment, 2013.

Establishing tools for ongoing engagement with industry stakeholders is important to ensuring a cohesive strategy for addressing financial inclusion challenges. Such engagement is also important for encouraging the private sector to develop secure and simple user interfaces for their services that make them easy to use and accessible to underserved groups (see box 2.2 for examples) while also minimizing the risk of mistaken transactions and unauthorized or illegal use.

Box 2.2: User-Centric Design Critical to Addressing Vulnerable and Priority Groups

User-centric product design is critical to improving the ways individuals engage with digital payments in their diverse societal roles. The massive expansion in big-data analytics, artificial intelligence (AI), and machine learning (ML) tools to mine for trends and personalize products is bringing tailored experiences within reach. Equipped with data from digital payment platforms and linked social media, telecoms, and geospatial inputs, providers can cater to an individual user's behavioral and psychological traits. There have been some notable private-sector innovations aimed specifically at underserved users. Some examples include voice-based mobile phone applications for the visually impaired or consumers with limited numeracy/literacy,[15] platform-based models to enable homeless individuals to open basic bank accounts, ultra-short-term car insurance for those who cannot afford longer-term insurance, and using cash to buy from online merchants.[16]

However, digital payments remain designed primarily for the average user, rather than those on the margins. Many providers simply roll out pared-down versions of their "mainstream" products to low-income markets, addressing affordability concerns but investing little to assess the nuances of how low-income users transact with and use the products. Insufficient private-sector oversight has prompted regulators in some markets to push for more proactive design and distribution requirements through policy and product-intervention powers. Examples include the use of natural-language processing to improve recourse by providing conversational, personalized support via chatbots and robo-advisors. However, if not carefully designed, these approaches could potentially lead to privacy, data-security, and discrimination concerns that we are only beginning to understand.

Utilizing such tools to safely share insights into how to improve financial products and services can be a highly effective, positive way for policy makers to influence design to enhance products' usefulness for consumers.

The technical report Cooperation Frameworks between Authorities, Users and Providers for the Development of the National Payments System offers useful insights into how effective cooperation frameworks can be utilized to advance financial inclusion objectives, by designing financial infrastructures in close cooperation with the private sector. While the context of national payment systems is specific (looking at establishing payment councils), the guidance offers a particularly useful overview of the value

[15] The Nation Thailand: KBank to Test E-banking Mobile App for Visually Impaired, 2017.
[16] Some of these examples are discussed in BIS's Platform-Based Business Models and Financial Inclusion, 2022.

of cooperation frameworks and outlines approaches that can be helpful to engaging with the private sector in the context of driving innovative financial services more broadly.

In addition to the formal structures of payment councils, there is also value in maintaining regular engagement with various industry bodies that represent subsectors of the financial sector to understand developments at the industry level and, also importantly, to foster an understanding of the financial inclusion objectives of the country. At a more granular level, arranging informal check-ins and presentations with financial institutions in a jurisdiction will help to ensure that policy makers remain abreast of product developments and enhancements, providing opportunities to respond to such advancements with effective and balanced oversight.

Innovation offices are another useful tool. They provide a structure for engaging with and providing regulatory clarification to FSPs that seek to offer innovative products and services. Innovation offices can be a useful tool for striking the right balance because they can improve understanding of technology-enabled financial innovation and support appropriate regulatory responses. Innovation offices can be given a wide range of names, but they are essentially established to enhance communication on innovation in financial services in a safe way. The Office of the United Nation's Secretary General's Special Advocate for Inclusive Finance for Development has a useful publication that outlines several examples of how innovation offices have been established. Boxes 2.3 and 2.4 provide useful examples of approaches taken in Japan and Brazil.

Box 2.3: Innovation Offices and Desks

Japan's Financial Services Agency has established a FinTech Support Desk to provide consultation services to business operators, along with a FinTech PoC (proof of concept) Hub that supports fintech firms and financial institutions in conducting unprecedented tests, to enhance user convenience and develop services that contribute to addressing social challenges through digital innovation. The FinTech Support Desk was established in December 2015. From then until the end of April 2022, it dealt with 1,665 inquiries in total. The FinTech PoC Hub was established in September 2017. Since then, it has accepted eight projects and was supporting two cases as of April 2022. In addition, Japan's Financial Services Agency holds FIN/SUM, an international conference of financial institutions, start-ups, tech engineers, and academia, to promote innovation through fintech.

Box 2.4: Knowledge Sharing

In 2018, Brazil's central bank initiated several innovation programs, including the Laboratory of Financial and Technological Innovations (Lift). Lift is a virtual collaboration hub aimed at encouraging technological innovations and knowledge exchange between the regulator, academia, market providers, fintech innovators, and other interested stakeholders on the topic of financial inclusion.

(ii) Creating Safe Testing Environments for New Innovations

There are various policy tools that can be used to test new innovations safely, particularly when an existing regulatory framework may not sufficiently address the potential risks of these new technologies.

Sandboxes are one of these tools. They allow policy makers to create a live testing environment for new financial services and business models with actual customers, subject to certain safeguards and oversight. Sandboxes can be resource intensive and expensive to establish. Their usefulness can vary depending on how well developed a country's fintech sector is.

CGAP's How to Build a Regulatory Sandbox: A Practical Guide for Policy Makers is intended to help financial regulators work through the process of deciding whether a regulatory sandbox is suitable, given their regulatory regime, and, if so, how to design and implement a successful sandbox. Using decision trees, it helps authorities to work through whether their specific market environment is suited to establishing a sandbox and, if so, the steps and important considerations for establishing one.

Using country case studies and analysis of operations and outcomes of fintech sandboxes globally, the World Bank report Global Experiences from Regulatory Sandboxes outlines the benefits, challenges, and lessons learned from the implementation experiences of 73 unique fintech sandboxes in 57 countries. The paper provides useful insights for authorities wanting to establish a new fintech sandbox or to evaluate an existing one. Most of the lessons are drawn from EMDEs, offering useful context for those wanting to explore sandboxes as a potential policy tool for driving greater financial inclusion. See box 2.5 for an overview of the approach taken to developing regulatory sandboxes in Thailand.

Box 2.5: Use of Sandboxes

In Thailand, three different regulators have launched regulatory sandboxes: the Bank of Thailand, Securities and Exchange Commission, and Office of Insurance Commission. Each sandbox covers a different aspect of the financial system (payments, remote identity verification, and insurance, respectively) and differs in approach, eligibility, and mandate. The Bank of Thailand's sandbox focuses on new "never-before-seen" innovations and thus far has focused on QR codes and cross-border payments. The Securities and Exchange Commission's sandbox allows fintechs to test new electronic know-your-customer (KYC) technologies, and the Office of Insurance Commission's sandbox has enabled insurers, agents, and insurtech firms to test insurtech innovations. The sandboxes also complement Thailand's fintech hub F13 (launched by the Thai fintech association), working together to develop a fintech ecosystem. F13 provides space for fintech start-ups to test and validate their services with customers. As a result of these multiple initiatives, new regulations and initiatives were introduced for robo-advisory, peer-to-peer (P2P) lending, electronic KYC, and QR payments.

Sandboxes are just one tool for testing new business models. Chapter 2.1 of the World Bank's paper Digital Financial Services provides a useful overview of other policy approaches, such as the use of the "wait and see" and "test and learn" approaches.

(iii) Acting as a Catalyst for Innovation and Change

Not all innovation comes from the private sector. There is a role for public authorities to drive innovative approaches and/or create new systems that ameliorate existing barriers to financial inclusion.

> *Regulators are exploring multiple ways to engage with innovators. One approach is "office hours" that let innovators meet with regulators and ask questions in a safe, off-the-record environment. Another way is to form teams to consult with innovators around licensing and other regulation. A variant is to establish specific product-based teams that are responsible for providing deep domain expertise related to specific product trends.*

Policy support for enhanced credit reporting systems can play an important role in expanding access to financing for underserved users. Lack of credit data is one of the major obstacles to individuals and MSMEs obtaining financing in developing countries. Despite the insufficient credit data, MSMEs and individuals generate vast amounts of non-credit digitized data daily. MSMEs and individuals are leaving vast digital footprints and data trails on mobile and online payment platforms, social networks, and other non-banking platforms, such as online record keeping and trade transactions. Traditional and nontraditional lenders are now leveraging alternative data, including transactional (payment) data, behavioral data, and social media data, to determine capacity and willingness to repay loans. Alternative data is also being used to provide granularity on customer preferences and behaviors, which can help in designing new financial products and services. Credit reporting service providers have also begun adopting alternative data for creditworthiness evaluation. The use of alternative data in credit reporting can promote access to credit for borrowers with "no credit files," while it can also complement traditional data for borrowers with "thin credit files." At the same time, efforts to introduce collateral registries for movable assets can play an equally important role in expanding credit to MSMEs, given that many do not have fixed assets that can be collateralized to obtain access to low-cost credit facilities. The recognition of movable assets must also come with the digitization of collateral registries that can maintain up-to-date records of liens against such assets in real-time, which by definition can move around and change hands much more easily than can fixed assets.

In some jurisdictions, authorities have extended the sharing of data among financial institutions (open banking) to include nonfinancial institutions such as utility companies, recognizing the potential impact that the portability of nonfinancial data might have on greater access to financial services for unbanked populations. Access to a broader range of data can provide a detailed picture of customers' financial lives, so providers can better assess their needs and habits, allowing for a greater provision of financial service. The Bank of Indonesia's open application programming interface (API) standard provides useful insights into how data sharing can be facilitated; this is discussed in box 2.6. In the paper "Open Banking: How to Design for Financial Inclusion," CGAP provide a useful overview of 12 open banking regimes, to understand how they can be designed to enable products and business models that benefit financial inclusion.

Box 2.6: Bank Indonesia Open API Standard

The Central Bank of Indonesia, in cooperation with the payment system industry, developed the National Open API Payment Standard (SNAP) as part of its Indonesia Payments System Blueprint 2025 deliverable. SNAP encompasses (i) a technical and security standard, (ii) a standard on data and technical specification, and (iii) guidelines for interconnected and interoperable open API payment governance. The goal of this initiative is to foster innovation, encourage dynamic collaboration. and promote interconnectivity and interoperability within the financial sector.

Interest in developing central bank digital currencies (CBDCs) as a tool for addressing financial inclusion challenges has grown significantly over recent months. The BIS defines a CBDC as "central bank-issued digital money denominated in the national unit of account… [that] represents a liability of the central bank. If the CBDC is intended to be a digital equivalent of cash for use by end users (households and businesses), it is referred to as a 'general purpose' or 'retail' CBDC." While interest in CBDCs, particularly among EMDEs, is growing, there remains few examples of live deployments from which to learn. Countries such as the Bahamas, Nigeria, and the Eastern Caribbean Monetary Union have issued digital forms of their currency, but these are still in very early stages of development. (See box 2.7 for an overview of the first CBDC deployment in Africa—Nigeria's eNaira.) A recent publication by the World Bank and BIS—"Central Bank Digital Currencies: A New Tool in the Financial Inclusion Toolkit?"—explores the potential of CBDCs to address financial inclusion barriers. Through interviews with nine jurisdictions with advance thinking on either CBDCs or financial inclusion, the authors argue that CBDCs are not a panacea for financial inclusion challenges, but, if CBDCs are issued to address such challenges, specific design features should be implemented.

The guide Central Bank Digital Currencies: A Payments Perspective by the World Bank offers a perspective to authorities that do want to explore potentially issuing a CBDC to address some of their financial inclusion barriers. The guide offers a comprehensive overview of some of the key questions policy makers need to ask to do this effectively. A joint paper[17] between the BIS and World Bank provides an overview of the importance of designing a CBDC with inclusion in mind, should authorities want to address pervasive financial inclusion barriers by issuing one. CBDCs can also be tailored to be more user-friendly to the disabled and vulnerable populations. For example, the People's Bank of China has designed voice-based user interfaces for the digital yuan, or e-CNY, for the visually impaired and those with poor digital skills. Meanwhile, the Central Bank of Hungary is piloting retail CBDC services for children, to make sure it is user-friendly and accessible to all.

Box 2.7: The eNaira: The Central Bank of Nigeria's Digital Currency Initiative

On October 25, 2021, the Central Bank of Nigeria (CBN) introduced the eNaira, a digital form of its currency. Key motivations for issuance were to enable households and businesses to make fast,

[17] BIS, World Bank: Central Bank Digital Currencies: A New Tool in the Financial Inclusion Toolkit?, 2022.

efficient, and reliable payments while benefiting from a resilient, innovative, inclusive, and competitive payment system. The objective clearly focuses on greater access and usage for individuals and businesses to the financial system.

According to the World Bank Findex, only 45 percent of Nigerians have access to an account at an FSP. The lowest levels of inclusion are in the less-developed northern parts of the country, among women and lower-income groups.

Like other (live and planned) CBDCs, the eNaira uses a two-tier architecture, where the Central Bank of Nigeria acts as an issuer, and banks distribute the CBDC to the broader economy. Non-banks, such as e-money issuers, cannot distribute independently but can work with banks to facilitate specific use cases. The eNaira infrastructure uses distributed ledger technology (DLT) and account-based access (based on identification). CBDC accounts are available via the eNaira Speed Wallet app on smartphone devices. Transactions can be initiated using USSD on feature phones. The central bank is currently exploring approaches to facilitating offline functionality, although this is not live yet, and it has implemented simplified due diligence, using national ID and verification tools to facilitate access.

It is important for public-sector authorities to consider ways to oversee the governance of key public infrastructures—such as digital ID, open banking, credit reporting systems, retail fast payment systems, ICT infrastructure, and CBDCs—irrespective of whether these are operated by the private sector or provided by public authorities. Additionally, where the dominance of one or a handful of entities creates monopolies, issues of competition and abuse of market power should be important considerations. *See chapter 4 for a detailed discussion of the governance of key public infrastructures.*

2.3 Looking Forward

Getting the balance right between protecting the stability, integrity, and users of a financial system while creating an inclusive innovation-driven sector is challenging. Policy makers must learn from the experiences of others and apply those to their specific country context and financial inclusion challenges. Implementing an effective and agile regulatory framework is an important aspect to be considered. *(Chapter 3 provides useful insights into how to do this.)*

Resources Relevant to HLP 2

- BIS: Fintech and Payments: Regulating Digital Payment Services and E-money (FSI Insights on Policy Implementation No. 33), 2021
- World Bank: Impact of the FATF Recommendations and Their Implementation on Financial Inclusion: Insights from Mutual Evaluations and National Risk Assessments, 2021
- World Bank: Digital Financial Services, 2021
- BIS, World Bank: Proportionality in Bank Regulation and Supervision—A Joint Global Survey, 2021
- BIS, World Bank: Central Bank Digital Currencies: A New Tool in the Financial Inclusion Toolkit?, 2022
- CGAP: The Evolving Nature and Scale of Consumer Risks in Digital Finance, 2021
- World Bank: Central Bank Digital Currencies: A Payments Perspective, 2021

- CGAP: Technical Guide on How to Build a Regulatory Sandbox, 2020
- World Bank: Global Experiences from Regulatory Sandboxes, 2020
- UNSGSA: Early Lessons on Regulatory Innovation to Enable Fintech, 2020
- G20/GPFI: Use of Alternative Data to Enhance Credit Reporting to Enable Access to Digital Financial Services by Individuals and SMEs Operating in the Informal Economy: Guidance Note, 2018
- FATF: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion, with a Supplement on Customer Due Diligence, 2017
- FATF: Terrorist Financing Risk Assessment Guidance, 2019
- FATF: Mitigating the Unintended Consequences of the FATF Standards, 2021
- BCBS: Guidance on the Application of the Core Principles for Effective Banking Supervision to the Regulation and Supervision of Institutions Relevant to Financial Inclusion, 2016
- ITU: Cooperation Frameworks between Authorities, Users and Providers for the Development of the National Payments System, 2016
- FATF: FATF Guidance: National Money Laundering and Terrorist Financing Risk Assessment, 2013
- IFC: Digital Financial Services and Risk Management

III. HLP 3: Provide an Enabling and Proportionate Legal and Regulatory Framework for Digital Financial Inclusion

Statement of the HLP: Provide an enabling and proportionate legal and regulatory framework for digital financial inclusion, taking into account relevant G20 and international standard-setting body standards and guidance.

3.1 Context

HLP 3 calls for **a legal and regulatory framework** for DFS that is **predictable, risk based, and fair** and that does not impose excessive non-risk-based compliance costs. Such a framework (i) includes a careful assessment of the relevant risks, (ii) provides market participation rules, (iii) establishes a fair and open level playing field for participants, and (iv) ensures efficient supervision. The overall policy environment and regulatory framework should reflect a **proportionate and enabling approach to regulation**, *as described in chapter 2*.

This chapter identifies the challenges associated with establishing such a regulatory framework and frames the solutions proposed by global standard-setting bodies, international financial institutions, the GPFI, and other international entities to meet these challenges. It provides examples of key actions required to develop an enabling and proportionate legal and regulatory framework. It constructs current, and more in-depth, guidance on implementation (priority actions) of HLP 3.

This chapter builds upon the recent key reference documents (from both standard-setting bodies and other international entities) to which policy makers, regulators, and supervisors can turn for deeper coverage and guidance on various topics, structured from the basics to the more cutting-edge –and rapidly evolving—issues. Lastly, it provides country examples of challenges faced and solutions to address them.

On a number of specific themes, this chapter builds on the analysis provided in the 2017 G20 report Digital Financial Inclusion: Emerging Policy Approaches. This GPFI report covers—in relation to HLP 3—the expansion of the risk-based approach, including the expansion of risk-based (tiered) CDD (with IDs as a critical facilitator), the development of a functional (activities-based) approach to regulation, and the opportunity of leveraging technology to strengthen regulation and supervision.

Acknowledging that there is no single recipe, this guidance addresses primarily the concerns of EMDEs, where many people are digitally excluded, vulnerable, and underserved. It considers the G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs to be a key reference point—in particular HLPG 5 (Support Regulatory and Legal Reforms That Reduce Unequal Access to Responsible Digital Financial Services, which Results from Social, Economic, and Cultural Inequalities).

Rapidly changing market conditions—with new business models, new players, new products and services, changing customer segments, and the speed of innovation—mean that regulators and supervisors are challenged, in low-income countries in particular but also in medium- and high-income countries, by how to regulate and supervise DFS in ways that enable inclusion while protecting customers and the integrity and stability of the financial system. Regulators in EMDEs—low-income countries in particular—face higher levels of financial exclusion, a particularly rapid evolution of market conditions, and limited supervisory capacity with which to respond to a new regulatory architecture. In short, all regulators and supervisors—across countries of different income levels—are asked to regulate and supervise in relation to a rapidly moving target: innovation.

The essential elements of a regulatory framework for digital financial inclusion build on basic regulatory enablers for DFS and incorporate next-generation regulatory topics, identifying and drawing from internationally recognized reference points, including (i) international standard-setting bodies, (ii) international financial institutions: the World Bank and International Monetary Fund, including the Bali Fintech Agenda,[18] (iii) the G20 and GPFI, and (iv) other international bodies.

3.2 A Framework for Implementing HLP 3

(a) Four Fundamentals of Regulating the DFS Landscape

The basic parameters of a DFS regulatory environment include market participation (entry requirements), prudential requirements, market conduct and integrity, financial consumer protection, AML/CFT safeguards, and an insolvency regime. The regulatory environment will optimally be technology neutral and flexible enough to accommodate new providers and product innovations. Four (related) fundamental attributes of the DFS regulatory framework are explored here.

[18] The following 4 of the 12 pillars of the Bali Fintech Agenda pertain directly to the legal and regulatory framework for fintechs: (III) Reinforce Competition and Commitment to Open, Free, and Contestable Markets; (VI) Adapt Regulatory Frameworks and Supervisory Practices for Orderly Development and Stability of the Financial System and Facilitate the Safe Entry of New Products, Activities, and Intermediaries; (VII) Safeguard the Integrity of the Financial System by Strengthening AML/CFT Compliance and Monitoring; and (VIII) Modernize Legal Frameworks to Provide an Enabling Legal Landscape.

The first fundamental attribute is the application of a risk-based approach, based in the application of the principle of proportionality. (*See also chapter 2, on HLP 2*.) Under a risk-based approach, regulation and supervision should be scaled in line with the DFS provider's business model and related risk profile. Otherwise, regulatory requirements and supervision/examination could impose excessive compliance costs that affect the provider's viability and ability to cater to underserved populations without significantly strengthening efforts to combat money laundering and terrorist financing. As stated in chapter 2, proportionality demands a solid knowledge of both a jurisdiction's risks of money laundering and terrorist financing and specific DFS business models and their benefits and risks. A risk-based approach should be applied in all phases of DFS regulation and supervision—from licensing and authorization to enforcement—to avoid stifling responsible innovation.

As noted in the previous chapter, within a risk-based approach, similar risks are regulated in a similar manner, including an appropriate risk-based approach to supervision, oversight, and examination. It is integral to proportionality that supervisory procedures align with the risk profile of DFS providers and their systemic importance. This helps authorities optimize their use of scarce resources and avoid stifling responsible DFS innovation and growth.

The second fundamental attribute is the establishment of a clear regulatory perimeter, involving decisions regarding which types of FSPs (and associated third-party providers) and which activities are covered by the jurisdiction's regulations (that is, brought within the regulatory perimeter), and what type of activities are covered by licenses or registration. This entails determining whether new types of licensing or registration categories are needed; FATF has, for example, addressed this issue in its Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers.

How wide should the regulatory perimeter be cast? It is incumbent upon regulators to determine which new activities (products) and which new entities fall within the regulatory perimeter (that is, which require authorization/licensing, including the necessary interagency coordination, and regulatory requirements). The diverse ecosystems and new providers increasingly include nonfinancial companies that offer different types of both financial and nonfinancial products and services to low-income customers and micro and small businesses; regulators need to determine whether to regulate—and, if so, when and how to regulate—such nonfinancial companies that are acting as financial product/services originators, delivery channels, or providers themselves. With the help of the modularization of the value chain in delivering financial services, products can be integrated and rebundled in different ways, including by nonfinancial companies (for example, platforms) as embedded finance. (See CGAP deck on modular services.) Embedded finance (referred to as EmFi) presents greater challenges, since the scale of effects is greater on the financial services markets than on bigtech. Part of the exercise of establishing the regulatory perimeter may involve launching initiatives to facilitate the adoption of responsible innovation in the financial system, such as innovation hubs, regulatory sandboxes, and innovation accelerators, allowing for initial regulatory responses within new ecosystems. Such initiatives can allow for a flexible, risk-based approach to establishing the regulatory perimeter, albeit with adequate oversight, to test new models before licensing. (*See chapter 2 on the use of sandboxes;* see below on innovations facilitators.) Box 3.1 illustrates how regulatory perimeters have been defined by a few jurisdictions.

Box 3.1: Defining the Regulatory Perimeter

Uganda, **Ethiopia**, and **Pakistan** each recently created a separate e-money issuer category for non-bank providers. Uganda has recently shifted from a bank/non-bank partnership model, where mobile network operators could not offer e-money services without a partnership with a bank, to bringing a non-bank model within the regulatory perimeter, whereby non-bank e-money issuers can offer services directly to customers.

In March 2022, the Central Bank of **Kenya** issued a regulation on digital credit for the licensing and supervision of digital credit providers, which were previously unregulated—that is, outside the regulator perimeter. Kenya was already a globally recognized example of the development of a regulatory perimeter for e-money. This began with a test-and-learn approach for the mobile money operator Safaricom, offering a restricted license while providing regulatory oversight.

Mexico's 2018 Financial Technology Institutions Law corresponds to the interest in having a single, all-encompassing law designed to establish the regulatory perimeter to cover the full range of fintech innovations, including, for example, crowdfunding institutions. There are, however, challenges to having a single law that draws the perimeter for all types of fintech entities. (See CGAP's "Is Mexico's 'Fintech Law' Leading a New Trend in Fintech Regulation?")

In 2020, the Central Bank of the Republic of **Argentina** extended the application of the Law on Financial Institutions to "other nonfinancial credit providers" and "nonfinancial companies that issue credit and/or purchase cards" (including digital lending companies), establishing that they will be bound by the rules on the "protection of users of financial services" with respect to the financing they provide. This includes regulations on disclosure and transparency with respect to interest rates, communication through electronic means, reporting systems for complaints, and submission of data. In May 2022, the central bank issued a communiqué prohibiting financial institutions from offering services to its clients related to digital assets not authorized by the central bank or another Argentine authority. The central bank prohibited financial institutions from performing nonfinancial activities that it had not approved.

Dubai recently established a separate Virtual Assets Regulatory Authority, underpinned by a law creating a legal framework for crypto assets in the Emirate of Dubai aimed at protecting investors and "designing much-warranted international standards" for industry governance. The new authority—distinct from the Dubai Financial Services Authority—creates a separate regulatory perimeter for crypto assets.

Related to the regulatory perimeter is the question of the licensing regime. It is important to ensure clear and consistent criteria for market participation and for offering specific types of DFS. There is a need to find a balance between a proliferation of new licensing windows and a broad, all encompassing, regulatory framework, balancing specificity and flexibility.

CGAP's "How Can Licensing Regimes Keep Up with Financial Innovation in 2020?" outlines options for licensing regimes. It concludes that overly restrictive licensing requirements can impede competition, while excessively lax licensing can put systems and consumers at risk. Regulators should increase flexibility in their licensing regimes to accommodate innovation but keep risks at bay.

Digital transactions now routinely occur across a diverse ecosystem of players and platforms, and the relationships between actors that use digital payments (merchants, suppliers, individuals) and actors that provide or enable these payments (agents, aggregators, banks) are becoming more complex. Added to the complexity is the rise of nonfinancial companies engaging in the financial value chain. (See above.) Regulators should determine how to ensure responsible behavior across the entire transaction value chain. Regulatory and supervisory challenges regarding platforms include (1) addressing risks in the area of data protection (questions around the control of data and customers' rights in the use of data are far from settled); (2) addressing threats to competition introduced by platforms and embedded finance; and (3) analyzing risks that may complicate fundamental decisions about when and how to regulate. It is important to be aware that activities extend beyond the domain of financial regulation, creating financial commitments and risks that might not be monitored. Regulators and supervisors may need to involve other domestic authorities in regulating the platform in areas such as competition, labor, consumer and data protection, telecom, and a range of commercial sectors. This necessitates a working mechanism for regulatory coordination. Also, certain platforms around the globe operate across multiple countries, which might call for international regulatory and supervisory cooperation. (See the February 2022 story "3 Regulatory Challenges Posed by Platform-Based Finance" on the CGAP blog.)

In most jurisdictions, accountability for these actors rests with the providers that hold a custodial responsibility over users' funds. However, user touchpoints, particularly at the last mile, are often with agents and third parties; there needs to be more clarity on who is responsible for either detecting or offering recourse for problems. For example, in Tanzania, a PSP is liable for omissions or errors by its agents, within the scope of agency agreements.

A third fundamental attribute is the decision to regulate activities or entities (or both). Within the world of global standard-setting bodies, increased attention is being given to regulation by activities, rather than by entity. Yet the BIS has noted that given the unique set of challenges that are generated by bigtechs' entry into financial services (such as the concentration of market power and data governance), a purely activities-based framework for regulation is likely to fall short of an adequate response to the policy challenges associated with bigtech. It notes the scope to address the policy challenges of bigtechs by developing specific entity-based rules that complement activities-based requirements.

The question of competition—the fourth fundamental attribute—is related to the questions of regulatory perimeter and activities-based versus entity-based regulation. Regulators need to be aware that the features of fintech models, such as platform-based business models, may raise significant risks to fair competition. The Bali Fintech Agenda calls for the reinforcement of competition and a commitment to open, fair, and contestable markets. A recent occasional paper from the Financial Stability Institute, Fintech Regulation: How to Achieve a Level Playing Field (February 2021), outlines different approaches to competition.

These four fundamental tenets for DFS regulation underpin the consideration of a wide range of policy parameters, sketched out in the following sections of this chapter. (See box 3.2 for country examples of the four fundamental tenets.)

Box 3.2: Country Examples of Addressing the Four Fundamental Tenets for DFS Regulation

Proportionality and risk-based approach: In Bangladesh's National Risk Assessment, financially inclusive products have been recognized as products with low risks of money laundering and terrorism financing. As such, banks and financial institutions adopt the risk-based approach and apply a simplified KYC process for such products to support financial inclusion.

Regulatory perimeter: Singapore's Payments Services Bill (2019) replaced two pieces of legislation with one "modular" framework, encompassing seven types of services within the same framework, offering different types of licenses depending on the regulated activities performed and the related business volumes. (See also box 3.1 for more examples.)

Regulating activities or entities: Work by Dvara Research in India indicates that activities-based regulation may better complement the objectives of consumer protection**.** It proposes that the Reserve Bank of India define "credit" in a manner that includes products that provide the functionalities of credit. All such activities should be subject to uniform consumer protection regulation. The Financial Stability Institute of the BIS argues that a combination of activities-based and entity-based rules may be more appropriate: looking at activities is meaningful in relation to the large numbers of new models, while looking at entities is important given the market positions of large players such as bigtechs (given the risk of institutional failure). This view is becoming more widespread. Also see the FSI's Entity-based vs activity-based regulation: a framework and applications to traditional financial firms and big techs.

Competition: In South Africa, non-banks are required to partner with a bank to offer payment services. To relax the constraint and open the market to broader competition, giving non-banks the power to clear and settle certain transactions is under consideration. Payment services will also be a regulated activity in terms of the Conduct of Financial Institutions Act, which the National Treasury aims to table in parliament during 2022**.**

(b) Basic Enablers/Prerequisites

In 2018, CGAP published the focus note Basic Regulatory Enablers for Digital Financial Services, which policy makers and regulators now take as an industry reference point. It describes four enablers that are viewed across the DFS universe as necessary (although not sufficient) conditions for DFS to flourish. Along with the fundamentals outlined in the previous section, they serve as a basis for consideration of the further regulatory elements in the following two sections of this chapter. Box 3.3 highlights sound practices in implementing the following four basic enablers:

1. **Non-bank e-money issuance:** A basic requirement is to create a specialized licensing window for non-bank DFS providers to issue e-money accounts (also called prepaid or stored-value accounts) without

being subject to the full range of prudential rules applicable to commercial banks and without being permitted to intermediate funds.

2. **Use of agents:** DFS providers—both banks and non-banks—are permitted to use third-party agents, such as retail shops, to provide customers access to their services. A CGAP technical note focuses on regulating DFS agent models within an enabling framework that fosters financial inclusion.
3. **Risk-based CDD:** A proportionate regulatory framework is adopted, allowing simplified CDD for lower-risk accounts and transactions. This is also relevant to the implementation of HLP 7. FATF adopted a risk-based approach to CDD, as detailed in the relevant FATF recommendations and guidelines. This is a fundamental component of AML/CFT compliance and monitoring. (This is incorporated in FATF's 2017 guidance on AML/CFT measures and financial inclusion.) Depending on risk and available risk mitigants, simplified CDD may be appropriate for opening and using e-money accounts and conducting over-the-counter transactions with DFS providers. The point was underlined in the 2017 GPFI report. A CGAP technical note provides guidance on using risk-based approaches to CDD, supported by examples drawn from around the world.
4. **Consumer protection:** Consumer protection rules are tailored to the full range of DFS providers and products—providing a necessary margin of safety and confidence. Treatment of this enabler is deepened in the paper Making Consumer Protection Regulation More Customer-Centric (CGAP, June 2020). Whether as a basic enabler or in relation to the newest innovations in the delivery of financial services, financial consumer protection and capacity building are essential to ensuring the appropriate balance of innovation and risk. *See chapter 5 for a detailed overview of key considerations for implementing an effective financial consumer protection regime.*

Box 3.3: Sound Practices in Implementing the Four Basic Enablers

Non-bank e-money issuance: **Uganda, Ethiopia,** and **Pakistan** recently issued new regulations that allow non-banks to be e-money issuers and offer e-money services directly to customers.

Use of agents: Rwanda's agent regulation applies to different types of institutions, such as banks, PSPs, e-money issuers, and remittance service providers, and follows more of an activities-based approach. Indonesia has built a vast agent network, although challenges remain, such as uneven distribution across the country and economic viability. **Ghana** has more of an activities-based approach to agent regulations (see Payment Services and Systems Act of Ghana) and applies the same set of agent rules to different types of institutions, such as banks and dedicated e-money issuers.

Risk-based CDD: Three-tiered CDD systems—basic, medium, or full (enhanced) CDD—are used in Ghana, Myanmar, Pakistan, and Tunisia. (See also the G20/GPFI's Digital Financial Inclusion: Emerging Policy Approaches for examples of tiered CDD regimes in China, Mexico, and Tanzania.)

Consumer protection: Consumer protection rules, which apply to e-money issuers, are incorporated in Uganda's National Payment Systems Act of 2020 and National Payment Systems Regulations of 2021. The country also has financial consumer protection guidelines that apply to all financial services.

(c) Further Policy Elements in the Rapidly Evolving Context: Enabling New Technologies while Mitigating Risks

Fintech and the Future of Banking (a CGAP web page) notes that new business models emerging among fintechs, digital banks, and platforms enable challengers and incumbents alike to put useful, user-friendly, lower-cost solutions into the hands of poor customers so that they can use them to improve their lives. At the same time, the rapid evolution of these models leads to ever-increasing regulatory challenges.

Building on the basic enablers in part 2, a set of five policy enablers were framed by the Financial Stability Institute in Policy Responses to Fintech: A Cross-Country Overview. These policy enablers cover public policy measures and initiatives (for example, digital ID systems) that support the development of fintech activities. These policy enablers allow for the application of enabling technologies, such as APIs, cloud computing, DLT, and AI.

- **Digital IDs:** Governments have a role, with appropriate governance and other safeguards, in promoting trustworthy (that is, privacy-preserving, secure, consent-based) digital IDs that enable governments and businesses to deliver DFS that may increase financial inclusion.[19] Biometric digital IDs can be greatly helpful to migrants, refugees, and other vulnerable populations that lack proper ID documents. (See box 3.4 for an example.) Promoting digital IDs may also further the implementation of HLP 7. Financial authorities have included provisions in regulatory frameworks that clarify how digital ID systems may be used (including consent management and control of data when accessing DFS). *(See chapter 4, which covers the DFS infrastructure ecosystem.)*
- **Open banking regimes** (data-sharing schemes that are mandated or supported by regulators with a goal of creating competition and fostering innovation in financial services) allow a wide range of users, including fintechs, to access customer data locked inside banks and other financial institutions to develop innovative financial products and services at a lower cost that are better suited to the needs of customers. CGAP has examined 12 open-banking regimes and identified the critical design components that are most likely to serve the needs of poor people.
- **Data protection:** The right to the privacy of personal data has gained more attention in recent years. Data generated by low-income consumers' use of mobile phones and DFS can help expand financial inclusion, but its use can also result in the loss of privacy and other harm. Many jurisdictions have issued data-protection laws whose most common requirement is to ask citizens for consent before data about them may be collected, used, or shared (although there is debate as to whether such consent is meaningful). More comprehensive frameworks establish new rights for individuals, such as data portability, the right not to be profiled, or the right to be forgotten. A challenge is to determine the boundaries between financial-sector regulation and data protection, data privacy, and competition. It is important to note here that fragmentation/lack of interoperability in data-protection regimes can affect cross-border regulatory access and therefore decrease competition; this has downstream effects on financial inclusion. (The work of the OECD Working Party on Data Governance and Privacy in the Digital Economy serves as an international reference point on data protection. *See also chapter 5*.)

[19] See ID4D/World Bank's Principles on Identification for Sustainable Development: Toward the Digital Age, 2021.

- **Innovation facilitators** (innovation hubs, regulatory sandboxes, and accelerators) have the potential to empower financial regulators struggling with fast-paced innovation. Allowing for the piloting of innovative new delivery channels, products, services, and business models without having to comply immediately with all regulatory requirements facilitates the adoption of new products and services. (See CGAP's How to Build a Regulatory Sandbox: A Practical Guide for Policy Makers.) IOSCO has produced The Use of Innovation Facilitators in Growth and Emerging Markets (2022). *(See also the full treatment of the question of innovation facilitators in chapter 2.)*
- **Cyber security:** Governments are addressing this growing global challenge with initiatives such as issuing national and sectoral regulations and guidance, and with supervisory practices; establishing a cybersecurity framework is a common practice.

Box 3.4: Biometric Identification for Migrants in Colombia

In 2021, the President of **Colombia** announced protections to Venezuelan migrants, granting them Temporary Protection Status (TPS). The creation of the TPS was an unprecedented event in the region, as it allowed eligible Venezuelans to regularize their stay and reside in Colombia for 10 years, along with individual biometric documentation and identification documents. This initiative is expected to benefit more than 2.1 million Venezuelans over the next decade. The TPS comprises the following three steps:

- Online preregistration into Registro Único de Migrantes Venezolanos (RUMV)
- Individual biometric registration
- Delivery of documentation cards (Temporary Protection Permits)

This will facilitate access to a range of services such as healthcare, formal employment, and formal financial services.

Source: UNHCR: Colombia Is Stepping Up Support for Venezuelans with Historic Protection Policy, 2021.

In addition to these five policy enablers, in the context of rapidly evolving market conditions, the following five issues constitute a set of new and evolving issues for policy makers and regulators. They are related to previous issues (for example, regulatory perimeter, competition, outsourcing); the focus here is on the fintech dimension of these regulatory parameters.

- **Regulatory treatment of the latest technological developments:** Developments such as AI, instant payments, APIs, and CBDCs need to be the object of thorough policy development and risk-based regulatory treatment.
- **Regulation of third-party providers/outsourcing/cloud computing:** Regulators are considering whether there are gaps in the traditional concept of outsourcing (whereby the FSP outsources to a third-party company while continuing to bear the risk of outsourcing). This puts the onus on the principal for managing the outsourcing of risk. Banking as a service (BaaS) is an example of a regulatory challenge, whereby the licensed bank is reduced to the functions of balance-sheet intermediation and compliance. Cloud computing by third-party providers for the most part is currently not subject to financial services regulation beyond outsourcing rules. Regulators are now considering if this approach should change. For example, the United Kingdom is in the process of

introducing regulations that could be applied directly to cloud companies that provide critical services to financial firms, given potential impact of disruption of these services to financial stability. The Toronto Centre investigated a number of dimensions of the supervision of cloud services in its Cloud Computing: Issues for Supervisors (November 2020).

- **Regulation of platform finance:** The dominance of bigtech platforms such as Alibaba, Amazon, and Tencent in social media and e-commerce, combined with their growing interest in offering financial services, has prompted concern by some policy makers worried about competition and data protection. See the recent story "3 Regulatory Challenges Posed by Platform-Based Finance" on the CGAP blog. (See also the Financial Stability Institute's Big Tech Regulation: What Is Going On?)
- **New data concerns:** There is a need to identify interventions that increase the value of data for poor and excluded customers and mitigate risks. In the paper Virtual Banking and Beyond, the BIS notes that new technology-driven models exploit the expanding data footprints of individuals and firms to generate information capital and reduce the reliance on collateral when offering loans and other financial services. Data and the entities that manage data will be at the heart of this transformation. Financial regulators need to ensure that regulatory oversight delivers on the inclusion- and intermediation-enhancing benefits of digital finance without compromising traditional regulatory goals. In line with calls for increased data protection, there is a need for a system of data governance that allows consumers and businesses to exercise control over their data through the granting and withholding of consent to the use and transfer of their data. There is a move away from consent-only-driven data sharing to a more nuanced approach that considers the extent to which data sharing and use should be consent driven; this could be done by adopting a "legitimate purposes" test, allowing data uses that relate only to the product or service being offered or imposing a "fiduciary duty" requirement that data be used only in the customer's interests.[20] [21]
- **Revisiting competition:** The digital transformation of financial services gives rise to a set of policy issues regarding competition (notably concerning bigtechs). The assumption that the entry of new providers increases competition may not hold anymore due to the hypothesis of the Data-Network-Activities (DNA) loop. Bigtech platforms with access to certain data may use that data to achieve a dominant position in the market, which may hurt competition in the financial sector and may hurt consumers, especially low-income customers. Moreover, the emergence of bigtech entities in the financial services space has resulted in the juxtaposition of a small number of bigtechs and many small, agile fintech firms in certain market segments. There is a need to support conditions that attract large international companies that develop DFS while providing the opportunity for small, innovative, domestic fintech startups. It is important to consider the market structure and competition implications of these developments. However, competition policy does not usually fall within the financial regulator's (for example, the central bank's) jurisdiction. There is a need for cooperation among the different authorities: competition, data, and financial sector. This cooperation is not yet well developed. The challenge here is the blurring boundaries between financial authorities and nonfinancial authorities—for example, telecommunications regulators, data-privacy authorities, competition authorities, and ministry of justice.

Regulatory technology (regtech) and supervisory technology (suptech) solutions are emerging for a wide range of regulatory focus areas, including regulatory change tracking, fraud detection, electronic KYC,

[20] See CGD's Data Protection: Consent Is Dead (Long Live Privacy), 2021.
[21] This does not apply to consumer-driven data sharing through open banking or an equivalent regime.

countering the financing of terrorism, conduct and prudential risk management, systematized regulatory reporting, and associated auditable record keeping.[22] Certain suptech solutions enable supervisors to develop and transmit machine-readable and machine-executable regulations to their regulated entities, which in turn could result in more automated regulatory compliance, lower costs, and greater consistency in regulatory reporting. Other suptech solutions are focused on achieving real-time risk alerts, thereby enabling supervisory teams to shift focus to preemptive, rather than curative, oversight, in turn possibly improving the resilience and stability of the broader financial system. Similarly, regtech has also evolved as an innovation, allowing financial institutions and fintechs to create efficiencies in satisfying the requirements for regulatory reporting and improving the procedure for monitoring regulatory prerequisites. Whereas the application of these technologies has been minimal in developing and low-middle-income countries, mainly due to the high costs or lack of computing power, costs associated with the collection, validation, storage, processing, and dissemination of data have decreased significantly in recent years, resulting in several technologies becoming accessible. Examples of the application of regtech and suptech are presented in box 3.5. Broader coverage of the topic is found in the Alliance for Financial Inclusion's Regulatory and Supervisory Technologies for Financial Inclusion (2022).

Box 3.5: The Application of Regtech and Suptech: Country Examples

Philippines: The Financial Consumer Protection Department of the Central Bank of the Philippines (*Bangko Sentral ng Pilipinas*, or BSP) developed a chatbot and processing utility for customer complaints. The chatbot, named BOB for "BSP Online Buddy," went live in late 2020, thus allowing Filipinos to file complaints through their mobile phones via an app or SMS (source: AFI).

Nepal: In 2017, the Nepal Rastra Bank unveiled its upgraded reporting system, which consisted of an e-mapping system based on the Geographic Information System. The platform provides real-time data on financial access and usage in Nepal, allowing the central bank to track how well any financial inclusion initiatives are being implemented. In addition, this platform allows for compliance of reporting by licensed banking and financial institutions to be tracked by class, institution, or reporting category (source: AFI).

Nigeria: The Central Bank of Nigeria implemented an agent banking database in 2015 to provide details of all approved agent banking relationships and agents of licensed mobile money operators. The intent is to have all banks, non-banks, and super-agents that report regularly to the registry to create an agent risk rating system and to allow for automatically created analytical reports for the supervisor (source: AFI).

Rwanda: As reported in the G20's report Digital Financial Inclusion: Emerging Policy Approaches, the National Bank of Rwanda started collecting disaggregated data from regulated institutions in 2017. It uses a completely automated data-collection mechanism. All data is stored in a central data repository at the national bank (source: GPFI).

[22] See also the work of the BIS Innovation Hub on regtech and suptech.

Austria: Austria's central bank transformed its approach to data collection to increase granularity, timeliness, quality, and scope of data while reducing duplication, inconsistencies, and costs for both reporting institutions and supervisory authorities. Granular data gathered automatically from banks' systems is sent to AuRep, a company owned by banks. The data at AuRep is represented by a "basic cube" that cannot be accessed by the central bank; a series of enhanced datasets are automatically prepared following standard definitions to be accessed and used anytime by the central bank (source: CGAP).

The following resources provide deeper guidance and process considerations:

- **DFS reference guide:** Inclusive Digital Financial Services: A Reference Guide for Regulators, sponsored by the Bill and Melinda Gates Foundation and released in 2019, covers basic enablers, licensing, prudential regulation and supervision, competition issues, integrity and security, agent regulation and supervision, and consumer protection. The guide, which focuses largely on e-money, was recently updated. The newly revised version focuses on emerging trends and brings in new case studies.[23]
- **FSI-Connect (of the BIS)** is a web-based information resource and learning tool available to central banks, supervisory authorities, deposit insurers, and eligible public-sector authorities. It covers international financial regulatory standards and sound supervisory practices, including the latest prudential standards, key guidance on banking and insurance supervision, and relevant accounting and deposit insurance topics.

3.3 Challenges in Implementing HLP 3

Disruptive technologies are leading to the emergence of new providers, new business models, and new types of activities. Regulators and supervisors need to anticipate, and respond to, rapidly changing market conditions. This may be particularly challenging for small, low-income countries that are challenged to catch up with the latest regulatory developments.

Globally, regulators and supervisors face a rapidly evolving market context that makes the establishment of, and the evolution of, a DFS regulatory framework particularly challenging. Across EMDEs, central banks and regulatory authorities are grappling with formulating the policy and regulatory responses to rapidly evolving market developments. In almost all cases, EMDEs are still on the journey of designing new regulatory frameworks.

Another issue is supervisory capacity and resources in the context of the current state of suptech and regtech. DFS supervisors face common challenges: inadequate expertise and skills in the face of fast growth and changes in DFS. Building supervisory capacity, which also includes improving supervisory data, should be a top priority for DFS supervisors. Having adequate supervisory capacity means having the

[23] The coverage of the reference guide will be expanded in stages until October 2023 to include DFS more broadly (not just e-money, which is the focus of the current iteration). The following themes are being considered: supervision of DFS, enabling innovation (sandboxes, innovation hubs, accelerators), competition issues, lending platforms, the role of non-banks beyond mobile network operators and mobile money, data protection/privacy, gender, more on cybersecurity, outsourcing (cloud-based services, transnational data processing), and financial capability.

needed resources at the appropriate level to ensure that supervisory responsibilities can be carried out in an effective and timely manner. Risk-based supervision requires high-quality data, good data management, and adequate data analytical tools, including modern data collection.

Box 3.4: UNCDF Policy Accelerator Guides

Applied thus far in more than 18 markets, the United Nations Capital Development Fund's (UNCDF) process-focused guides help regulators to accomplish the following: (1) identify policy opportunities, (2) assess the current market and regulatory landscape, (3) learn from peer markets, (4) investigate alignment with global standards, (5) consult with stakeholders, (6) analyze policy options, (7) create staff training modules, and (8) identify needs for regulatory harmonization. Using a digital platform to optimize accessibility (for example, mobile enabled, dual French/English, plain language), each guide includes several tools that are issue agnostic and process focused, allowing for a unique blend of flexibility and completeness. The guides do not prescribe a specific sequence; rather, regulators and policy makers can use the resource that best suits their own policy design process, accelerating implementation while ensuring alignment with their goals.

Sierra Leone: Between 2019 and 2021, the Bank of Sierra Leone used the UNCDF policy accelerator tools to investigate, design, and implement their financial consumer protection regulations. With an existing draft of the regulations in place, the bank used three guides to accelerate their regulatory reform process: Learn from Peer Markets, Alignment with Global Standards, and Consult with Stakeholders. The subsequent draft of the regulations was thus more aligned with best practice in consumer protection regulation and benefited from stakeholder input from the private sector and civil society.

Source: UNCDF: Policy Tools and Resources.

In the context of the fundamental changes in the way financial services are offered, traditional regulatory approaches in EMDEs may need to adapt to such transformative innovations. Regulators need to be attentive to (a) redefining the regulatory perimeter (to facilitate market innovations while mitigating risks); (b) ensuring collaboration among authorities, cutting across multiple policy and regulatory domains; and (c) balancing opportunities and risks by implementing proportionate regulation and supervision of DFS.

3.4 Looking forward

Whether in legacy or new DFS market contexts, outlining the implications of meeting the goals of inclusion, stability, integrity, and protection in developing a regulatory framework for DFS, as referenced in HLP 3, is a fundamental concern. In this context, regulators and supervisors are encouraged to adopt a more proactive role in assessing the risks facing vulnerable groups.

This applies to women in particular, especially low-income women, who remain more financially excluded than their higher-income counterparts.[24] In integrating gender considerations into DFS initiatives, policy makers, regulators, and supervisors should be aware that the gender gap, on the one hand, may reflect gender preferences and risk aversion but, on the other, may be explained by gender-based discrimination or social norms and conditions that disadvantage women. In this latter case, policy interventions may be necessary to enhance the inclusiveness of DFS. This consideration should be transversal—across all the elements of DFS policy, regulation, and supervision.

Resources Relevant to HLP 3

- AFI: Policy Framework on the Regulation, Licensing and Supervision of Digital Banks, 2021
- AFI: Regulatory and Supervisory Technologies for Financial Inclusion, 2022
- BIS: Fintech and the Digital Transformation of Financial Services: Implications for Market Structure and Public Policy (BIS Papers No. 117), 2021
- CGAP: Fintech and the Future of Banking Collection:
  - Fintechs and Financial Inclusion: Looking past the Hype and Exploring Their Potential, 2019
  - Fintechs and Financial Inclusion: Lessons Learned, 2019
- CGAP: Regulation for Inclusive Digital Finance (web page)
- CGAP: Proportional Supervision for Digital Financial Services DFS Collection (web page)
- CGAP: Digital Banks: How Can They Be Regulated to Deepen Financial Inclusion? (reading deck)
- CGAP: DFS Supervision Toolkit (forthcoming)
- CGAP: Transformative Innovative for Financial Inclusion: Implications for Regulatory Architecture (forthcoming, fall 2022)
- CPMI, World Bank: Payment Aspect of Financial Inclusion in the Fintech Era (PAFI guidance), second phase, 2020
- FATF: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion, with a Supplement on Customer Due Diligence, 2017
- FSB: The Use of Supervisory and Regulatory Technology by Authorities and Regulated Institutions, 2020
- FSI: Policy Responses to Fintech: A Cross-Country Overview, 2020
- G20/GPFI: Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape, 2016
- G20/GPFI: G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, 2017
- IADI: Introductory Brief: Challenges for Deposit Insurers (Fintech Brief No. 1), 2021
- IAIS: Application Paper on the Use of Digital Technology in Inclusive Insurance, 2018
- World Bank: A Roadmap to SupTech Solutions for Low Income (IDA) Countries, 2020
- World Bank: Digital Financial Services, 2020
- World Bank: Fintech and the Future of Finance, 2022
- World Bank, IMF: The Bali Fintech Agenda, 2018

[24] Research from the International Monetary Fund (IMF) has shown that DFS have not served to close the gender gap in financial inclusion, as DFS/fintech do not address barriers such as cultural or social norms, financial and digital literacy, and safety and disparity in access to resources, and that such barriers are higher for women. See the 2022 IMF working paper Fintech: Financial Inclusion or Exclusion?. This is corroborated by the BIS (The Fintech Gender Gap, BIS Working Paper No. 931, 2021).

IV. HLP 4: Expand the DFS Infrastructure Ecosystem

Statement of the HLP: Expand the digital financial services ecosystem—including financial and information and communications technology infrastructure—for the safe, reliable, and low-cost provision of digital financial services to all relevant geographical areas, especially underserved rural areas.

4.1 Context: Importance of the HLP, Statement of Challenges in Current Market Contexts

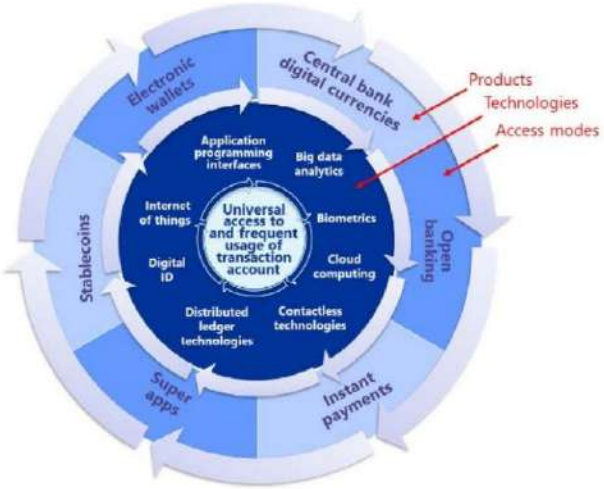
This chapter identifies the role played by new fintech-led technologies, products, and access modes as critical enablers for expanding access to and usage of DFS for the unbanked individuals and MSMEs and underserved population segments. Guidance is provided on the implementation of critical policy and infrastructure levers to improve the design of transaction accounts and payment products and lowering market barriers for new players and new approaches, to make DFS ubiquitously accessible and with enhanced user experience and awareness. Digital payments serve as a gateway to broader DFS, including savings and credit.[25]

New technologies not only offer new modes of accessing these new products by means of e-wallets, open banking, and super apps but also allow payments to be initiated through transaction accounts offered through existing products and services (for example, card accounts linked to pay wallets). Similarly, new products and access modes do not always rely on advances in technology but can leverage existing technologies to achieve scale. (For example, fast payments can be offered based on traditional technologies and initiated via online banking, rather than e-wallets.) Figure 4.1 highlights the evolution of new technologies, products, and access modes.

The success of such technologies also depends upon the quality of the underlying ICT infrastructure—such as mobile broadband infrastructure, including in remote areas—expansion of digital ID (which also furthers HLP 7), credit registries, and open APIs. These investments should be complemented with the relevant legal and regulatory frameworks that can allow most people to benefit from DFS and ensure a competitive ecosystem. During the last two years, the COVID-19 pandemic has amplified the use of new technologies, products, and access modes to keep commerce thriving and financial systems functioning and provide end users with digital options to continue using financial services while also observing social distancing and other measures.

[25] World Bank: Digital Financial Services, 2020.

Figure 4.1: PAFI Fintech Wheel[26]



4.2 A Framework for Implementing HLP 4

The framework for implementing HLP 4 includes guidance for expansion of the DFS ecosystem—including financial and ICT infrastructures—for the safe, reliable, and low-cost provision of DFS to all relevant geographical areas, especially underserved rural areas. The framework uses the G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs as a key reference point, in particular HLPG 1 (Promote a Competitive Environment for Banks and Non-Banks and Support the Development of a Widely Accessible, Secure and Responsible Digital Infrastructure and Interoperable Payment Systems), and HLPG 2 (Encourage the Availability and Affordability of Tailored Digital Financial Products, while Addressing the Needs for AML/CFT Safeguards and the Necessary Customer Due Diligence Measures and Digital ID Systems).[27] The guidance can be used by national authorities in determining effective courses of action to leverage the promise of new technologies, products, and access modes and mitigate the risks associated with them. The definitions for innovative technologies, products, and services that are part of this framework are also included in the glossary.

For the DFS system to serve all users and offer full user choice, payment interoperability across the ecosystem, preferably including cross-border, is critical. Many users experience services within fragmented ecosystems in which providers operate independently, neither sharing data nor transacting across one another. Some providers offer these flexibilities at a cost, which deters users from transacting with peers and retailers over platforms. These silos preclude digital payments from achieving the same convenience, affordability, and utility as cash. For underserved populations, many of whom reside in rural or low-income communities, these added costs make this a particularly untenable prospect. Supplementary opportunity costs—such as those incurred by users who physically travel to banks because they are blocked from digitally transacting with them—only exacerbate the issue.

[26] CPMI, World Bank: Payment Aspects of Financial Inclusion in the Fintech Era, 2020.
[27] These are also relevant to implementation of HLP 7.

(a) The Design of Key Payment Infrastructures Should Consider the Use of New and Existing Technologies, Products, and Access Modes in a Balanced Way to Expand Access to and Usage of Transaction Accounts.

Innovation in existing DFS products and services (for example, e-money, especially mobile money) has improved access to and usage of transaction accounts in recent years. The important role played by payment infrastructures to leverage the existing technologies, products, and access modes for financial inclusion has been significant. The increasing momentum gained by fintech developments is altering the DFS ecosystem and improving prospects for financial inclusion, especially for the underserved segments. At the same time, DFS and fintech also pose risks to consumers and investors from an operational and cyber resilience point of view. Harnessing the benefits of fintech responsibly will require a balanced approach that provides clarity to the market and consumers, is activities-based, proportionate, and technology neutral, and serves the set policy objectives. Box 4.1 highlights the balanced policy approach taken by the Reserve Bank of India to promote innovation in DFS.

Box 4.1: India's Approach to Innovation in DFS

To promote responsible innovation in DFS, the Reserve Bank of India launched an Innovation Hub in March of 2022. The hub was established on the premise that PSPs, policy bodies, start-ups, and businesses alone can not address the global shifts and regulatory and technological challenges of an increasingly complex, interdependent, and fast-transforming world of the financial sector, and that an established institutional setup was needed to enable informed collaboration and cooperation via a trusted platform. The hub aims to identify challenges in the Indian financial system using data and insights from applied research and stakeholder consultations and to address these challenges by creating and piloting collaborative solutions that leverage the power of existing and new technologies.

New technologies that are helping with the development of new products and access modes include APIs, big-data analytics, biometric technologies, cloud computing, near-field communication and QR code–based contactless technologies, digital ID, DLT, and the Internet of Things. New technologies facilitate the delivery of new products and access modes, including fast payments and CBDCs. New technologies not only offer new modes of accessing these new products by means of e-wallets, open banking, and super apps but also allow payments to be initiated via traditional transaction accounts and/or payment instruments.

(b) ICT and Shared Market Infrastructures Should Be Effective in Supporting Financial Inclusion Efforts by Providing Critical Information to FSPs, Including an Identification Infrastructure, a Credit Reporting System and Other Data-Sharing Platforms.

ICT and shared market infrastructures should be appropriately designed, operate effectively, and be available to all FSPs equally. This can support financial inclusion efforts by providing the critical information needed for opening transaction accounts and improving usage. These include an effective

and efficient identification infrastructure, a credit reporting system, and other data-sharing platforms using alternative data and collateral registry systems. Additionally, the availability and reliability of critical public infrastructures, such as transport networks, electrical grids, telecom and broadband access, and internet connectivity, can improve accessibility of access points such as ATMs and POS terminals. Further, the geographical coverage of ICT infrastructures and the overall quality of the service provided by those infrastructures are enhanced as necessary by their owners/operators so as not to constitute a barrier for the provision of transaction account services to underserved segments in remote and rural areas.

In the context of new technologies, the role of digital ID is important. Digital ID refers to a set of electronically captured and stored attributes and credentials that can uniquely identify an individual or legal person and is used for electronic transactions. Digital ID can support the development of KYC utility to collect, verify, store, and screen customer data and share it across all service providers in the market in real time or near real time. Public- and private-sector stakeholders should support the establishment of a digital ID and shared market infrastructures for customers to digitally identify, authenticate, and provide consent. The standardization and sharing of the platform greatly improve the level of compliance as well as efficiency within the DFS market by reducing costs for PSPs. *(Also see the discussion of digital IDs in chapter 3.)*

Shared market infrastructures also increase the exposure to risks associated with data breaches and cyberattacks and concerns about the control and misuse of personal data, as well as flawed infrastructure design with regard to governance, access, coverage, data quality, connectivity, and interoperability. Therefore, regardless of the ownership model, clear lines of responsibility and inclusive and representative governance arrangements are essential to the overall safety and integrity of the shared market infrastructures.

(c) Transaction Account and Payment Product Offerings Should Be Designed to Meet a Broad Range of Transaction Needs of the Target Population and at Low Cost.

PSPs leverage new technologies and access modes to improve the design of transaction accounts and payment products for the benefit of all their customer segments. The development and adoption of new technologies, products, and access modes in combination with the existing technologies and business models avoid the exclusion of customer segments due to factors such as age, culture, gender, disability, religion, and financial literacy. Box 4.2 provides an example of how Spain is improving the accessibility of DFS for vulnerable groups, including people with disabilities.

Box 4.2: Spain's Initiative to Improve Accessibility of DFS for Vulnerable Groups

Spain's recently launched national initiative focuses on protecting certain vulnerable groups with a focus on senior citizens. To implement this, key bank associations signed a new protocol in February 2022 to improve access to and usage of DFS by the elderly and people with disabilities. The protocol includes 10 pillars aimed at eradicating the financial exclusion of elderly financial consumers (65 years old and older) using digital technologies. The protocol guarantees accessibility to DFS and the simplicity of ATMs, mobile apps, and web pages, offering versions with simplified language and adapted visualization characteristics.

Fast payments allow evolving end-user needs to be met by enabling individuals and businesses to make and receive payments at any time and in near real time. For fast payments to fulfill the needs of the financially excluded and underserved, they need to provide a close substitute for cash and act as a starter product for other financial services by being based on a general-purpose transaction account. In many product implementations, instant payments already demonstrate the immediacy of cash to be matched. However, broad acceptance and a wide range of use cases beyond P2P payments are also critical for the growth of fast payment services. The availability of overlay services, such as request to pay, can improve the user experience and cause end consumers to adopt fast payment services more quickly. Box 4.3 provides an example of how Brazil's fast payment system Pix has rapidly digitalized the retail payment market by improving the possibilities for making any payment or transfer electronically, regardless of the payment amount and who is involved in the transaction.

Box 4.3: Brazil's Fast Payment System Pix

Brazil's fast payment scheme Pix was launched by the Central Bank of Brazil in 2020. It allows fund transfers between all types of transaction accounts in the Brazilian market—current, savings, and prepaid payment accounts—creating a payment service ecosystem with low acceptance costs and high levels of usability. Pix aliases, which inform the account data to start a transaction, are as simple as an e-mail address or a mobile phone number. The platform also actively uses QR codes as the access channel. Since its launch in November 2020, Pix has grown rapidly; by December 2021, approximately 109 million consumers and 7.6 million businesses, mostly MSMEs, were active users of the platform. That includes about 45 million citizens who previously did not have access to DFS. The strong adoption trend of the platform demonstrates that the effects go beyond a simple switch to a new digital means of payment, to positive digital financial inclusion outcomes. Some of the main drivers behind the adoption rates have been the single name and brand, building recognition and trust in the system; the mandatory participation of big banks, creating network externalities and scale; low transaction costs compared to other retail payment instruments (transactions are free for end users); an improved customer experience due to standardization of the way Pix is provided in participating institutions' apps; and a multiplicity of use cases, including P2P transfers, tax and bill payments, online, and card-present purchases.

CBDCs could also be leveraged to ensure access to a basic, trustworthy means to pay and store value in situations where PSPs do not offer transaction accounts that effectively meet the needs of the unbanked and/or there is a lack of trust in DFS. Where access to cash is cumbersome, CBDCs could be designed to replicate certain cash-like attributes to ensure that individuals and businesses have access to a simple, risk-free, and flexible means of payment.[28]

[28] With respect to fast payments and CBDC, the FSB's 2021 cross-border roadmap, Targets for Addressing the Four Challenges of Cross-Border Payments, and the CPMI's 2020 Stage 2 report Enhancing Cross-Border Payments: Building Blocks of a Global Roadmap also provide an overview of challenges and targets to address them. More specifically, the

Super apps also are fast emerging to facilitate a wide range of services, including payments. Attracted by their convenience, ease of use, and discounts, users have an incentive to open transaction accounts (either at a financial institution or in the super app) as a requirement to access full-fledged services in the app. Given the large number of social media users and the number of use cases enabled by super apps, the potential impact on both access to transaction accounts and their frequent usage is substantial. Super apps assume that users have access to the internet and a smartphone. For this reason, the availability and affordability of ICT play a critical role.

(d) Access Points Should Be Readily Available to Augment the Usefulness of Transaction Accounts.

PSPs seek to leverage the potential of new technologies, products, and access modes to offer low-cost, easy-to-use access points and channels to expand the reach and acceptance of e-payment instruments while ensuring that a basic level of physical access points is maintained.

The payment industry and authorities consider the impact of the continued decline in the use of cash and the reduction in the availability and proximity of cash access points. Contactless technologies, and especially QR codes, are emerging as a low-cost alternative to traditional POS terminals in combination with mobile/e-wallets. QR codes offer a new alternative, by lowering hardware requirements on the payee and decreasing operating costs of acquirers. Merchants without an electronic device can also accept such transactions by simply displaying a printout of the QR code for the payer to scan. Even in markets with a high penetration of payment cards, POS terminals are being used to display QR codes for card acceptance. QR code acceptance is key to the deployment of instant payment services. Box 4.4 provides an example of how QR code technology is being used for social assistance programs in Indonesia.

Box 4.4: Digitization of Social Assistance Programs in Indonesia

The Government of Indonesia and Bank Indonesia are pursuing a cashless-based social assistance program via digital channels that are easy to access by the public. This goal is to increase financial inclusion and provide economic opportunities to vulnerable groups. The existing landscape for digital disbursement of social assistance payments faces several challenges, including a lack of supporting regulation, fragmented data on eligible recipients, additional costs on card-based payments for noncash transfers, limited interconnectivity, especially among payment system bank agents, a lack of digital and financial literacy, and underutilization of existing digital payment instruments.

Bank Indonesia has identified three business models for digital social assistance programs: the Quick Response Code Indonesian Standard (QRIS), USSD, and face-recognition payments. Of the three business models, QRIS provides the most benefits, as it is already interconnected among banks and non-banks, free of charge for customers, and accepted at 17.5 million QRIS merchants. Banks can use the QRIS channel for customers who have smartphones and add the feature of

interlinking of payment systems for cross-border payments, including fast payment systems, are addressed under Building Block 13, and the potential for CBDC to enable cross-border payments is addressed under Building Block 19.

face-recognition payment for recipients who do not have mobile phones. An additional feature of the application is the "whitelisting" of products or services that beneficiaries are allowed to buy with their social assistance money.

The Government of Indonesia and Bank Indonesia are also addressing the remaining challenges that are critical to the success of the program, including ICT infrastructures, particularly in remote regions, and access to stable and affordable mobile and internet connections. Another challenge is adjusting the payment applications used by merchants and bank agents to facilitate QRIS payments and biometric authentication.

Open banking allows authorized third parties to access PSP customer data and offer new and improved services to individuals and firms. In this regard, third parties can gain insights into customer data held by account-servicing PSPs and create new propositions that increase the usage of transaction accounts—for example, by initiating credit transfers to online merchants. By breaking down data silos within and across PSPs, open banking could also provide a pathway to broader financial inclusion for the currently underserved by enabling new providers to offer savings, investment, or insurance products that cater to customers' specific needs. At the same time, through open banking, banks can personalize and expand the range of products they offer to their customers.

(e) Relevant Public- and Private-Sector Stakeholders Should Engage in Ongoing and Effective Educational and Outreach Efforts to Support Awareness and Financial Literacy with an Appropriate Degree of Coordination.

Educational and outreach efforts coordinated by public- and private-sector stakeholders should support awareness and financial literacy with respect to new technologies, products, and access modes, using both traditional and digital communication means. *See chapter 6 for a detailed discussion of digital skills and digital financial literacy.*

Big-data analytical tools such as AI and ML are increasingly being used to build awareness of the features and functionality of DFS products, transmit tailored knowledge about their usage, and manage financial resources. PSPs are utilizing these technologies for customer support (for example, virtual assistants complementing telephone help desks), onboarding, and customer education. AI is also being utilized to augment customers' ability to navigate information-dense product offerings.

(f) Large-Volume and Recurrent Payment Streams, Including Remittances, Should Be Leveraged to Advance Financial Inclusion Objectives, to Increase the Number of Transaction Accounts and Stimulate the Frequent Usage of These Accounts.

New technologies, products, and access modes that facilitate the use of account-based, open-loop payment methods for large-volume and recurrent payments are considered. International remittances are ideally placed to foster access to, and use of, transaction accounts by both senders and recipients. DLT has the potential to promote business model innovation in cross-border payments, as also indicated by the G20 Roadmap for Enhancing Cross-Border Payments. In a permissioned/private environment, DLT

could support the streamlining of business-to-business cross-border payments. Using DLT solutions could increase straight-through processing rates, lower reconciliation costs, bring down compliance costs, and improve the transparency and traceability of transfers, thereby also easing the impact of derisking issues. Moreover, as countries design CBDCs for their jurisdictions, the cross-border element should be considered with a focus on access frameworks and/or interlinkage options.

Further, the ability of fast payments to be used for remote payments makes them an attractive option for large-volume government use cases such as government-to-person and government-to-business payments, as well as acceptance of person-to-government (P2G) and business-to-government (B2G) payments.

Remittances make up a significant portion of many countries' gross domestic product and play a critical role in the lives of large populations. Digitizing remittances at both ends and ensuring easy access to transaction accounts is critical for monitoring and measuring remittance flows and encourages account usage. However, adequate infrastructure, information about its availability, and trust in the services are key to promoting uptake.

★ *Extensive research shows that digitizing remittances reduces costs and produces savings in income due to reduced travel and wait times, and that there is a positive correlation between increased digital remittances and enhanced formal deposits and credits.*

4.3 Challenges in Implementing HLP 4

Alignment of policy objectives with technology implementations: The technology chosen for DFS solution infrastructures will not define their success. Rather, technologies and design features need to cater to the policy objectives they intend to fulfill. In this context, countries should weigh carefully the pros and cons of technology choices and not get carried away by technological hype. Indeed, the alignment of public policy objectives with technology implementations is critical for promoting financial inclusion among the vulnerable segments identified above.

Lack of domestic interoperability: New technologies for financial inclusion both provide opportunities for specialization and pose challenges for market integration. A lack of interoperability and geographical coverage of payment and financial infrastructures and identity and verification systems is a challenge that impedes innovation and the implementation of new technologies.

Lack of harmonized data standards for cross-border payment: For cross-border payments, not all jurisdictions have adopted common international standards (for example, messaging standards, API standards) making interlinkages between payment systems across borders more difficult. This can result in fragmented and truncated data standards, high costs of capital, and weak competition. All these factors extend the life cycle of a cross-border transaction and affect the targets identified under the G20 road map for speed, cost, and transparency.

Lack of a level playing field in accessing shared infrastructures: A lack of access for non-bank PSPs to critical shared market infrastructures, including electronic KYC, digital ID, and credit scoring, can increase

the cost of compliance and reduce the availability of services. A high cost of compliance often drives their business case to the ground unless scale is reached early in the implementation process.

Investment and operational costs can be high for new technologies, products, and access modes: For central banks and PSPs participating in new product ecosystems such as fast payments or CBDC, the initial investment costs and ongoing costs can be high to justify the necessary investments in infrastructure and development of access channels. Coordination of investment strategies between central banks and private-sector participants can also be a challenge, as the latter need more assurances on profitability up front that have a bearing on product pricing.

Operational and cyber resilience challenges: DFS may rely on data infrastructures that are vulnerable to cyberattacks, system failures, and an overreliance on third-party service providers—for example, cloud storage and analytics data provision. This may compromise business continuity and financial stability and is closely related to data-governance concerns.

Strong cash culture: Many emerging economies still have a strong cash culture, which is a barrier to the adoption of DFS. The affinity for cash can be explained by such factors as a lack of trust in DFS, low levels of digital and financial literacy, and the perception of security, immediacy of payment, and simplicity in managing expenditures that cash provides. In the process, both demand- and supply-side-driven interventions are needed to transition to digital payment instruments and channels.

Digital exclusion and a lack of digital literacy and digital financial literacy: Low levels of digital literacy and digital financial literacy can reduce usage of DFS channels, which in turn has an impact on the scale of operations and required investments by the industry. This particularly affects women and populations in rural areas, who may not be aware that safer, cheaper, and more efficient alternatives to cash are available to them, which prevents them from adopting and benefiting from DFS, if available.

Market concentration: Due to economies of scale, reputation, and capital, there is the potential for large DFS platforms and bigtechs to reduce overall competition and increase the concentration of risks in the financial sector. In developing economies, bigtechs are already enjoying a dominant position across a range of financial services, such as payments, lending, insurance, and investment management.

4.4 Looking Forward

In combination with existing technologies and business models, new technologies, products, and access modes provide opportunities to address financial inclusion challenges by improving the potential for increasing access to and usage of transaction accounts, improve financial literacy, and utilize recurrent payment streams to drive both access and usage. However, new technologies also come with challenges that must be adequately addressed to ensure that financial inclusion outcomes are not undermined. As both member and nonmember countries consider the application of the new technologies, products, and access modes to enhance digitization and financial inclusion efforts, they should take a balanced approach to maximize public- and private-sector commitment, strengthen the legal and regulatory framework, and improve financial and ICT infrastructures. Additionally, stronger emphasis could also be placed on enhancing international and cross-sectoral coordination between authorities, clarifying the applicability

of existing regulatory and oversight requirements and addressing any gaps that may arise, and fostering the resilience and availability of payment and ICT infrastructures.

Resources Relevant to HLP 4

- BIS: Platform-Based Business Models and Financial Inclusion, 2022
- BIS: Big Techs, QR Code Payments and Financial Inclusion, 2022
- CPMI, World Bank: Payment Aspects of Financial Inclusion: Application Tools, 2020
- CPMI, World Bank: Payment Aspects of Financial Inclusion in the Fintech Era, 2020
- FSB: The Use of Supervisory and Regulatory Technology by Authorities and Regulated Institutions, 2020
- FSB: G20 Roadmap for Enhancing Cross-Border Payments, 2021
- G20/GPFI: Advancing the Digital Financial Inclusion of Youth, 2020
- G20/GPFI: Advancing Women's Digital Financial Inclusion, 2020
- G20/GPFI: G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, 2020
- G20/GPFI: Promoting Digital and Innovative SME Financing, 2020
- IMF: The Bali Fintech Agenda, 2018
- World Bank: A Roadmap to SupTech Solutions for Low Income (IDA) Countries, 2020
- World Bank: Implementation Considerations for Fast Payment Systems, 2021
- World Bank: Developing Digital Payment Services in the Middle East and North Africa: A Strategic Approach, 2021
- World Bank: Digital Financial Services, 2021

V. HLP 5: Establish Responsible Digital Financial Practices to Protect Consumers

Statement of the HLP: Establish a comprehensive approach to consumer and data protection that focuses on issues of specific relevance to digital financial services.

5.1 Context: Importance of the HLP, Statement of Challenges in Current Market Contexts

Effective financial consumer protection is essential to support meaningful digital financial inclusion, particularly given newly emerging risks and the rapid onboarding of previously underserved users.[29] HLP 5 highlights key actions to support responsible digital financial practices to protect consumers and address risks. The exponential growth of DFS, particularly accelerated by responses to the COVID-19 pandemic, brings many benefits and opportunities to financial consumers, but it also comes with new risks, especially for consumers experiencing vulnerability or with limited digital literacy and digital financial literacy. As described by the G20/OECD Task Force on Financial Consumer Protection (G20/OECD FCP Task Force), these risks emerge from several sources: they can be market driven, regulation and supervision driven,

[29] In this chapter, "financial consumer" is generally considered to include private individuals at a minimum but may also include small businesses/MSMEs, depending on the definitions used by jurisdictions. The differences have not been explored, given the limited scope of this chapter.

consumer driven, and technology driven.[30] New risks or new manifestations of risks[31] include, among others, new forms of theft, scams, or fraud perpetrated online, loss of consumer funds, data breaches, platform/technology unreliability or vulnerability, gaps in regulation due to new types of products or services, a lack of privacy, digital security incidents, inappropriate or discriminatory outcomes resulting from the use of AI, and excessive data profiling, leading to financial exclusion and the manipulation of consumers' behavioral biases when operating online.[32]

The dual objectives of digital financial inclusion—to broaden **access** to DFS and to ensure sustained **use**—require trust in digital financial products and interfaces. This means that adapting and designing comprehensive consumer- and data-protection frameworks for the digital age are more important now than ever. The policies and approaches developed and adopted by financial consumer protection authorities need to evolve and adapt in line with the changing environment and must also include, where appropriate, tailored approaches and measures that focus on the specific needs and risks of vulnerable consumers, which can take different forms and be applicable in different circumstances.

5.2 A Framework for Implementing HLP 5

(a) Key International Standards and Guidance

With the endorsement of the G20 leaders in 2011, the G20/OECD High-Level Principles on Financial Consumer Protection[33] (FCP Principles) are the leading G20 international standard for financial consumer protection and provides a useful framework for implementing HLP 5. Following a comprehensive implementation assessment conducted in 2021 encompassing all G20 countries, the FCP Principles were updated under the 2022 Indonesian G20 Presidency. Key additions include the cross-cutting themes of "Digitalization," "Financial Well-being," and "Sustainable Finance" (with specific examples of the themes throughout the principles) and two new principles: "Access and Inclusion" and "Quality Financial Products."[34]

The FCP Principles set out 12 essential elements of an effective and comprehensive financial consumer protection framework (see table 5.1), which necessarily and appropriately includes DFS. This is reflected particularly by the inclusion of digitalization as a cross-cutting theme relevant to the implementation of each and all the FCP Principles. This chapter focuses on the digital-specific angles.

Table 5.1: G20/OECD High-Level Principles on Financial Consumer Protection

1. Legal, Regulatory, and Supervisory Framework	7. Disclosure and Transparency
2. Role of Oversight Bodies	8. Quality Financial Products

[30] See, for example, OECD: G20/OECD: Policy Guidance: Financial Consumer Protection Approaches in the Digital Age, 2018.
[31] World Bank: Consumer Risks in Fintech: New Manifestations of Consumer Risks and Emerging Regulatory Approaches, 2021.
[32] See, for example, CGAP: The Evolution of the Nature and Scale of DFS Consumer Risks: A Review of Evidence, 2022.
[33] The G20/OECD FCP Principles are developed and maintained by the G20/OECD Task Force on Financial Consumer Protection (G20/OECD Task Force) comprising policy makers and experts from G20 and OECD countries, among others.
[34] The "Sustainable Finance" cross-cutting theme is not mentioned in this chapter in detail, given the objectives of HLP 5. The FCP Principles can be applicable to individual financial consumers and MSMES, depending on the definitions used by jurisdictions.

3. Access and Inclusion	9. Responsible Business Conduct and Culture of Financial Services Providers and Intermediaries
4. Financial Literacy and Awareness	10. Protection of Consumer Assets against Fraud, Scams, and Misuse
5. Competition	11. Protection of Consumer Data and Privacy
6. Equitable and Fair Treatment of Consumers	12. Complaints Handling and Redress

Cross-cutting themes: Digitalization, Financial Well-Being, and Sustainable Finance

In recent years, other international development organizations have also produced recent and comprehensive guidance with a focus on specific DFS risks in emerging markets and for lower-income consumer segments. Examples include the following:

- CGAP: The Evolution of the Nature and Scale of DFS Consumer Risks: A Review of Evidence, 2022
- BTCA: UN Principles for Responsible Digital Payments, 2021
- World Bank: Consumer Risks in Fintech, 2021
- UNCDF: The Role of Consumer Protection in the Digital Economy, 2021
- CPMI, World Bank: Payment Aspects of Financial Inclusion in the Fintech Era (Updated), 2020
- CFI: Handbook on Consumer Protection for Inclusive Finance, 2019

(b) Policy Guidance and Effective Approaches for Implementing HLP 5

G20/GPFI guidance (see table 5.2) has increasingly called for acknowledging and incorporating segment-specific (for example, women, MSMEs, youth) measures and/or initiatives including for the more vulnerable (for example, the elderly, the disabled, migrants, remote users and/or users with limited experience in using financial products) as part of more comprehensive and consistent financial consumer protection frameworks. The following countries are leading by example: (1) The Bank of Thailand's 2018 market conduct regulation requires FSPs to take care of vulnerable consumers who may need cautious communication and additional support from a service provider; (2) the United Kingdom's Financial Conduct Authority launched a digital sandbox during the pandemic that focused on areas exacerbated by COVID-19—scams and fraud, consumer vulnerability, and SME financing—and (3) in the Democratic Republic of Congo, the Banque Centrale du Congo created an ad hoc authorization requirement in 2018 that permitted DFS providers to accept refugee ID cards, instead of the national ID card, as proof of identity for banking operations. This was a key initiative by the Democratic Republic of Congo to provide targeted consumer protection for the 4.5 million refugees in the country.[35]

Table 5.2: G20/GPFI Guidance and Policy Options

G20/GPFI: Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection, 2021

[35] AFI: Consumer Protection for Digital Financial Services: A Survey of the Policy Landscape, 2021.

- Favor "protection by design"—that is, the design of new digital financial products and services that are oriented more to the needs of the financial consumer, help prevent aggressive and unfair market practices, and ensure the legitimate use of customer data.
- Address risks of online fraud and scams and mismanagement of personal data.
- Strengthen effective redress mechanisms to protect consumers.
- Deploy data collection and enhance market monitoring to improve financial services.
- Use behavioral insights to improve financial consumer protection and financial education.

G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, 2020

- Consider the needs, risks, and vulnerabilities of women, youth, and SMEs in the digital environment in the context of (i) the financial consumer (price, terms, clear language) and (ii) data-protection approaches (security, privacy and responsible use of alternative data, and cybersecurity).
- Support comprehensive consumer protections that address women's needs, including requirements to disclose product prices and terms in clear language and appropriate measures to ensure data privacy and security.
- Minimize the risks associated with the digitization of SMEs, particularly by ensuring data-protection and privacy rights and adequately managing cybersecurity risks.
- Ensure the responsible use of alternative data consistent with applicable laws and good practices related to consumer protection, and remain vigilant to potential financial stability risks.

G20 Fukuoka Policy Priorities on Aging and Financial Inclusion, 2019

- **"Protect,"** tackle financial abuse and fraud; and "**Customize**," address the diverse needs of older people
- Encourage stakeholder engagement—a multisectoral approach.

G20 Policy Guide: Digitisation and Informality, 2018

- Adapt oversight arrangements and capability for financial consumer protection and improve disclosure and transparency.

Furthermore, in collaboration with the GPFI, the G20/OECD FCP Task Force has produced policy guidance and effective approaches setting out practical and evidence-based support for implementation. The following are examples:

- Financial Consumer Protection and Financial Inclusion in the Context of COVID-19, 2021
- Financial Consumer Protection Approaches in the Digital Age, 2018 (part of the Compendium of Effective Approaches for Financial Consumer Protection in the Digital Age, 2020)

It is important to tailor implementation approaches to country context and to balance the need for consumer protection with the resulting impact on industry and innovation. Regulators first need to develop a good understanding of the digital financial market (different types of providers, operating models, product features, digital channels, and current and prospective customer bases and target markets), consumers' experiences and expectations, and the current regulatory gaps. Information may be gathered from market research; consumer focus groups and meetings with providers, consumer and civil society representatives, and experts and other industry participants; complaints data; and supervisory activities and engagement arrangements such as sandboxes.

The COVID-19 pandemic also highlighted, among other effective implementation approaches that are not covered in the interests of brevity, the necessity for effective stakeholder engagement, with regulators coordinating more closely (formally and informally) and maintaining an ongoing dialogue with the industry, both with innovators and incumbents, as recommended by the Bali Fintech Agenda. (See box 5.1 for selected country examples.) Additionally, by including consumer stakeholders, civil society groups, and humanitarian organizations, implementors can incorporate continuous feedback to support the rapid deployment of appropriate responses to protect consumers.

Box 5.1: Effective Stakeholder Engagement

Colombia's Financial Regulation Unit, in collaboration with the National Planning Department, launched the Ingreso Solidario program to provide timely and adequate COVID-19 relief to affected households that were not beneficiaries of existing G2P payment schemes. The Financial Regulation Unit addressed the high risk of fraud and fast-tracked interoperability by positioning FSPs as co-creators of solutions. Private-sector participation in decision-making was welcomed via a "situation room" and was key to the successful rollout.

Ahead of issuing recommendations on digital credit offerings in July 2020, the **Banco de Portugal** took a range of practical steps, such as requiring providers to provide information (via a structured questionnaire) about how consumer credit products were being offered through digital channels. The central bank also held bilateral meetings with individual providers, during which providers demonstrated the contracting flows via online or mobile channels and created an open channel to discuss process revisions.

In **Spain**, a new protocol was signed in February 2022 by the main bank associations. The protocol contains 10 pillars oriented to eradicate the financial exclusion of elderly financial consumers (65 years old and older) derived from digitization.

The guidance below is structured around four key topics that are aligned with the recommendations of HLP 5 and the G20/OECD FCP Principles.[36] Each topic is followed by additional guidance, where relevant.

(i) Updated Legal, Regulatory, and Supervisory Framework to Address Risks from Digital Innovations and New Business Models

Most financial consumer protection systems were adopted before the introduction of DFS such as app-based financial services and online payments. Now, with rapidly evolving developments that involve new technologies such as customer service chatbots, software robot bankers, real-time lending using remote apps, sophisticated data manipulation, and new business models offering disaggregated service provision, policy makers should regularly review their existing financial consumer protection standards within their

[36] Overlaps with other FCP Principles. For example, FCP Principle 4 (Financial Literacy and Awareness) and FCP Principle 10 (Competition) are addressed in other HLPs and therefore not covered in this chapter.

legal, regulatory, and supervisory frameworks, including the role of oversight bodies, and update them as necessary. These policy issues are covered by FCP Principle 1 (Legal, Regulatory and Supervisory Framework), FCP Principle 2 (Role of Oversight Bodies), and FCP Principle 3 (Access and Inclusion). Applying financial consumer protection requirements by activity, rather than by type of institution, can help ensure that entities are subject to financial consumer protection obligations regardless of their institutional type or business model.

The increased use of fintech and DFS can either be product specific or cross-cutting. Some of the key risks include (a) fintech operator fraud or misconduct, (b) platform/technology unreliability or vulnerability, (c) consumer disclosure and transparency in a digital context, (d) increased risk of product unsuitability, (e) conflicted fintech business models leading to conduct that is not in consumers' interests, and (f) algorithmic decision-making leading to potentially unfair outcomes. These risks and emerging regulatory approaches have been discussed in the World Bank's policy research paper Consumer Risks in Fintech. Box 5.2 discusses a few approaches adopted by jurisdictions to address risks from AI, data, and algorithms.

The legal, regulatory, and supervisory framework should provide regulators and supervisors with an appropriate regulatory toolkit that is flexible, so they can adapt to emerging risks as required, including to changes at the regulatory perimeter. Using behavioral insights to improve financial consumer protection can also help inform regulations.[37] Considering the experience and risks of key segments—for example, MSMEs[38] or vulnerable consumer segments—can also add nuance to consumer protection frameworks by considering the distinct and varied risks faced by these key segments when developing or reviewing financial consumer protection measures. Lessons from the COVID-19 crisis should also be incorporated into financial consumer protection frameworks—for example, through ensuring that consumers are supported by incorporating appropriate hardship arrangements into financial consumer protection frameworks.[39]

Box 5.2: Addressing Risks from Use of AI, Data, and Algorithms

Innovative business models may bring not only many financial inclusion benefits but also financial consumer protection risks that governments, oversight bodies (with an appropriate regulatory toolkit), and the industry need to be aware of—for instance, risks associated with AI and an increased reliance on data and algorithms. The examples below examine measures taken to address some of these risks.

The Monetary Authority of **Singapore** has looked specifically at the use of AI and data analytics in financial services and in 2020 introduced Principles to Promote Fairness, Ethics, Accountability and Transparency as a guide for FSPs. In early 2022, the authority released an open-source toolkit

[37] G20/GPFI: Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection, 2021.
[38] For example, frameworks could consider how to enable decoupling of business and personal assets, which is a key consideration for MSMEs.
[39] G20/GPFI: Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection, 2021.

to help financial institutions adopt the principles, along with several white papers detailing assessment methodologies to guide the use of AI.

The **European Banking Association's** guidelines on loan origination and monitoring require that, when using automated models for creditworthiness assessment and credit decision-making, financial institutions should have in place internal policies and procedures to detect and prevent bias and ensure the quality of input data. Financial institutions should also have internal policies and procedures to ensure that the quality of model outputs is regularly assessed, including back-testing the performance of the model, and control mechanisms, model overrides, and escalation procedures within the credit decision-making framework, including qualitative risk-assessment tools and quantitative limits.

In 2021, **China** finalized new anti-monopoly rules for digital platforms and their associated financial services. The rules target practices such as the use of data and algorithms to offer different prices to different consumers, as well as self-dealing by elevating in-house products over those of competitors selling on the same platform. The rules also bar companies from unfairly pricing products by inflating prices or pricing them below cost, or forcing merchants to choose between the country's top internet players. As China's internet regulator stated, Chinese tech firms should not force consumers to be "prisoners to algorithms."

In **Portugal**, financial institutions are explicitly required to inform bank customers of situations in which their creditworthiness assessments rely exclusively on automated decision-making processes, particularly AI models, to allow customers to exercise their rights under the European Union's General Data Protection Regulation.

Updated financial consumer protection frameworks are most effective when regulators and supervisors have visibility of market developments, both at the service provider and the consumer level. As noted above, it is important that regulators and supervisors have the resources, capability, flexibility, and the appropriate range of tools and powers to carry out their role. This includes adapting their supervision activities to the digital environment, including market monitoring. This also includes using tools and data to monitor financial sectors evolving due to new fintech entrants and offerings, including as-yet-unregulated providers and changed businesses of some already-regulated entities. Supervisors need to be able to analyze and react to data from an expanding range of sources (including consumer-side research, the monitoring of social as well as traditional media, activity on digital platforms, and industry-side data). For effective supervision and enforcement in the digital environment, regulators and supervisors may consider adopting—or updating—their suptech strategies to improve the effectiveness and speed of responsiveness, which ultimately benefits customers. Cross-border cooperation between authorities is also increasingly relevant—given the ease with which fintech entities may engage with consumers in other countries.

The following resources provide additional guidance for this topic:

- AFI: Digitally Delivered Credit: Consumer Protection Issues and Policy Responses to New Models of Digital Lending

- BIS: Innovative Technology in Financial Supervision (Suptech)—The Experience of Early Users
- CGAP: Market Monitoring for Financial Consumer Protection
- FinCoNet: SupTech Tools for Market Conduct Supervisors
- World Bank: The Next Wave of Suptech Innovation: Suptech Solutions for Market Conduct Supervision

(ii) Responsible Business Conduct for FSPs, Bank and Non-Bank, and Their Intermediaries

Given the speed and complexity of DFS, clear and responsible market conduct expectations must be articulated for FSPs and their intermediaries, to ensure fair and equitable treatment of consumers, as well as effective disclosure and transparency. FCP Principle 6 (Equitable and Fair Treatment of Consumers), FCP Principle 7 (Disclosure and Transparency), FCP Principle 8 (Quality Financial Products), and FCP Principle 9 (Responsible Business Conduct and Culture of Financial Service Providers and Intermediaries) set this out clearly. Fair treatment in this case must also include the provision of suitable and quality financial products and embedding financial inclusion and protection objectives in innovation policies, thereby widening the range of suitable financial products and services available to vulnerable and underserved financial consumers. Box 5.3 discusses emerging regulatory approaches to addressing some of these risks.

Box 5.3: Emerging Regulatory Approaches to Address Risks Related to Product Unsuitability, Disclosure and Transparency, and Business Conduct

Product unsuitability: Emerging regulatory approaches to addressing risks from product unsuitability (FCP Principles 8 and 9) include imposing limits on consumer exposure to specific products (examples include **Dubai (UAE)**, **Australia**, and **India**, which have imposed limits on consumer exposure to crowdfunding and P2P lending), and imposing requirements to assess the appropriateness of products. (For example, the **European Union's** regulation on crowdfunding requires that platform operators run an entry knowledge test on their prospective investors and that these prospective investors simulate their ability to bear loss.)[40]

Consumer disclosure and transparency in a digital context: For enhanced disclosure and transparency (FCP Principle 7), authorities may seek to mandate the content of contractual terms and conditions for digital finance products and ensure that these cover all key aspects for consumers. Where relevant, it is important that conduct standards are sufficiently flexible—for instance, by providing different disclosure formats for different user segments. For example, P2P platform operators in Brazil must include information on the rights, obligations, and responsibilities between investor, borrower, and platform in P2P loan agreements.[41] On the other hand, countries such as Kenya[42] and the Philippines[43] require that e-money issuers provide a written agreement to each consumer covering the terms of the service and any related fees.

[40] EU Regulation 2020/1503 of October 7, 2020, on European crowdfunding service providers for business, art. 21.
[41] National Monetary Council Resolution Number 4,656 of April 26, 2018 (Brazil).
[42] National Payment System Regulations 2014 (Kenya), ss. 41(1)(a) and (2).
[43] BSP E-Money Circular 2009 (Philippines), s. 4(G).

Business conduct that is not in consumers' interests: To further responsible business conduct (FCP Principle 9), in the United Kingdom one of the "Principles for Business" to which authorized firms must adhere is to paying due regard to the interests of their customers. Another principle applying to all authorized firms requires fintech entities to manage conflicts of interest fairly, both between themselves and the consumers they deal with, as well as between consumers. [44]

Addressing consumer vulnerabilities: The conduct supervision employed by the Central Bank of **Brazil** requires FSPs to assess their customer base considering the consumers' vulnerabilities, in a risk-based approach, as an additional layer of protection to general legal accessibility standards. These vulnerabilities are not defined by regulation in an exhaustive manner, allowing each FSP to identify and manage vulnerabilities in their own way. Once the vulnerable groups are mapped, institutions are required to adjust their procedures accordingly to each group, to mitigate risks for the institution itself and primarily to prevent misleading and unsuitable products and services for the most vulnerable customers.

Introducing legal framework to minimize risk of unauthorized money transfers: Remittances play an important role in the context of supporting digital financial inclusion and consideration. However, the emerging risk of fraud and identity theft give rise to the concern of unauthorized transactions (FCP Principles 10 and 11). Emerging risk mitigation approaches by regulators include mandating the use of multifactor authorization for digital payment transactions, as in the case of **Australia**[45] and **Indonesia,**[46] strengthening consumer data protection and privacy oversight to prevent leaks of confidential personal information, and ensuring strict legal enforcement (suspension or other penalties) for the execution of unauthorized transfers by service providers.

(iii) Data Governance and Privacy Rules and Protecting Consumers against Fraud and Misuse

The rapidly expanding use of consumer data is having profound effects on all sectors, especially financial services. The digital collection of consumer data serves many useful purposes for service provision, from remote onboarding to improved service design and enhanced credit reporting,[47] but it is also accompanied by significant risks, in terms of ID theft, fraud, algorithmic exploitation or bias, and the improper use and monetization of that data. Policy makers need to ensure that rules address the collection, storage, ownership, access, and use of all consumer data. This should cover both traditional and innovative forms of data (such as data on utility payments, mobile airtime purchases, use of digital wallet or e-money accounts, and social media and e-commerce transactions). These rules need to apply to all organizations that collect consumer data. FCP Principles 10 (Protection of Consumer Assets against Fraud, Scams and Misuse) and 11 (Protection of Consumer Data and Privacy) provide the relevant standard. (See box 5.4 for examples of data-governance rules adopted by different jurisdictions.)

[44] FCA Principles for Businesses, October 2020 (United Kingdom), 2.1.1R.
[45] Reserve Bank of Australia: Payments System Board Annual Report: Trends in Payments, Clearing and Settlement Systems, 2020.
[46] OJK: POJK Nomor 12-POJK.01-2017 tentang Penerapan Program APU PPT di Sektor Jasa Keuangan, 2019.
[47] G20/GPFI: Use of Alternative Data to Enhance Credit Reporting to Enable Access to Digital Financial Services by Individuals and SMEs Operating in the Informal Economy: Guidance Note, 2018.

Box 5.4: Data-Governance Rules That Protect Privacy and Consumer Data

A number of EMDE countries have established data-protection laws in the last few years. **Brazil's** *Lei Geral de Proteção de Dados Pessoais* (General Personal Data Protection Law), which went into effect in September 2020, was modeled directly after the European Union's General Data Protection Regulation and is nearly identical in terms of scope and applicability, but with less harsh financial penalties for noncompliance. In 2018, **Chile's** constitution was amended to include data privacy as a human right. In 2020, **Egypt** approved Law No. 151 to protect personal data. The **Nigeria** Data Protection Regulation was issued in January 2019, and in November 2020, the National Information Technology Development Agency provided a related Implementation Framework.

Some countries are going so far as to create new categories of institutions to support data-privacy rules. **India's** Electronic Consent Framework by the Reserve Bank of India established "account aggregators," for-profit intermediaries to facilitate the consent-based flow of data between users and FSPs.[48] Account aggregators are "data blind" and cannot view, store, use, or modify user data. The system uses a smartphone front end that includes streamlined registration that simplifies the legalese and integrates with other mobile money platforms, reducing both the cognitive burden on, and hassle for, users.

Policy makers may consider adopting policies to raise awareness on the part of financial consumers and MSMEs, especially the most vulnerable consumers, about the potential risks of digital financial products and services and basic elements of safety. Policies to improve the ability to recognize instances of online fraud and scams, and policies to raise awareness that some products may be unregulated, should also be considered. (See box 5.5 for examples of emerging approaches.) This is increasingly important given the increase in cross-border payments in a digital environment.

Box 5.5: Mitigating Online Fraud and Scams

Many jurisdictions reported a rise in fraud and scams during COVID-19, while others reported that investment fraud is especially rising in the field of crypto assets. For instance, **Latvia** described incidents of misleading phone calls from abroad encouraging consumers to invest in crypto assets; different methods of persuasion resulted in consumers giving fraudsters access to their assets.

Coordination among different regulatory and supervisory authorities with overlapping or related mandates has proved effective in tackling financial scams and fraud. Given the cross-border nature of many online scams, international cooperation on financial scams and fraud will also be increasingly important.

[48] CGAP: India's New Approach to Personal Data-Sharing, 2020.

For example, BSP, the central bank of the **Philippines**, increased its cyber surveillance activities on potential cyber threats and preventive measures through close coordination with regulated institutions. Looking to the future, international cooperation on financial scams and fraud will be increasingly important, given the cross-border nature of many online scams. Another example is in **Italy**, where the authority responsible for regulating the securities market (CONSOB), issued orders to internet and other telecommunication service providers to ban access to websites through which investment services or activities are offered or carried out without the requested authorizations. In **Brazil**, after investigators identified at least 18 fake apps with the name of the government's COVID-19 G2P program in the Android app Play Store, the central bank limited transfer amounts and worked with banks to issue communications around criminal activity.

The following resources provide additional guidance for this topic:

- AFI: Guideline Note on Data Privacy for Digital Financial Services
- G20 Policy Guide: Digitization and informality
- G20/GPFI: Data Protection and Privacy for Alternative Data
- OECD: Financial Consumer Protection Policy Approaches in the Digital Age: Protecting Consumers' Assets, Data and Privacy
- World Bank, ICCR: Credit Scoring Approaches Guidelines
- World Bank: Financial Consumer Protection and New Forms of Data Processing beyond Credit Reporting

(iv) Accessible, Affordable, Timely, and Fair Complaint-Handling and Redress Mechanisms

With the combination of increased, continuously evolving, and more complex risks, given the speed of innovation of DFS delivery, well-functioning and user-friendly complaint-resolution mechanisms are essential. FCP Principle 12 (Complaints Handling and Redress) provided standards on this. The pandemic has especially highlighted the importance of appropriate complaint-handling and redress mechanisms to support financial customers effectively when things go wrong. For all financial consumers, especially newly onboarded and previously underserved consumers, the timely resolution of issues and problems is critical to maintaining trust in and, ultimately, continued use of DFS. Technology can facilitate the design of effective redress mechanisms that are more affordable and widely available to financial consumers. Recourse to an independent redress process should be available. For instance, where there are disputes, a third-party financial ombudsman is good practice. Box 5.6 discusses examples of using technology for complaint resolution and related supervisory activities.

Box 5.6: Use of Technology for More Effective Consumer Protection and Complaint Resolution

In the **Philippines,** BSP's chatbot "BOB" allows customers to file complaints via social media and other communications platforms in English and Tagalog. "BOB" is an example of suptech. Using AI technologies such as ML and natural language processing, it can even process complaints that are made in "Taglish" (a combination of Tagalog and English). "BOB" responds directly to queries or

escalates them to a call center that registers them centrally, giving the central bank visibility into issues beyond those reported by FSPs.[49]

In Africa, the African Development Bank is supporting the National Bank of **Rwanda**, Bank of **Ghana**, and Competition and Consumer Protection Commission of **Zambia** in establishing a complaint-handling system for financial regulators. The system will use multilingual chatbots and AI and interface with key FSPs in the three countries. It will incorporate key local languages for ease of use, record customer complaints, including audio complaints from those unable to read and write, and track their resolution.[50]

Bank of **Italy** is leveraging AI's potential for strengthening financial consumer protection in the banking and financial sectors through "EspTech, the complaints handling tool based on text mining and machine learning." This tool automatically detects common phenomena that ease and improve the capabilities of analysts in investigating certain topics, widening the information for the bank's supervisory work. Since AI techniques are not immune from the risk of producing discriminatory outcomes, the bank's process includes final decision-making by a human arbitrator. EspTech also provides a full-text search (like Google) that can access the contents of complaints and the related attached files.

The following resources provide additional guidance for this topic:

- CGAP: Applying Behavioral Research to Consumer Protection: Recourse and Complaints Handling
- INFO Network: Guide to Setting Up a Financial Services Ombudsman Scheme
- IOSCO: Complaint Handling and Redress System for Retail Investors
- World Bank: Complaints Handling within Financial Service Providers: Principles, Practices, and Regulatory Approaches
- World Bank: Resolving Disputes between Consumers and Financial Businesses: Fundamentals for a Financial Ombudsman

5.3 Challenges in Implementing HLP 5

Implementation of effective financial consumer protection frameworks is dependent on a number of issues, many of which continue to evolve. Constant technological evolution and rapidly changing market conditions, with new non-bank actors, mean that regulators are challenged, especially in EMDEs, by how to regulate and supervise in ways that enable inclusion while protecting users and the integrity and stability of the financial system. While all jurisdictions face unique challenges, policy makers note common gaps in designing effective financial consumer protection frameworks. Some of these have been discussed below.

Developing a comprehensive regulatory framework, which is technology neutral, requires a general legal financial consumer protection framework that applies to all sectors, not just regulated banks, as well as

[49] BTCA: UN Principles for Responsible Digital Payments, 2021.
[50] Proto: African Development Bank and Proto to Automate Financial Consumer Protection in Ghana, Rwanda, and Zambia, n.d.

oversight bodies with explicit responsibility for financial consumer protection, with the necessary authority to fulfil their mandates. Few EMDEs have such frameworks in place and therefore need to develop them. At the same time, many EMDEs lack comprehensive national data-privacy and protection laws that apply to all sectors.

The rapidly evolving landscape for digital financial products and services, as well as the emergence of new types of FSPs, present challenges for policy makers, regulators, and supervisors to adapt and respond to such changes. EMDEs often have limited organizational resources to invest in appropriately qualified staff, adequate and flexible processes, and new tools, such as suptech and regtech, that can aid in market conduct supervision, monitoring, and data gathering. Supervisors will need new strategies and new technological tools to monitor financial sectors that are expanding and changing due to fintech entrants and offerings, including as-yet-unregulated providers and changed businesses of some already-regulated entities.

In addition to ensuring sufficient capabilities and resources, it is important that regulators and supervisors have sufficient knowledge of the market—for example, by conducting market reviews or research to understand developments and engage with business and consumer stakeholders. A key consideration is how the industry can extrapolate practical expectations of regulations for the purpose of compliance. To supplement regulations, especially where they are still under development, regulators should welcome consultations with supply-side actors and consider encouraging initiatives such as self-regulation,[51] to set enforceable responsible business conduct requirements.

New consumers, especially more vulnerable consumer segments or those in rural areas who have less exposure to digital platforms, are likely challenged with inadequate digital and financial literacy and awareness, which increases consumer risks/harms. *(See chapter 6.)* This lack of awareness may also apply to agents of FSPs serving these consumers. Hence, financial consumer protection frameworks should incorporate relevant mitigatory measures.

5.4 Looking Forward

The rapid growth of DFS and the continuously evolving pace of innovation are unlikely to slow down, and new means of fraud and consumer harm are evolving as well. Policy makers, regulators, and supervisors will never be able to eliminate these risks, but they can put in place rules and mechanisms that protect consumers and help to instil trust in the financial system and support financial inclusion. Specifically, they need to ensure that

- The regulatory framework can accommodate ever-changing technologies and business models, especially around the use of data;
- Market conduct standards are well understood and effectively enforced while also allowing for flexibility as new information is received;

[51] In Indonesia, the Financial Services Authority (*Otoritas Jasa Keuangan*, or OJK) has enhanced regulation of the fintech industry by appointing the Indonesia Fintech Association (*Asosiasi Fintech Indonesia*, or AFTECH) as a self-regulatory organization to complement efforts to supervise market conduct and protect digital financial consumers. Accordingly, any violation of the approved code of ethics and conduct by AFTECH members can result in OJK sanctions.

- Visibility of the market is broad and up to date, supported by market-monitoring tools and effective stakeholder engagement, including other regulators, the private sector, and civil society organizations;
- Consumers understand adequately product benefits and risks and their rights and responsibilities, and feel empowered and enabled to pursue redress when they face problems; and
- DFS entities have an awareness and understanding—through measures such as regulator guidance and capacity-building and training efforts—of consumer expectations, risks, and issues, as well as of their responsibilities to consumers.

Resources Relevant to HLP 5

Implementing the G20/OECD High-Level Principles on Financial Consumer Protection

- G20/OECD Task Force: Report on the Implementation of the Recommendation of the Council on High-Level Principles on Financial Consumer Protection, 2022
- G20/OECD: G20/OECD Report on Lessons Learnt and Effective Approaches to Protect Consumers and Support Financial Inclusion in the Context of COVID-19, 2021
- G20/OECD Task Force on Financial Consumer Protection: Compendium of Effective Approaches for Financial Consumer Protection in the Digital Age, 2020
- Extensive G20/OECD Task Force implementation guidance and reports
- CGAP: Implementing Consumer Protection in Emerging Markets and Developing Economies: A Technical Guide for Bank Supervisors

Digitalization

- CGAP: The Evolution of the Nature and Scale of DFS Consumer Risks: A Review of Evidence, 2022
- G20/GPFI: Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection, 2021
- BTCA: UN Principles for Responsible Digital Payments, 2021
- CGAP: FinDev Gateway resources, 2021
- OECD: G20/OECD Policy Guidance: Financial Consumer Protection Approaches in the Digital Age, 2018
- G20 Principles for Innovative Financial Inclusion, 2010

Vulnerable Groups

- G20/GPFI: Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection, 2021
- G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs. The guidelines are supported by three reports published in 2020: (1) Advancing the Digital Financial Inclusion of Youth; (2) Advancing Women's Digital Financial Inclusion; and (3) Promoting Digital and Innovative SME Financing
- OECD: Financial Consumer Protection and Ageing Populations, 2020
- G20: G20 Fukuoka Policy Priorities on Aging and Financial Inclusion, 2019
- OECD: Protecting Consumers in Peer Platform Markets, 2016

Data Protection

- OECD: Financial Consumer Protection Policy Approaches in the Digital Age: Protecting Consumers' Assets, Data and Privacy, 2020

- G20: G20 Policy Guide: Digitisation and Informality, 2018
- World Bank: Financial Consumer Protection and New Forms of Data Processing beyond Credit Reporting, 2018

Market Conduct and Monitoring

- CGAP: Market Monitoring for Financial Consumer Protection, 2022
- World Bank: The Next Wave of Suptech Innovation: Suptech Solutions for Market Conduct Supervision, 2021
- BIS: Fintech and the Digital Transformation of Financial Services: Implications for Market Structure and Public Policy, 2021
- FinCoNet: Supervisory Challenges Relating to the Increase in Digital Transactions, Especially Payments, 2022
- FinCoNet: SupTech Tools for Market Conduct Supervisors, 2020
- FinCoNet: Digitalisation of Short-Term, High-Cost Consumer Credit: Guidance to Supervisors, 2019, and Practices and Tools Required to Support Risk-Based Supervision in the Digital Age, 2018
- AFI: Digitally Delivered Credit: Consumer Protection Issues and Policy Responses to New Models of Digital Lending, 2017

Cross-Cutting

- G20/OECD Task Force on Financial Consumer Protection: Compendium of Effective Approaches for Financial Consumer Protection in the Digital Age
- ITU-T Focus Group on Digital Financial Services: Main Recommendations
- World Bank: Product Design and Distribution: Emerging Regulatory Approaches for Retail Banking Products
- FinCoNet: Digitalisation of Short-Term, High-Cost Consumer Credit: Guidance to Supervisors

VI. HLP 6: Strengthen Digital and Financial Literacy and Awareness

Statement of the HLP: Support and evaluate programs that enhance digital and financial literacy in light of the unique characteristics, advantages, and risks of digital financial services and channels.

6.1 Context: Importance of the HLP, Statement of Challenges in Current Market Contexts

Digital financial literacy is essential in supporting digital financial inclusion. As DFS are rapidly evolving, and new players and products and services are emerging, individuals need to be equipped with the necessary skills to be aware of the characteristics, benefits, and risks of DFS, to be able to use them safely and to know where to obtain information and help in case of need. Consumers can also benefit from being able to use existing digital tools to interact with FSPs and to manage their finances effectively, such as comparison websites and budgeting apps. In this respect, not only do consumers need financial literacy[52] and digital skills, but they also need the skills at the intersection of these elements, on what is referred to as "digital financial literacy"—that is, a combination of knowledge, skills, attitudes, and behaviors

[52] The OECD Recommendation on Financial Literacy defines financial literacy as a combination of the financial awareness, knowledge, skills, attitudes, and behaviors necessary to make sound financial decisions and ultimately achieve individual financial well-being.

necessary for individuals to be aware of and safely use DFS and digital technologies with a view to contributing to their financial well-being.[53]

The digitization of finance has further accelerated during the COVID-19 crisis, meaning that many people started to use DFS for the first time and were exposed to new forms of financial fraud and scams online. All this meant that many consumers, and especially the most vulnerable, underserved, and inexperienced users, have needed to understand the benefits and risks of DFS, how to make online transactions safely, and ways to identify and financial fraud and scams.

Having adequate digital financial literacy is important for all financial consumers, but especially for vulnerable and underserved groups. The Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection,[54] developed by the GPFI in 2021, highlights that digitalization offers great opportunities for a leap forward in financial inclusion and acknowledges that digital financial information and education should be designed in an inclusive way. As recalled in the G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, it is important to enhance the financial and digital literacy and skills of young people, women, and owners of MSMEs. In addition, people with limited digital access and digital skills, as well as the financially excluded and underserved, stand to gain the most from improving their digital financial literacy to benefit from digital financial products and tools.

In emerging economies and low-income countries with limited levels of financial inclusion, digital financial literacy can be a key foundation stone to allow greater financial access and financial inclusion via digital means. Also in more-developed economies, improving digital financial skills can be a way of ensuring that financial consumers have a better understanding of the features and risks of DFS and are better able to protect themselves against attempts of fraud and scams.

In the current context of increasing digitization and financial insecurity, digital financial literacy is not only a crucial tool to enable the possibilities offered by digital financial inclusion but also a building block for longer-term financial resilience and financial well-being, as recalled by the 2021 G20/OECD-INFE Report on Supporting Financial Resilience and Transformation through Digital Financial Literacy.[55]

6.2 A Framework for Implementing HLP 6

(a) Key International Policy Instruments

The 2020 OECD Recommendation on financial literacy[56] recognizes that financial literacy policies are important in facilitating informed and responsible use of a broad variety of financial products and services, including DFS, and that new financial products and services, including DFS, may change the way that

[53] OECD/INFE guidance on digital delivery of financial education (forthcoming from the OECD in 2022). This is similar to the definition used by the Alliance for Financial Inclusion.
[54] G20/GPFI: Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection, 2021.
[55] G20/OECD: G20/OECD-INFE Report on Supporting Financial Resilience and Transformation through Digital Financial Literacy, 2021.
[56] OECD: Recommendation of the Council on Financial Literacy, 2020.

consumers make financial decisions and product choices. In this respect, the Recommendation encourages governments to do the following:

- Promote awareness and understanding of the characteristics of traditional and innovative financial products and services, including digital ones, and of the financial risks associated with them
- Take into account the needs of specific target groups, including people with low digital skills and limited access to digital technologies
- Ensure the effective delivery of financial literacy programs, including through digital tools

The G20/OECD INFE Policy Guidance: Digitalisation and Financial Literacy offers more detailed guidance about identifying and promoting effective initiatives that enhance digital and financial literacy in light of the unique characteristics, advantages, and risks of DFS and channels. In particular, it includes a checklist of policy actions for designing and implementing effective financial-education initiatives on DFS. Depending on national circumstances, policy makers should make sure the following steps are considered when implementing digital financial literacy initiatives:

- Develop a national diagnosis of the impact of digital finance on individuals and entrepreneurs (including potential vulnerable groups)
- Ensure coordination between public authorities and private and not-for-profit stakeholders
- Support the development of a national core competency framework on digital financial literacy
- Support the effective delivery of financial education through digital and traditional means
- Facilitate and disseminate the evaluation of financial-education programs addressing DFS

These elements are used to structure the remaining of this section. The following sections include selected country examples and case studies based on available evidence.

(b) Collecting Evidence and Developing a Diagnosis

The implementation of HLP 6 should draw on solid empirical evidence whenever possible. Public authorities and other stakeholders should have a good understanding of the benefits and risks created by DFS, and how these may affect consumers and owners of micro and small businesses. They should also know about awareness of, demand for, and current use of DFS across the population and the level of digital financial literacy of consumers and owners of micro and small businesses. Financial-sector authorities should use such diagnoses to detect emerging areas of consumer risks that warrant priority, as well as core education gaps and needs of different consumer profiles.

The OECD/INFE is planning a new wave of its survey of the financial literacy of adults for 2022-23 using a revised toolkit. The upcoming survey will also investigate awareness and use of DFS among adults and explore levels of digital financial literacy, alongside standard measures of financial literacy, inclusion, resilience, and well-being. Surveys may be supplemented with qualitative methodologies and human-centered designed tools to obtain useful behavioral insights.

(c) Developing Coordinated and Strategic Approaches to Strengthening Digital Financial Literacy

Given the complexities of digital financial inclusion and the role of different actors in promoting it, it is important to have a strategic approach not only to digital financial inclusion but also to digital financial literacy, so that policy makers, regulators, and FSPs can work together. Such coordinated approaches

should notably involve the variety of stakeholders that are actively providing DFS and products—from traditional providers, such as banks, to telecommunication and fintech companies.

Based on identified needs and gaps, financial-sector authorities should consider opportunity areas where core financial-education messages can be integrated to help consumers better use DFS and support financial decision-making. Accordingly, financial-sector authorities may build partnerships with key institutions to embed financial education into programs offering DFS at scale (that is, cash-transfer programs, agricultural lending programs, and so on, using digital means). Additionally, financial-sector authorities may provide guidance to FSPs to encourage them to integrate financial education holistically into their day-to-day operations and interactions with consumers. Box 6.1 discusses the role of national strategies for financial inclusion and for financial literacy in supporting digital financial literacy.

Box 6.1: Examples of Strategic Approaches Strengthening Digital Financial Literacy

Several countries have included objectives to promote digital financial literacy and support the use of DFS in their national strategies for financial literacy.

Canada's National Financial Literacy Strategy 2021–2026 sets out the vision of "a Canada where everyone can build financial resilience in an increasingly digital world." One of the priorities of the strategy is reducing barriers (for example, reducing the digital divide and use of AI and algorithms that can harm access to appropriate products or services) for financial consumers by supporting increased digital access (inclusion) and digital literacy. The Financial Consumer Agency of Canada will support this priority by collaborating with partners to strengthen digital financial literacy and access. The national strategy encourages those in the financial services industry to test and build financial tools, resources, and services that are appropriate for audiences with a diverse range of digital access and skills and to provide non-digital alternatives when needed.

In **India**, one of the strategic pillars of the National Strategy for Financial Education 2020-25 is improving the safe use of DFS. Financial-sector regulators regularly organize financial-education initiatives on the topic, including webinars and awareness campaigns, such as the Digital Financial Services Day. In **Italy**, the operational plan for implementing the national strategy for financial literacy aims to improve digital financial skills and considers digital skills as a factor that enables financial inclusion and contributes to financial resilience.

Promoting digital financial literacy is among the key goals of **Portugal**'s National Plan for Financial Education 2021-2025. This strategic goal includes explaining the characteristics and risks of new digital financial products and services (for example, crypto assets, digital currency, payment initiation and aggregation services, insurtech), raising awareness of the emergence of new service providers in this market and the growing cross-border offer of financial products and services, and raising awareness of the behavioral biases that may arise when using DFS. This pillar of the strategy also includes promoting informed access to financial products and services on digital channels and the safe use of digital financial products and services, with a view to ultimately contributing to digital financial inclusion As part of these efforts, the central bank of Portugal is

developing a dedicated digital financial literacy strategy, including a survey of the level of digital financial literacy in the population, in collaboration with the OECD and the European Commission.

Developing financial education to support the use of DFS is also one of the objectives of **Spain**'s Financial Education Plan 2022-2025. The plan foresees actions to develop information-sharing and training initiatives aimed at new users of DFS, focusing mainly on preventing financial fraud. Activities conducted under the national plan include seminars, conferences, and online information on financial digitization and online fraud and scams to improve consumers' knowledge of digital products and services and promote awareness of the possible risks associated with them.

In **Morocco**, the financial-education strategic plan coordinated by the Moroccan Foundation for Financial Education is aligned with the guidelines of the national strategy for financial inclusion. Financial education to support digital financial inclusion includes the development of content to support the safe use of DFS, with a focus on mobile and online payments, online banking services, crowdfunding, and nano loans. These programs are addressed mainly at vocational training students, university students, craftsmen, micro entrepreneurs, small farmers, rural households, women, and illiterate or low-literacy groups.

In **Zambia**, the three financial regulators (Bank of Zambia, Securities and Exchange Commission, and Pensions and Insurance Authority) implemented a joint awareness campaign to educate the public on digital financial security and safety. The campaign was developed as a response to the increase in the number of people falling prey to online financial scams, which were reducing the effectiveness of the efforts to advance digital financial inclusion.

(d) Developing Competency Frameworks on Digital Financial Literacy

The development of effective policies and programs on digital financial literacy crucially hinges on identifying the key competencies that consumers and owners of micro and small businesses need to have to use digital financial products and services safely.

The G20/OECD INFE Policy Guidance: Digitalisation and Financial Literacy already identifies core financial literacy competencies for the safe use of digital financial products and services. Box 6.2 offers other examples.

Box 6.2: Examples of Financial Literacy Competency Frameworks Related to DFS

The G20/OECD INFE Policy Guidance: Digitalisation and Financial Literacy includes a set of core financial literacy competencies for the safe use of DFS, covering especially the following areas:

- Building trust and promoting beneficial use of DFS and related technological innovation
- Protecting consumers and small businesses from vulnerability to digital crime and misuse/mis-selling

- Empowering consumers to counter new types of exclusion due to the potential misuse of data sources, including data analytics and digital profiling
- Supporting consumers at risk of overreliance on easy access to online sources of credit

In 2021, the European Commission and the OECD/INFE released the Financial Competence Framework for Adults in the **European Union**. While covering all areas of financial literacy, this framework devotes special attention to competencies related to financial digitization. In particular, it includes competencies related to DFS, digital tools relevant for personal finance, digital assets, or any other competency related to digital media with relevance for personal finance. As digital financial competencies are cross-cutting and relevant across the whole framework, they are integrated horizontally throughout all the content areas and sections. Particular attention has been devoted to formulating competencies in a flexible way to take into account potential future developments.

Italy has developed competency frameworks on financial literacy for both youth and adults. Both frameworks pay particular attention to DFS and to the skills needed to use new digital tools (fintech, digitech, insurtech) appropriately. Basic skills include knowing how to use ATMs and POS terminals, home banking and mobile banking, and how to avoid basic cyber risks. More advanced skills relate to sophisticated products and services, such as robo-advisors, crowdfunding, sophisticated cyber risks, instant insurance, or peer-to-peer insurance.

BSP, the central bank of the **Philippines,** considers digital literacy in connection with financial literacy as a necessary skill in the 21st century. BSP defines digital financial literacy as a core competency with the following dimensions:

- Knowledge of DFS: Consumers are aware of the existence of DFS, have a basic understanding of how DFS are used, and are able to compare pros and cons of each product type.
- Awareness of risks in DFS: Consumers understand potential pitfalls of DFS usage, such as phishing, spoofing, personal data theft, hacking, and other cyber risks.
- Digital financial risk control: Consumers have the ability to protect themselves from cybersecurity risks related to the use of DFS through appropriate cyber hygiene practices, such as password/PIN protection, multifactor authentication, and account/data confidentiality.
- Knowledge of rights and redress procedures: Consumers know their basic rights as DFS users and what to do in case they fall victim to risks mentioned above.

(e) Ensuring the Effective Delivery of Programs to Enhance Digital Financial Literacy

The effective delivery of programs to enhance digital financial literacy should take into account the needs, abilities, and preferences of the target audience. As discussed in the G20/OECD-INFE Report on Supporting Financial Resilience and Transformation through Digital Financial Literacy, digital tools offer a great potential to improve digital financial literacy and digital financial inclusion and support the broader goals of financial resilience and financial well-being. Digital financial-education tools—such as online awareness campaigns, mobile apps, comparison websites, and online simulations—may be particularly useful to

extend reach and scale in cost-effective ways, tailoring content and format to the needs of different groups and embedding features inspired from behavioral insights, such as reminders, comparison tools, features to set personal goals, features to "learn by doing" (for example, simulations), and so on. In particular, emerging evidence suggests that key behavioral tools and practices, such as simplifying financial education into concrete, actionable steps, personalizing education, providing short, timely messages, and making education convenient and easy to access, have successfully changed consumer knowledge, decision-making, and financial behaviors.[57]

However, when using digital financial-education tools, policy makers and other stakeholders should pay attention not to exacerbate the digital and financial exclusion of vulnerable groups, and especially those with limited digital access and skills. Considering that the groups most in need of learning about DFS may also be those whose digital access and skills are most limited, traditional delivery methods, or combinations of traditional and digital channels, may be best suited to deliver information and education about DFS.

Box 6.3 presents selected examples from a range of countries and economies of how (digital, traditional, and hybrid) financial-education initiatives are supporting awareness of, the safe use of, and trust toward, DFS. The examples cover a wide range of groups that may experience financial vulnerabilities and limited digital financial inclusion, such as young people, the elderly, women, migrants, refugees, and forcibly displaced persons, and emphasize examples of programmers who try to bridge the digital divide. More examples are available in a variety of existing publications.[58]

Box 6.3: Examples of Financial-Education Programs Supporting the Safe Use of DFS

Leveraging Digital Tools to Promote Digital Financial Literacy

The Central Bank of **Brazil** has used social media campaigns and cooperated with digital influencers to increase awareness among Brazilians of a new digital payment scheme (Pix). The central bank produced more than 30 videos posted on YouTube and disseminated over a hundred social media posts to explain the technical features of Pix and generate trust in the population at large. This approach and the cooperation with digital influencers allowed the bank to reach a wide audience and fostered quick adoption of the innovation. The Brazilian Bank Federation (Febraban), with technical support from the Central Bank of Brazil, developed a digital financial-education platform (Meu Bolso em Dia, plataforma.meubolsoemdia.com.br). The platform offers personalized and interactive content, which is based on a financial health assessment with input from the users. As participants complete tasks and modules, the platform awards "tokens" that can be exchanged for benefits at banks associated with Febraban, such as higher yield rates in

[57] OECD: Smarter Financial Education: Key Lessons from Behavioural Insights for Financial Literacy Initiatives, 2019.

[58] See, for instance, G20/OECD's G20/OECD-INFE Report on Supporting Financial Resilience and Transformation through Digital Financial Literacy; OECD's Advancing the Digital Financial Inclusion of Youth; OECD's Personal Data Use in Financial Services and the Role of Financial Education; OECD's Digital Delivery of Financial Education: Design and Practice; AFI's Digital Financial Literacy Toolkit; World Bank's Building a Financial Education Approach; and forthcoming OECD publications on seniors and women.

investments, discounts when contracting insurance, and discounts at other online educational resources.

In **India**, the RBI designed a social media campaign highlighting the features and benefits of using digital modes of payments, using an Indian film industry celebrity. In the fall of 2021, the Bank of **Italy,** with other public authorities, industry associations, and FSPs, launched campaign to raise awareness of how to use digital tools safely. The campaign was broadcast on TV and radio and appeared in magazines and social media.

The Superintendency of Banking, Insurance and Private Pension Fund Administrators of **Peru** has the added safe use of DFS to its distance-learning program Finanzas para Ti as a consequence of the COVID-19 crisis. The program now covers the adequate use of DFS, fraud prevention, and digital applications for financial decision-making.

Addressing the Needs of Those with Limited Digital Access and Skills

In **Argentina**, the Central Bank of the Republic of Argentina, in cooperation with the Ministry of Education, has undertaken a financial-education campaign that includes tutorials to promote the use of debit cards; the management of security codes for ATMs and for non-bank cash withdrawal points; the use of online banking and digital wallets for the payment of services; cybersecurity; and the protection of financial consumers. The campaign was distributed digitally and on public television, to reach those without internet access, and is also used in schools. The central bank is also deploying the "Finances Nearby" program, which trains representatives of ministries, agencies, and other organizations that assist groups that are vulnerable due to economic, social, and gender- and age-related issues, among others. The purpose of the program is to encourage people's financial inclusion, including DFS.

In **Germany**, BaFin collaborates with a local NGO to organize webinars for the elderly that can be followed online or watched by small groups of people meeting in person with a mediator (through so-called regulars' tables). The webinars cover various digital topics, including new developments in digitization in the banking sector, or the risks of fraudulent activities that consumers need to be aware of. The elderly have an opportunity to ask BaFin experts questions, and mediators can further facilitate the exchange.

In **Malaysia**, the Securities Commission, as part of the Financial Education Network, has launched an initiative to improve the digital literacy of seniors (55 years old and older), with the aim of increasing their digital financial inclusion. The program includes monthly webinars for seniors who have access to the internet and the ability to go online and a face-to-face "digital clinic" involving tutors and a small group of seniors with little knowledge on digital applications. The face-to-face sessions provide step-by-step guidance on digital knowledge covering basic financial literacy, banking, and investing.

Digital financial literacy interventions by the Bank of **Uganda** include integrating digital financial aspects into all trainings, train-the-trainer programs, and other public education-related activities

of the central bank.[59] The bank also conducts radio talk shows that feature public awareness of DFS providers and DFS features, benefits, risks, and redress mechanisms, including mobile money providers.

Young People

The Central Bank of **Portugal** designed a digital financial-education campaign aimed at young people addressing the necessary precautions to be adopted online with respect to the use of digital financial channels and services (#toptip). The central bank also ran awareness campaigns on strong customer authentication (two-factor authentication) and new security rules for digital payments and for accessing accounts online, and on new transaction limits on contactless payments.

The Elderly

In **Hong Kong, China**, the Investor and Financial Education Council launched a Digital Financial Services Workshop specifically designed for retirees to learn about the application of common fintech services. The workshop uses simulation games, which allow retirees to experience the applications of e-wallet and biometric authentication.

In **Israel**, the Bank of Israel and the Ministry for Social Equality developed an education and training program for older people, known as E-Banking Empowerment, to help senior citizens adjust to e-banking and to give them tools to improve their skills in using e-banking services.

In **Spain**, the industry association of banks, saving banks, and credit cooperatives signed a protocol to reduce the financial exclusion of older financial consumers (65 years old and older) derived from digitization. The protocol includes measures on financial, digital, and fraud-prevention education offered to older customers.

Women

The Bank of Italy implemented (virtual and face-to-face) training courses for low-income and/or low-education women to respond to the challenges of the COVID-19 pandemic. Modules relate to topics of particular relevance during the crisis, including digital payments and the risk of fraud and scams.

MSMEs

The Bank of **Italy** has developed a financial education program aimed at craftsmen and small business owners to strengthen their competences in making financial decisions, dealing with banks, and using customer protection tools. The program - which is based on self-training sessions through e-learning platforms and meetings with trainers - includes a specific module on the risks and opportunities of using digital payment instruments.

The Financial Education Foundation in **Morocco** hosts a section on entrepreneurship on its financial-education website. Owners of micro and small firms can test their knowledge of

[59] AFI: Digital Financial Literacy Toolkit, 2021.

accounting and other important aspects of business creation and development, find calculators to help manage business finances, and navigate tax issues. During the COVID-19 crisis, the foundation stepped up its digital initiatives to support MSMEs on topics linked to DFS and managing a company in times of crisis.

Migrants, Refugees, and Forcibly Displaced Persons

The Bank of **Italy** recently developed various resources for migrants and asylum seekers, including a digital simulator to calculate the cost of remittances, information in Italian, English, and Ukrainian on the basic financial instruments available to displaced asylum seekers, and a financial-education smartphone app for adults who attend public schools, who are mainly migrants.

The Central Bank of **Jordan** and the Deutsche Gesellschaft für Internationale Zusammenarbeit are implementing the Digi#ances project, which is part of the German Federal Ministry for Economic Cooperation and Development's special initiative "Tackling the Root Causes of Displacement, Reintegrating Refugees."[60] The project includes campaigns and training courses to promote the responsible use of DFS among Syrian refugees in Jordan.

The Bank of **Rwanda** is targeting forcibly displaced people with digital financial literacy initiatives to support the uptake of DFS. Stakeholders in the country are delivering financial-education training programs via videos sent on mobile phones, to overcome the limitations imposed by the COVID-19 pandemic.[61]

(f) Facilitating the Evaluation of Financial-Education Programs to Enhance Digital Financial Literacy

Public authorities and other stakeholders should promote and support the monitoring and evaluation of financial-education programs addressing DFS and aimed at enhancing digital financial literacy. Wherever digital delivery tools are used, their analytical features can be used to monitor their use, while considering all applicable personal data-protection rules and ethical considerations.[62] Evaluation evidence will allow policy makers and program designers to gain insights into the links between financial education and digital financial literacy, as well as the necessary policy mix that can better support consumers and owners of micro and small businesses to enhance their digital financial inclusion through financial education. When feasible, authorities should support the piloting of interventions prior to full-scale rollout. Piloting helps test the effectiveness of financial-education interventions on a smaller set of beneficiaries and provides an opportunity to adjust and recalibrate the financial-education content, delivery tools, and mechanisms used to address the needs of consumers.[63]

[60] GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit): Creating the Conditions for Money Transfers without Borders (last updated October 2021).
[61] AFI: Advancing the Financial Inclusion of Forcibly Displaced Persons in Rwanda, 2021.
[62] OCED: OECD/INFE Guidance on Digital Delivery of Financial Education, 2022.
[63] World Bank: Building a Financial Education Approach: A Starting Point for Financial Sector Authorities, 2021.

6.3 Challenges in Implementing HLP 6

The digitization of finance and society is rapidly advancing, and more and more people are becoming digitally and financially included. Nevertheless, challenges remain in advancing digital financial inclusion and in the way in which digital financial literacy can support digital financial inclusion.

Digital financial literacy programs need to keep pace with innovation in finance and technology and stay ahead of evolving forms of online financial fraud and scams, to remain relevant and to ensure their effectiveness. Moreover, digital financial literacy programs should leverage the opportunities offered by digital tools but be mindful of not leaving behind the most vulnerable segments of the population. Unbanked and underserved consumers and owners of micro and small business tend to have the lowest levels of digital financial literacy, and their possibilities for accessing and using digital tools are more limited.

Finally, more efforts could be made to evaluate the impact of initiates aimed at supporting digital financial literacy. This would allow policy makers and practitioners to understand which traditional or digital approaches are more effective for different audiences, to scale up programs that have been shown to be effective, and to use resources more effectively.

6.4 Looking Forward

A significant number of initiatives have taken place in recent years to enhance digital financial literacy and to support the implementation of HLP 6, under the overall framework set by the OECD Recommendation on financial literacy and the G20/OECD INFE Policy Guidance: Digitalisation and Financial Literacy. Efforts include the development of dedicated digital financial literacy strategies, the development of a competencies framework on digital finance topics, and the implementation of a wide range of programs and initiatives for different target audiences.

Significant work is under way at the international and national level to further efforts in strengthening digital financial literacy as a way to support digital financial inclusion. For instance, these efforts will include the following:

- Implementing a digital financial literacy module as part of the 2022/23 OECD/INFE financial literacy survey of adults, to obtain internationally comparable data
- Developing a finance competency framework for children and youth in the European Union, jointly carried out by the European Commission and the OECD/INFE as a complement to the existing framework for adults published in 2021

As policy makers, financial regulators, and FSPs strive to enhance the digital financial literacy of consumers, in conjunction with developing appropriate regulatory and financial consumer protection frameworks, they need to follow a strategic approach building on synergies from all relevant stakeholders, and they should take into account consumers' characteristics, preferences, skills, biases, and access to digital tools. Enhancing international cooperation and exchange on digital financial literacy and education, as is done in the GPFI, OECD/INFE, and other international forums, can help member and nonmember countries to advance faster.

Resources Relevant to HLP 6

Policy Guidance

- OECD: Recommendation of the Council on Financial Literacy, 2020
- G20/GPFI: G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, 2020
- G20/OECD: G20/OECD INFE Policy Guidance: Digitalisation and Financial Literacy, 2018
- Toronto Centre: Financial Literacy and Digital Financial Inclusion: Supervisory Policy and Practice, 2022
- World Bank: Designing a Financial Education Approach, 2021
- OECD: OECD/INFE Guidance on Digital Delivery of Financial Education, 2022

Defining Competency Frameworks and Assessing Digital Financial Literacy

- OECD: OECD/INFE Toolkit for Measuring Financial Literacy and Financial Inclusion 2022, 2022
- AFI: Digital Financial Literacy Toolkit, 2021
- OECD: Financial Competence Framework for Adults in the European Union, 2022
- G20: The Need to Promote Digital Financial Literacy for the Digital Age, 2019

Addressing the Needs of Vulnerable Groups

- G20/OECD: Advancing the Digital Financial Inclusion of Youth, 2020
- FinEquity: Enabling Women's Financial Inclusion through Digital Financial Literacy, 2021

Digital Tools

- OECD: Digital Delivery of Financial Education: Design and Practice, 2021
- G20/OECD: G20/OECD-INFE Report on Supporting Financial Resilience and Transformation through Digital Financial Literacy, 2021

Personal Data

- OECD: Personal Data Use in Financial Services and the Role of Financial Education: A Consumer-Centric Analysis, 2020

Appendix: Self-Assessment Tool

The organization of the questions in each HLP-specific checklist corresponds to the building blocks in the guidance chapters, with a focus on inclusivity and specific risks affecting underserved customer segments, such as low-income women, youth, and MSMEs. Additionally, relevant questions for each building block are ordered according to the following two levels:

1) **Level 1:** Minimum standards that should be in place in any jurisdiction where digital financial products and services are being delivered

2) **Level 2:** Additional policy and regulatory levers and tools that can be employed to address newly emerging risks specifically and more effectively

Users of this checklist should refer to the compendium of resources at the end of the implementation guide for further tools and guidelines to address the objectives of each HLP.

HLP 1: Promote a Digital Approach to Financial Inclusion
Key Topics and Associated Questions for Implementing HLP 1
UNDERSTAND YOUR FINANCIAL INCLUSION LANDSCAPE **Level 1:** ► Have you conducted a **diagnostic** of the country's stage of DFS development to ensure a robust evidence-based approach? ► Can you identify any **gaps in or constraints** on the development of a DFS ecosystem: • Enabling financial and digital infrastructure (payment systems, credit infrastructure, digital connectivity infrastructure). *(See chapter 4, on HLP 4.)* • Ancillary government support systems (data platforms, digital ID, financial-management platforms) • Conducive legal and regulatory frameworks. *(See chapter 3, on HLP 3.)* **Level 2:** ► Are you working with the private sector (for example, banking and fintech associations, microfinance groups) to develop a coordinated supply- and demand-side map of DFS accounts and usage?
DEVELOP A NATIONAL FINANCIAL INCLUSION STRATEGY **Level 1:** ► Have you implemented a **multistakeholder engagement approach** that includes the central bank and other financial regulators and supervisors, telecom regulators, government ministries (finance, justice, ICT), FSPs including fintechs, industry associations (banks, payments, non-bank financial institutions, cooperatives, telecoms), consumer groups? ► Have you identified **key goals and indicators**, including target groups and geographical regions?

- ► Have you **validated your targets** to ensure that they are realistic and measurable, particularly within the time frame of the strategy?
- ► Have you validated your goals and targets with the **private sector** to clarify how or if the sector will be able to help you realize the goals or work with you to implement them?

Level 2:

- ► Are **incentives** in place for FSPs to increase their provision of DFS to target groups and geographical regions?

TRANSACTION ACCOUNT AND PAYMENT PRODUCT OFFERINGS THAT EFFECTIVELY AND AFFORDABLY MEET THE NEEDS OF TARGET POPULATIONS

Level 1:

- ► Are there payment or **transaction accounts** that cater to lower-income or excluded populations—for example, basic accounts that are low-cost or free of charge and accessible to excluded segments?
- ► Are PSPs encouraged/incentivized to include such offerings in their service portfolio? Are payment apps accessible via social media or e-commerce platforms?

Level 2:

- ► Have **formal research** studies been conducted or are stakeholder engagement programs in place to ensure that new payment technologies, products, and access modes do not exclude underserved and priority groups, such as women, youth, and MSMEs? Are there requirements for PSPs to inform and/or justify to the regulator any plans to discontinue products that may cater to such groups?

LEVERAGE LARGE-VOLUME AND RECURRENT PAYMENT STREAMS, INCLUDING REMITTANCES, TO INCREASE THE NUMBER OF TRANSACTION ACCOUNTS AND STIMULATE USAGE

Level 1:

- ► Are you **digitizing large-volume government payment streams** (G2P/P2G/B2G)?
- ► Are **incentives** or policy measures in place to foster adoption and usage of transaction accounts in connection with **large-volume and recurrent payments** (for example, rebates of value-added taxes, discounts for adopting direct debit of recurrent payment)? If not, are there any plans to devise and implement them soon? If incentives are in place, are they applied to all types of transaction accounts, including new products and access modes?
- ► Are **incentives** or policy measures in place to encourage the use of digital transaction accounts in connection with large-volume payment streams, including G2P payments, salary payments, domestic and international remittances?

Level 2:

- ► Are the procedures and requirements for conducting **cross-border payments** easily understood and adoptable by PSPs? Are cross-border licensing agreements in place for new PSPs?
- ► Is monitoring in place to **measure and monitor international remittance levels** by geographic region and whether they are received in cash or via digital transaction account?

Guidance of Relevance to HLP 1:

- AFI: National Financial Inclusion Strategy Monitoring and Evaluation Toolkit, 2021
- CPMI, World Bank: Payment Aspects of Financial Inclusion: Application Tools, 2020
- CGD: A Decision Tree for Digital Financial Inclusion Policymaking, 2020
- World Bank: Developing and Operationalizing a National Financial Inclusion Strategy: A Toolkit, 2018

HLP 2: Balance Innovation and Risk to Achieve Digital Financial Inclusion
Key Topics and Associated Questions for Implementing HLP 2
PROPORTIONATE APPROACH TO REGULATING AND SUPERVISING BANKS AND NON-BANKS **Level 1:** ► Are regulatory frameworks in place that take a **proportionate approach** to regulation and supervision—that is, they tailor regulatory requirements to a firm's size, systemic importance, complexity, and risk profile? ► Do the regulatory frameworks cover the entire range of financial and nonfinancial institutions that serve low-income and unserved populations, including banks, non-bank financial institutions, microfinance institutions, credit unions, coops, PSPs, postal systems? • An effective approach under HLP2 requires a **comprehensive view and coherent alignment** of the rules as they apply to all institutions serving customers. • Such frameworks help regulators adapt to **new institutions, business models, and products** entering the regulated space, especially those aimed at underserved and vulnerable groups. ► Has a **national risk assessment** been undertaken to identify potential risks of money laundering and terrorist financing in your jurisdiction? **Level 2:** ► Based on the national risk assessment and financial inclusion strategy (HLP 1), has an **AML/CFT framework that is risk based** been implemented. For example, do the CDD requirements allow for **simplified KYC** for lower-risk customers and transactions? Are there provisions for remote onboarding, including remote customer identification and verification using simplified CDD for low-risk customers and financial services activities?
TOOLS TO SUPPORT INNOVATION **Level 1:** ► Are **knowledge-sharing systems**, both formal and informal, in place with the private sector to exchange information on innovations and new business models? • Are there convenient means for innovators to meet with regulators in a safe, off-the-record environment, such as "office hours," to discuss licensing and other regulation? • Are there product specialists within the regulatory team who regularly consult with private-sector players to provide deep domain expertise related to specific trends? ► Are official mechanisms in place for creating a **safe testing environment** for new innovations, such as sandboxes?

PUBLIC SECTOR INNOVATION INITIATIVES

Level 1:

- ► Are regulators looking at **public innovations** aimed at promoting digital financial inclusion, which could include enhanced credit reporting systems, payment system modernization, digitizing public registries, and so forth?

Guidance of Relevance to HLP 2:

- FSI: Fintech and Payments: Regulating Digital Payment Services and E-money, 2021
- World Bank: Impact of the FATF Recommendations and Their Implementation on Financial Inclusion: Insights from Mutual Evaluations and National Risk Assessments, 2021
- World Bank: Central Bank Digital Currency: A Payments Perspective, 2021
- CGAP: How to Build a Regulatory Sandbox: A Practical Guide for Policy Makers, 2020
- FATF: FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion, with a Supplement on Customer Due Diligence, 2017
- BCBS: Guidance on the Application of the Core Principles for Effective Banking Supervision to the Regulation and Supervision of Institutions Relevant to Financial Inclusion, 2016
- ITU: Cooperation Frameworks between Authorities, Users and Providers for the Development of the National Payments System, 2016

HLP 3: Provide an Enabling and Proportionate Legal and Regulatory Framework for Digital Financial Inclusion

Key Topics and Associated Questions for Implementing HLP 3

FUNDAMENTALS OF REGULATING THE DFS LANDSCAPE

Level 1:

- ► Has **a risk-based approach** based on the principle of proportionality, encompassing all types of FSPs and addressing the question of **entity-based and/or activities-based regulation,** been utilized in the regulatory framework? *(See chapter 2, on HLP 2.)*
- ► Have policy makers, regulators, and supervisors worked to strike a balance among financial **inclusion**, financial **stability**, financial **integrity**, and financial consumer **protection**?
- ► Do existing DFS regulations address the specific risks facing priority groups such as women, youth, MSMEs, and other vulnerable groups?

Level 2:

- ► Has the jurisdiction allowed for the **piloting of innovative new delivery channels, products, and services and business models** without having to comply immediately with all regulatory requirements facilitating the adoption of new products and services?
- ► How is the regulation of third-party providers/outsourcing addressed?
- ► What role do companies with access to platform data play in the provision of financial services? Have issues of competition and data protection been addressed? Is further regulation warranted?
- ► Have the regulatory authorities considered the risks to **fair competition** of DFS? Do competition frameworks incorporate a commitment to open, fair, and contestable markets?

- ► Does **cooperation among three different authorities—competition, data, and financial sector—exist,** or is it foreseen? Have the blurring boundaries between financial authorities and nonfinancial authorities (for example, telecom regulators, data-privacy authorities, competition authorities) been addressed?

BASIC ELEMENTS OF AN ENABLING FRAMEWORK

Level 1:

- ► Has a specialized licensing window for non-bank DFS providers to issue **e-money accounts** been created?
- ► Are there regulatory provisions for the **use of third-party agents** to provide customers access to financial services?
- ► Has a proportionate anti-money-laundering framework been adopted? Does it allow **simplified CDD** for lower-risk accounts and transactions? *(See chapter 2, on HLP 2.)*
- ► Are **consumer protection** rules tailored to the full range of DFS providers and products and enforced? *(See chapter 5, on HLP 5.)*

Level 2:

- ► Has the government promoted the introduction and expansion of **digital IDs**, including to low-income populations? Have the financial authorities included provision in regulatory frameworks that clarity how digital ID systems may be used?
- ► Have the regulators mandated or supported an **open banking regime**?
- ► How have regulators dealt with the possible exploitation of expanding data footprints of individuals, including poor and excluded customers, by technology-driven models? Does a system of data governance exist? *(See chapter 5, on HLP 5.)*
- ► Have regulators addressed **regulatory treatment of technological developments** that change the financial services landscape (for example, cloud computing, AI, instant payments, APIs, CBDCs)?
- ► Has the issue of **cybersecurity** been addressed with initiatives such as issuing national and sectoral regulations, guidance, and supervisory practices?

Guidance of Relevance to HLP 3:

- Bill and Melinda Gates Foundation: Inclusive Digital Financial Services: A Reference Guide for Regulators, 2019 (update forthcoming)
- CGAP: DFS Supervision Toolkit (forthcoming)
- CGAP: Regulatory Sandboxes: A Practical Guide for Policy Makers, 2021
- AFI: Policy Framework on the Regulation, Licensing and Supervision of Digital Banks, 2021
- UNCDF: Policy Accelerator Guides, 2020
- CGAP: How to Build a Regulatory Sandbox: A Practical Guide for Policy Makers, 2020
- CGAP: Risk-Based Customer Due Diligence: Regulatory Approaches, 2019
- A2ii/IAIS: Insurance Core Principles Self-Assessment Tool, 2019
- CGAP: I-SIP Toolkit: Policy Making for an Inclusive Financial System, 2018

HLP 4: Expand the DFS Infrastructure Ecosystem

Key Topics and Associated Questions for Implementing HLP 4

USE OF NEW AND EXISTING TECHNOLOGIES, PRODUCTS, AND ACCESS MODES IN PROMOTING ACCESS AND USAGE OF TRANSACTION ACCOUNTS

Level 1:

- ► Does the existing infrastructure include real-time gross settlement systems, ACH, payment card switch(es), fast/instant payment system, widespread POS systems, and so on?
- ► What are the main payment projects that were launched/implemented in recent years within the country?
- ► Are further actions planned to **enhance/improve retail payment systems**—for example, mandating interoperability of all payment instruments?
- ► Is promoting innovation and competition one of the development policy actions for retail payment systems?
- ► Are you implementing one or more of the following **new technologies**?
  - APIs, big-data analytics, biometrics, contactless (near-field communication, QR code), cloud computing, AI/ML, DLT, Internet of Things, digital ID
- ► What existing or new products are using the following technologies?
  - Payment cards, mobile payments, fast payments, CBDCs
- ► Are new access channels being leveraged—for example, e-wallets, open banking?
- ► Do national-level financial inclusion efforts seek to leverage fintech expertise among all relevant public- and private-sector stakeholders in implementing these technologies, products, and access channels?

EFFECTIVENESS OF ICT AND SHARED MARKET INFRASTRUCTURES IN SUPPORTING FINANCIAL INCLUSION EFFORTS SUCH AS IDENTIFICATION INFRASTRUCTURE, CREDIT REPORTING SYSTEMS, AND OTHER DATA-SHARING PLATFORMS

Level 1:

- ► What ICT and shared market infrastructures currently exist to support financial inclusion efforts? Do the infrastructures adequately support digital financial inclusion efforts, such as a modern (for example, digital) and robust ID system that supports electronic KYC procedures, including the digital ability to identify, authenticate, and provide consent?
- ► Is there a **credit reporting system** that supports decision-making or the ongoing operation of PSPs (for example, to facilitate access to credit or other financial products to holders of transaction accounts, to support KYC procedures, and so forth)?
- ► Are the criteria for accessing the underlying ID and credit reporting services open and fair for all FSPs (including fintechs) irrespective of their institutional standing?
- ► Can other types of **data-sharing platforms** be leveraged by PSPs for other types of decision-making?
- ► What are the **barriers** to full penetration of mobile phone or internet services? For example, are costs associated with providing or subscribing to these services a barrier to access?

Level 2:

- ► Are coverage rates of **power and telecommunications** (voice and data) systems adequate within the country, including in rural regions? Are plans in place to address disparities—for example, tower sharing?
- ► Are ICT services **affordable** for most of the population? If not, is there a plan to achieve lower prices?

EFFECTIVENESS OF TRANSACTION ACCOUNT AND PAYMENT PRODUCT OFFERINGS TO MEET A BROAD RANGE OF TRANSACTION NEEDS OF THE TARGET POPULATION, AT LOW COST

Level 1:

- ► What kind of payment services do PSPs offer to consumers as part of their transaction account offering?
- ► Do PSPs offer some payment services free of charge?
- ► Do PSPs make use of new technologies and access modes to improve their product offering to customers, including by making their products more affordable?

Level 2:

- ► How are the needs of the unserved or underserved (for example, women, youth, and MSMEs) addressed by PSPs?
- ► Have formal research studies been conducted or are there any measures to prevent these customer segments from remaining excluded or becoming excluded due to a general migration of the payment industry to new technologies, products, and access modes?

BROAD AVAILABILITY OF PAYMENT ACCESS POINTS TO AUGMENT USAGE OF TRANSACTION ACCOUNTS, ESPECIALLY THOSE CATERING TO THE NEEDS OF TARGET POPULATIONS

Level 1:

- ► Are **basic types of physical access points** (for example, branches, agents, ATMs, POS terminals) widely available and within reach of all population segments? Are these payment access points available to all accounts, including basic transaction accounts that are low cost or free?
- ► Are remote/electronic access channels such as mobile banking and internet banking widely available and widely used? If not, what are the main obstacles?
- ► What are the main drivers behind the usage of various types of access points? Describe the main disparities in the coverage/density of the various types of access points between regions (or rural versus urban).
- ► Is geospatial mapping used to **measure coverage** and identify areas in need? How are access points monitored to ensure proper function and availability for use?

Level 2:

- ► Is data collected on payments processed by **type of access point/channel** for retail payments—ATM, POS terminals, and any other payment transaction-accepting devices (for example, mobile phones via QR codes, near-field communication or other forms, internet payment gateways, post office, bank branch, mobile banking, internet banking, other agents, and so on)?
- ► How are access points monitored to ensure proper function and availability for use?

► Do stakeholders monitor whether the availability and proximity of cash access points is declining? Is there an explicit intention to avoid this outcome?

LEVERAGE LARGE-VOLUME AND RECURRENT PAYMENT STREAMS, INCLUDING REMITTANCES, TO INCREASE THE NUMBER OF TRANSACTION ACCOUNTS AND STIMULATE USAGE

Level 1:

► Have large-volume **government payment streams** (for example, rebates of value-added taxes, fees and fines, taxes, salary payments, social protection payments, and so forth) been **digitized** to ensure that all outgoing and incoming payments can be conducted via digital transaction accounts?
► Are **incentives** in place, such as reduced or no fees for users making digital payments to government departments?
► Are there **widespread digital points of service**, such as merchants, agents, and ATMs, for users to conduct government payment transactions via digital transaction accounts?

Level 2:

► How does the payment industry seek to improve its transaction account offering to encourage the use of these accounts in connection with large-volume payment streams, including G2P payments, salary payments, and domestic and international remittances?
► How do the relevant stakeholders use new technologies, products, and access modes to underpin the use of transaction accounts for cross-border payments? How do these practices contribute to increasing the competitiveness and convenience of transaction accounts for sending and receiving remittances and other cross-border payments?

Guidance of Relevance to HLP 4:

- CPMI, World Bank: Payment Aspects of Financial Inclusion in the Fintech Era, 2020
- CPMI, World Bank: Payment Aspects of Financial Inclusion: Application Tools, 2020
- World Bank, ITU: Digital Regulation Handbook, 2020

HLP 5: Establish a comprehensive approach to consumer and data protection that focuses on issues of specific relevance to DFS

Key Topics and Associated Questions for Implementing HLP 5

1. UPDATED LEGAL, REGULATORY, AND SUPERVISORY FRAMEWORK TO ADDRESS RISKS FROM DIGITAL INNOVATIONS AND NEW BUSINESS MODELS

Level 1:

► Is there a consumer protection framework with standards and requirements[64] that address risks specific to DFS and products?
  - Is a consumer protection framework in place that meets the G20/OECD High-Level Principles on Financial Consumer Protection?

[64] "Standards or requirements" refer generally to all kinds of instruments ranging from voluntary guidelines and self-regulatory codes to mandatory regulation or legal requirements.

- Is your jurisdiction an adherent to the G20/OECD High-Level Principles on Financial Consumer Protection?[65]
- Elements of this framework would typically include safeguarding client funds, differentiated and proportionate standards and regulations for new or nontraditional DFS providers, clarity on procedures and responsibility for unauthorized or mistaken transactions and system outages, data use and protection rules, and minimum consumer redress systems.

► Are there oversight bodies with explicit responsibility for financial consumer protection?
- Does the oversight body (bodies) in your jurisdiction use data collection and behavioral insights to inform market-monitoring activities?

Level 2:

► Are plans for one or more of the following responsible practices in place?
- Standards or requirements to **ensure accessibility** to financial products and services for all including underserved populations
- Guidelines that consider the needs of underserved consumers, which could then include a focus on the specific risks and challenges faced by **women, youth, or MSMEs**

► Are DFS providers also encouraged to self-regulate—for example, through an enforceable, industry-based code of conduct (either where regulations are not in place or to supplement regulatory standards)?

2. RESPONSIBLE BUSINESS CONDUCT FOR FSPs, BANK AND NON-BANK, AND THEIR INTERMEDIARIES

Level 1:

► Are standards or requirements in place that provide for disclosure and transparency, quality financial products, and responsible business conduct?

► Do standards or requirements[66] address market conduct of all DFS providers with proportionate requirements across the full suite of DFS products and services?
- This includes clear and comparable disclosures of terms, fees and commissions, requirements for periodic account statements showing transactions and fees, responsible and fair lending, and debt-collection practices.

► Do standards or requirements protect financial systems from attacks by cyber criminals, which can result in system downtime and reduced, inefficient, or erroneous processes and, ultimately, financial losses for users?

► Are requirements in place, formally or informally, for FSPs to report the types and volume of cybersecurity problems or events, both at the institutional and at the consumer-interface level?

Level 2:

► Are standards or requirements in place relating to the fair treatment of consumers and the use of AI in DFSs to avoid inappropriate or discriminatory outcomes?

► Are there standards or requirements to prevent anti-competitive behavior to ensure client choice?

[65] Adherence is where a jurisdiction formally makes a commitment to adhere to the G20/OECD FCP Principles. All G20 countries and OECD and FSB jurisdictions are adherents. Other countries are welcome to become adherents.

- ► Are there standards or requirements for DFS providers to train employees, agents, and their other third-party partners in extending transparency and access standards?
- ► Do regulators and supervisors have access to monitoring tools (regtech, suptech) for market oversight?

3. DATA-GOVERNANCE RULES THAT PROTECT CONSUMER DATA AND PRIVACY AND PROTECT CONSUMERS AGAINST FRAUD AND MISUSE

Level 1:

- ► Are there standards or requirements relating to protection of consumer data and privacy?
  - Is there a data-governance framework or act covering the responsible use of consumer data, including ownership, consent, transparency, protection, privacy, and the retention and transparency of personal data usage?
  - Is there a clear legal definition of "personal data," taking account of the ability to combine different categories of information to identify a person?
- ► Are there standards or requirements relating to protection of consumer assets against fraud, scams, and misuse, particularly through digital channels?
- ► Do oversight body (bodies) in your jurisdiction regularly monitor and collect data on new forms of DFS-related theft, scams, or fraud perpetrated online or via mobile apps and take action to prevent these irresponsible practices?

Level 2:

- ► If standards or requirements are in place, do they encompass
  - Security safeguards to protect against unauthorized use, disclosure, modification, and destruction of personal data; and
  - Meaningful choice and control over personal data?
  - Do standards or requirements encompass responsible use of data particularly where AI and ML are employed, to avoid inappropriate or discriminatory outcomes, for example in access to credit and insurance for women?

4. ACCESSIBLE, AFFORDABLE, TIMELY, AND FAIR COMPLAINT-HANDLING AND REDRESS MECHANISMS

Level 1:

- ► Is a complaint-handling and redress framework in place?
- ► Are there standards or requirements that are enforced and require FSPs to provide consumers convenient access to affordable (preferably free), timely, and fair complaint resolution via multiple channels that are remotely accessible and easy to understand?
- ► Are there external dispute-resolution mechanisms—for example, financial ombudsman?

Level 2:

- ► Are there more responsible standards encouraging service providers to submit periodic reports on data covering DFS complaints broken down by key target groups (gender, demography, geography)?

Guidance of Relevance to HLP 5:

- G20/OECD: High-Level Principles on Financial Consumer Protection, 2022
- G20/OECD Task Force: Report on the Implementation of the Recommendation of the Council on High-Level Principles on Financial Consumer Protection, 2022
- G20/GPFI: Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection, 2021
- BTCA: UN Principles for Responsible Digital Payments, 2021
- CGAP: Market Monitoring for Financial Consumer Protection, 2021
- IOSCO: Complaint Handling and Redress System for Retail Investors, 2021
- AFI: Guideline Note on Data Privacy for Digital Financial Services, 2021
- CGAP/FinDev: Guide to Financial Consumer Protection in the Digital Era, 2021
- OECD: Financial Consumer Protection Policy Approaches in the Digital Age: Protecting Consumers' Assets, Data and Privacy, 2020
- G20/OECD Task Force on Financial Consumer Protection: Compendium of Effective Approaches for Financial Consumer Protection in the Digital Age, 2020
- OECD: Financial Consumer Protection for Ageing Populations, 2020
- FinCoNet: SupTech Tools for Market Conduct Supervisors, 2020
- CFI: Handbook on Consumer Protection for Inclusive Finance, 2019
- G20/GPFI: G20 Policy Guide: Digitisation and Informality, 2018
- G20/GPFI: Data Protection and Privacy for Alternative Data, 2018
- World Bank: Good Practices for Financial Consumer Protection: 2017 Edition, 2017

HLP 6: Strengthen Digital and Financial Literacy and Awareness
Key topics and Associated Questions for Implementing HLP 6
DIGITAL AND FINANCIAL LITERACY STRATEGIES **Level 1:** ► Is there a digital financial literacy strategy in your country—either within an NFIS, within a financial literacy strategy, or standalone—with clear goals and targets? ► Are there multistakeholder agreements between public authorities, the financial industry, and civil and humanitarian organizations to develop and provide digital financial literacy educational programs and materials to consumers? **Level 2:** ► Are there guidelines or criteria for the involvement of stakeholders implementing programs on digital financial literacy (including FSPs and nonprofit organizations)? ► Are requirements in place for FSPs to make instructions available, through traditional or digital means and in multiple languages, if applicable, that instruct new users on how to use DFS? ► Are there cooperative agreements with relevant stakeholders for designing and delivering digital financial literacy training and messaging to specific groups?
DEFINING AND ASSESSING DIGITAL FINANCIAL LITERACY COMPETENCIES **Level 1** ► Are there frameworks defining digital financial literacy competencies in the country/economy?

- ► Is there evidence of digital financial literacy in the country/economy, or in some regions, or for some specific groups of the population?
- ► Are there regular supply- and demand-side assessments of financial inclusion, financial literacy, and digital financial literacy that help identify specific weaknesses and gaps in various segments—for example, rural or specific priority groups?

Level 2:

- ► Are minimum digital financial capabilities outlined—for example, how to manage personal data and privacy, understanding terms and conditions of DFS, and comparing terms and conditions across different providers?

INITIATIVES TO IMPROVE DIGITAL FINANCIAL LITERACY, INCLUDING FOR SPECIFIC GROUPS

Level 1:

- ► Are digital financial literacy training, materials, or information available, through traditional or digital means?
- ► Are plans in place for digital financial literacy lessons and materials to be made available in the school systems?
- ► Are digital financial literacy training, materials, or information available to specific groups?
- ► Are there any efforts to evaluate the impact and effectiveness of program, materials, and tools to improve digital financial literacy?

Level 2:

- ► Are there regular awareness campaigns to provide transparent, impartial, and non-vendor-specific information and to alert users to new types of fraud?
- ► Are incentives in place for FSPs to hire or partner with members of targeted groups to improve outreach—for example, women agents, multilingual staff?
- ► Do digital financial literacy initiatives incorporate a combination of traditional and digital delivery tools and channels as a means of bridging the digital divide?

Guidance of Relevance to HLP 6:

- Toronto Centre: Financial Literacy and Digital Financial Inclusion: Supervisory Policy and Practice, 2022
- OECD: OECD/INFE Toolkit for Measuring Financial Literacy and Financial Inclusion 2022, 2022
- OECD: Financial Competence Framework for Adults in the European Union, 2022
- OECD: OECD/INFE Guidance on Digital Delivery of Financial Education, 2022
- AFI: Digital Financial Literacy Toolkit, 2021
- OECD: Digital Delivery of Financial Education: Design and Practice, 2021
- G20/OECD: G20/OECD-INFE Report on Supporting Financial Resilience and Transformation through Digital Financial Literacy, 2021
- G20/OECD: Advancing the Digital Financial Inclusion of Youth, 2020
- OECD: Recommendation of the Council on Financial Literacy, 2020
- G20: The Need to Promote Digital Financial Literacy for the Digital Age, 2019
- G20/OECD-INFE: G20/OECD INFE Policy Guidance: Digitalisation and Financial Literacy, 2018

Glossary

Agent is any third party acting on behalf of a bank, financial institution, or non-bank institution (including an e-money issuer or another PSP) to deal directly with customers, under contractual agreement. The term "agent" is commonly used even if a principal-agent relationship does not exist under the regulatory framework in place.

Agent network is a collection of independent business, such as retailers, with which a bank or another FSP contracts to serve as points of interaction with the provider's customers.

Anti-money-laundering/countering the financing of terrorism (AML/CFT) refers to laws, regulations, and supervisory and enforcement actions to prevent, detect, investigate, or prosecute movements or deposits of funds that proceed from or fund crime.

Application programming interfaces (APIs) are a set of rules and specifications that enable software programs to communicate with each other and form an interface between different programs to facilitate their interaction. APIs have several use cases—for example, they can allow PSPs to integrate payment and financial services and enable payment-initiation services and broader open banking models. APIs can also be used for facilitating electronic KYC processes and supporting AML/CFT checks by integrating with relevant infrastructures.

Bank-based model is a DFS business model in which (i) the customer has a contractual relationship with the bank, and (ii) the bank is licensed or otherwise permitted by the regulator to provide mobile financial services.

Bank-led model is a DFS business model, bank based or non-bank based, in which the bank is the primary driver of the product or service, typically taking the lead in marketing, branding, and managing the customer relationship.

Big-data analytics are emerging as technologies that enable faster and more accurate predictive analysis of the high volume, variety, and velocity of data. Some of big data's uses in payment services include supporting customer onboarding processes for new customers through automated screening processes that check names against sanction lists as well as making predictions about a person's creditworthiness. Big data also authorizes and authenticates existing customers by using various data sets, such as biometrics. Lastly, big data has been extensively used for financial literacy purposes, giving accountholders customized advice using chatbots and robo-advisers.

Biometrics are technologies that use an individual's unique physiological and behavioral attributes to establish and authenticate his or her identity. In DFS, biometrics can overcome some of the challenges associated with PINs, passwords, or forms of identification.

Cloud computing and its associated delivery models, such as banking-as-a-service (BaaS) and payment-as-a-service (PaaS), are improving access to technology by PSPs of all sizes and acting as an enabler of innovation in payments and associated services. Cloud computing reduces the need for large investments

in IT, thereby lowering market-entry barriers for new providers that can specialize in developing customized interfaces for specific customer segments.

Contactless technologies, including near-field communication and QR codes, are fast becoming prevalent in facilitating acceptance of payment instruments at the point of sale. The role of the latter is particularly critical in the uptake of fast payment systems. Contactless technologies, in combination with tokenization, are instrumental to the provision of e-wallets.

Customer due diligence (CDD), often used synonymously with KYC measures, generally refers more broadly to the policies and procedures used by an FSP to obtain customer information and assess the risks of money laundering and terrorist financing posed by a customer, including detecting, monitoring, and reporting suspicious activities.

Digital financial inclusion is the use and promotion of DFS to advance financial inclusion.

Digital financial literacy is a combination of knowledge, skills, attitudes, and behaviors necessary for individuals to be aware of and safely use DFS and digital technologies with a view to contributing to their financial well-being.

Digital financial service provider is a mobile network operator or another non-bank entity that offers various financial services but only by electronic means—for example, using a mobile phone or the Internet.

Digital financial services (DFS) refer to the broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances, and insurance. The DFS concept includes mobile financial services.

Digitalization is the use of digital technologies and data, as well as interconnection, that results in new activities or changes to existing activities.

Distributed ledger technologies (DLT) enable entities, through the use of established procedures and protocols, to carry out transactions without necessarily relying on a central authority to serve as the system of record for the ledger. Applications of such technologies to the financial sector are addressing some of the long-standing challenges to enhancing access to financial services.

E-money is a record of funds or value available to consumers that is stored on a payment device, such as a chip, prepaid card, or mobile phone, or on a computer system, as a nontraditional account with a banking or a non-banking entity. E-money products can be further differentiated into network money, mobile money, electronic purse, and e-wallet.

E-money account is an account held with an e-money issuer. In some jurisdictions, e-money accounts may have similar characteristics as conventional bank accounts but are treated differently under the regulatory framework due to the nature of their purpose (that is, surrogate for cash or stored value to facilitate transactional services).

E-money issuer is the entity that initially issues e-money against receipt of funds. Some countries permit only banks to issue e-money (see bank-based and bank-led models), while other countries permit non-banks to issue e-money. (See non-bank-based and non-bank-led models.)

E-payment is any payment made through an electronic funds transfer.

E-wallet is an e-money product for which the record of funds is stored on a specific device, typically a chip on a card or in a mobile phone.

Financial Action Task Force (FATF) is an intergovernmental body that sets international standards that aim to prevent and sanction money laundering, terrorism financing, and proliferation financing. As a policy-making body, the FATF works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

Financial consumer is generally considered to include private individuals at a minimum but may also include small businesses/MSMEs, depending on the definitions used by jurisdictions.

Financial consumer protection refers to the framework of laws, regulations, and other measures generally designed to ensure the fair and responsible treatment of financial consumers as they purchase and use financial products and services and in their dealings with FSPs.

Financial education is the process by which financial consumers/investors improve their understanding of financial products, concepts, and risks and, through information, instruction, and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

Financial literacy is a combination of the financial awareness, knowledge, skills, attitudes, and behaviors necessary to make sound financial decisions and ultimately achieve individual financial well-being. This definition is consistent with national and international definitions of similar concepts, such as financial capability.

Financial resilience is the ability of individuals or households to resist, cope with, and recover from negative financial shocks.

Financial well-being takes into account objective and subjective elements of financial well-being, including in particular (i) objective factors contributing to resilience, including disposable income, personal wealth, and financial control, and (ii) subjective evaluation of day-to-day financial life and longer-term financial plans. The OECD financial well-being framework also acknowledges the importance of a wide range of factors associated with, or supporting, financial well-being, such as knowledge and skills, including adaptability and self-control; physical and mental health; the support of friends, family, and the broader community; and economic stability and growth.

Fintech refers to advances in technology that have the potential to transform the provision of financial services, spurring the development of new business models, applications, processes, and products.

Government-to-person (G2P) payments are payments made by government entities to individuals, including social transfers as well as wage and pension payments.

Internet of Things is one of the sources of big data and encompasses software, sensors, and network connectivity embedded in physical devices, buildings, and other items that enable those objects (i) to collect and exchange data, and (ii) to send, receive, and execute commands. The Internet of Things is increasingly being integrated with payment services in combination with other innovative technologies to improve the customer experience.

Interoperability is a situation in which instruments belonging to a given scheme may be used in platforms developed by other schemes. Interoperability requires technical compatibility between systems, but it can take effect only when agreements have been concluded between the schemes concerned. In mobile money markets, interoperability implies the ability of users of one network to transact with users of another network. Interaction can be achieved at different levels: at the customer level, agent level, or platform level.

Know your customer (KYC) refers to a set of due-diligence measures undertaken by a financial institution, including policies and procedures, to identify customers and the motivations behind their financial activities. KYC is a key component of AML/CFT regimes.

National strategy for financial literacy is a sustained, coordinated approach to financial literacy that (1) recognizes the importance of financial literacy—through legislation, where appropriate—and agrees to its scope at the national level, taking into account identified national needs and gaps; (2) is coherent with other strategies fostering economic and social prosperity, such as those focusing on financial inclusion and financial consumer protection; (3) involves cooperation with relevant stakeholders as well as the identification of a national leader or coordinating body/council; (4) includes the establishment of a road map to support the achievement of specific and predetermined objectives within a set period of time; (5) provides guidance to be applied by individual programs implemented under the national strategy to contribute efficiently and appropriately to the overall strategy; and (6) incorporates monitoring and evaluation to assess the progress of the strategy and propose improvements accordingly.

Payment service provider (PSP) is an entity that provides payment services to end users—payers and payees. PSPs include banks and other deposit-taking institutions, as well as specialized entities, such as money-transfer operators, e-money issuers, payment aggregators, and payment gateways.

Super apps are applications that encompass multiple different services and attempt to be a single point of entry and consolidation for a variety of user needs.

Supervisory technology (suptech) is defined by the Basel Committee on Banking Supervision as the use of technology to facilitate and enhance supervisory processes from the perspective of supervisory authorities.

Unbanked customers, usually the very poor, are customers who do not have a bank account or a transaction account at a formal financial institution.

Compendium of Resources

HLP 1: Promote a Digital Approach to Financial Inclusion

1. AFI: Bringing the Informal Sector Onboard (toolkit), 2021
2. AFI: National Financial Inclusion Strategy Monitoring and Evaluation Toolkit, 2021
3. CGD: A Decision Tree for Digital Financial Inclusion Policymaking, 2020
4. CGAP: Customer-Centric Guide, 2016
5. CPMI, World Bank: Payment Aspects of Financial Inclusion: Application Tools, 2020
6. CPMI, World Bank: Payment Aspects of Financial Inclusion in the Fintech Era, 2020
7. G20/GPFI: Advancing the Digital Financial Inclusion of Youth
8. G20/GPFI: Advancing Women's Digital Financial Inclusion
9. G20/GPFI: G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, 2020
10. G20/GPFI: Promoting Digital and Innovative SME Financing
11. UNSGSA, BTCA, UNCDF, World Bank: Igniting SDG Progress through Digital Financial Inclusion, 2018
12. World Bank: FISF Learning Series videos on NFIS development and operationalization, 2021
13. World Bank: Digital Financial Services, 2020
14. World Bank: Developing and Operationalizing a National Financial Inclusion Strategy: Toolkit, 2018
15. World Bank: Coordination Structures for Financial Inclusion Strategies and Reforms, 2013

HLP 2: Balance Innovation and Risk to Achieve Digital Financial Inclusion

1. BCBS: Guidance on the Application of the Core Principles for Effective Banking Supervision to the Regulation and Supervision of Institutions Relevant to Financial Inclusion, 2016
2. BIS: Fintech and Payments: Regulating Digital Payment Services and E-money (FSI Insights on Policy Implementation No. 33), 2021
3. BIS and World Bank: Proportionality in Bank Regulation and Supervision—A Joint Global Survey, 2021
4. CGAP: How to Build a Regulatory Sandbox: A Practical Guide for Policy Makers, 2020
5. CGAP: The Evolving Nature and Scale of Consumer Risks in Digital Finance, 2021
6. FATF: FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion, 2017
7. FATF: FATF Guidance: National Money Laundering and Terrorist Financing Risk Assessment, 2013
8. G20/GPFI: Advancing the Digital Financial Inclusion of Youth
9. G20/GPFI: Advancing Women's Digital Financial Inclusion
10. G20/GPFI: G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, 2020
11. G20/GPFI: Promoting Digital and Innovative SME Financing
12. ITU: Cooperation Frameworks between Authorities, Users and Providers for the Development of the National Payments System, 2016
13. UNSGSA: Early Lessons on Regulatory Innovations to Enable Inclusive Fintech, 2020
14. World Bank: Central Bank Digital Currencies: A Payments Perspective, 2021
15. World Bank: Digital Financial Services, 2021
16. World Bank: Global Experiences from Regulatory Sandboxes, 2020
17. World Bank: Impact of the FATF Recommendations and Their Implementation on Financial Inclusion: Insights from Mutual Evaluations and National Risk Assessments, 2021

HLP 3: Provide an Enabling and Proportionate Legal and Regulatory Framework for Digital Financial Inclusion

1. AFI: Policy Framework on the Regulation, Licensing and Supervision of Digital Banks, 2021
2. AFI: Regulatory and Supervisory Technologies for Financial Inclusion, 2022

3. BIS: Fintech and the Digital Transformation of Financial Services: Implications for Market Structure and Public Policy (BIS Papers No. 117), 2021
4. CGAP: DFS Supervision Toolkit (forthcoming)
5. CGAP: Digital Banks: How Can They Be Regulated to Deepen Financial Inclusion? (reading deck)
6. CGAP: Digital financial services regulation and supervision collection
7. CGAP: Proportional Supervision for Digital Financial Services DFS Collection (web page)
8. CGAP: Transformative Innovative for Financial Inclusion: Implications for Regulatory Architecture (forthcoming)
9. CGAP: Fintechs and Financial Inclusion: Lessons Learned, 2019
10. CGAP: Fintechs and Financial Inclusion: Looking past the Hype and Exploring Their Potential, 2019
11. CPMI, World Bank: Payment Aspects of Financial Inclusion in the Fintech Era (PAFI guidance) (Second Phase), 2020
12. FATF: FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion, with a Supplement on Customer Due Diligence, 2017
13. FSI: Policy Responses to Fintech: A Cross-Country Overview, January 2020
14. G20/GPFI: Advancing the Digital Financial Inclusion of Youth
15. G20/GPFI: Advancing Women's Digital Financial Inclusion
16. G20/GPFI: G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, 2020
17. G20/GPFI: Promoting Digital and Innovative SME Financing
18. G20/GPFI: Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape, 2014
19. G20/GPFI: Digital Financial Inclusion: Emerging Policy Approaches, 2017
20. IADI: Introductory Brief: Challenges for Deposit Insurers (Fintech Brief No. 1), 2021
21. IAIS: Application Paper on the Use of Digital Technology in Inclusive Insurance, 2018
22. World Bank, IMF: The Bali Fintech Agenda
23. World Bank: How Countries Can Expand Access to Digital Financial Services, 2020
24. FSB: The Use of Supervisory and Regulatory Technology by Authorities and Regulated Institutions, 2020
25. World Bank: Fintech and the Future of Finance, 2022
26. World Bank: A Roadmap to SupTech Solutions for Low Income (IDA) Countries, 2020

HLP 4: Expand the DFS Infrastructure Ecosystem

1. CPMI, World Bank: Payment Aspects of Financial Inclusion: Application Tools, 2020
2. CPMI, World Bank: Payment Aspects of Financial Inclusion in the Fintech Era, 2020
3. CPMI: Enhancing Cross-Border Payments: Building Blocks of Global Roadmap, 2020
4. FSB: The Use of Supervisory and Regulatory Technology by Authorities and Regulated Institutions, 2020
5. FSB: Targets for Addressing the Four Challenges of Cross-Border Payments: Consultative Document, 2021
6. G20/GPFI: Advancing the Digital Financial Inclusion of Youth
7. G20/GPFI: Advancing Women's Digital Financial Inclusion
8. G20/GPFI: G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, 2020
9. G20/GPFI: Promoting Digital and Innovative SME Financing
10. IMF: The Bali Fintech Agenda, 2018
11. World Bank: A Roadmap to SupTech Solutions for Low Income (IDA) Countries, 2020
12. World Bank: Implementation Considerations for Fast Payment Systems, 2021
13. World Bank: Developing Digital Payment Services in the Middle East and Africa: A Strategic Approach, 2021
14. World Bank: Digital Financial Services, 2021

HLP 5: Establish Responsible Digital Financial Practices to Protect Consumers

1. AFI: Digitally Delivered Credit: Consumer Protection Issues and Policy Responses to New Models of Digital Lending, 2017

2. BIS: Fintech and the Digital Transformation of Financial Services: Implications for Market Structure and Public Policy, 2021
3. CGAP: FinDev Gateway resources, 2021
4. CGAP: Market Monitoring for Financial Consumer Protection (toolkit), 2022
5. CGAP: The Evolution of the Nature and Scale of DFS Consumer Risks: A Review of Evidence, 2022
6. CGAP: Implementing Consumer Protection in Emerging Markets and Developing Economies: A Technical Guide for Bank Supervisors
7. G20/OECD Task Force implementation guidance and reports
8. FinCoNet: Financial Product Governance and Culture, 2021
9. FinCoNet: Financial Advertising and Consumer Protection: Supervisory Challenges and Approaches, 2020
10. FinCoNet: SupTech Tools for Market Conduct Supervisors, 2020
11. FinCoNet: Digitalisation of Short-Term, High-Cost Consumer Credit: Guidance to Supervisors, 2019
12. G20: G20 Fukuoka Policy Priorities on Aging and Financial Inclusion, 2019
13. G20/GPFI: Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection, 2021
14. G20/GPFI: G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs
15. G20: G20 Policy Guide: Digitisation and Informality, 2018
16. G20/GPFI: G20 Principles for Innovative Financial Inclusion, 2010
17. OECD: G20/OECD Report on Financial Consumer Protection and Financial Inclusion in the Context of COVID-19, 2021
18. G20/OECD Task Force on Financial Consumer Protection: Compendium of Effective Approaches for Financial Consumer Protection in the Digital Age, 2020
19. G20/OECD: Report on the Implementation of the Recommendation of the Council on High-Level Principles on Financial Consumer Protection, 2022
20. G20/GPFI: Advancing the Digital Financial Inclusion of Youth
21. G20/GPFI: Advancing Women's Digital Financial Inclusion
22. G20/GPFI: Promoting Digital and Innovative SME Financing
23. ITU: ITU-T Focus Group Digital Financial Services: Main Recommendations
24. OECD: Financial Consumer Protection and Ageing Populations, 2020
25. OECD: Financial Consumer Protection Policy Approaches in the Digital Age: Protecting Consumers' Assets, Data and Privacy, 2020
26. OECD: Protecting Consumers in Peer Platform Markets, 2016
27. BTCA: UN Principles for Responsible Digital Payments, 2021
28. World Bank: Product Design and Distribution: Emerging Regulatory Approaches for Retail Banking Products
29. World Bank: Financial Consumer Protection and New Forms of Data Processing beyond Credit Reporting, 2018
30. World Bank: The Next Wave of Suptech Innovation: Suptech Solutions for Market Conduct Supervision, 2021

HLP 6: Strengthen Digital and Financial Literacy and Awareness

1. AFI: Digital Financial Literacy Toolkit, 2021
2. FinEquity: Enabling Women's Financial Inclusion through Digital Financial Literacy, 2021
3. G20: The Need to Promote Digital Financial Literacy for the Digital Age, 2019
4. G20/OECD: Advancing the Digital Financial Inclusion of Youth, 2020
5. OECD: G20/OECD-INFE Report on Supporting Financial Resilience and Transformation through Digital Financial Literacy, 2021
6. OECD: G20/OECD INFE Policy Guidance: Digitalisation and Financial Literacy, 2018
7. G20/GPFI: Advancing Women's Digital Financial Inclusion
8. G20/GPFI: G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, 2020
9. G20/GPFI: Promoting Digital and Innovative SME Financing

10. OECD: Digital Delivery of Financial Education: Design and Practice, 2021
11. OECD: OECD/INFE Guidance on Digital Delivery of Financial Education, 2022
12. OECD: Financial Competence Framework for Adults in the European Union, 2022
13. OECD: Personal Data Use in Financial Services and the Role of Financial Education: A Consumer-Centric Analysis, 2020
14. OECD: Recommendation of the Council on Financial Literacy, 2020
15. OECD: OECD/INFE Toolkit for Measuring Financial Literacy and Financial Inclusion 2022, 2022
16. Toronto Centre: Financial Literacy and Digital Financial Inclusion: Supervisory Policy and Practice, 2022
17. World Bank: Building a Financial Education Approach: A Starting Point for Financial Sector Authorities, 2021

HLP 7: Facilitate Customer Identification for DFS

1. BTCA: Reaching Financial Equality for Women, 2021
2. CGAP: Risk-Based Customer Due Diligence: Regulatory Approaches, 2019
3. FATF: COVID-19-Related Money Laundering and Terrorist Financing: Risks and Policy Responses, 2019
4. FATF: FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion, with a Supplement on Customer Due Diligence, 2017
5. G20/GPFI: G20 Digital Identity Onboarding, 2018
6. GPFI: Advancing Women's Digital Financial Inclusion, 2020
7. ID4D/World Bank Group: Principles on Identification for Sustainable Development: Toward the Digital Age, 2021
8. ITU: Digital Financial Inclusion, 2021
9. ITU: e-KYC Use Cases in Digital Financial Services, 2021
10. ITU: Implementation of Secure Authentication Technologies for Digital Financial Services, 2020
11. World Bank: Digital ID Assessment Instrument: Financial Sector Module, 2021
12. World Bank: Digital ID to Enhance Financial Inclusion: A Toolkit for Regulatory Authorities, 2021

HLP 8: Track Digital Financial Inclusion Progress

1. AFI: National Financial Inclusion Strategy Monitoring and Evaluation Toolkit, 2021
2. AFI: Digital Financial Service Indicators, 2019
3. CPMI: Payment Aspects of Financial Inclusion, 2016
4. CPMI: Payment Aspects of Financial Inclusion in the Fintech Era, 2020
5. CPMI: Payment Aspects of Financial Inclusion: Application Tools, 2021
6. G20: G20 Financial Inclusion Indicators, 2016; see also G20 Financial Inclusion Indicators, 2016
7. OECD: OECD/INFE Toolkit for Measuring Financial Literacy and Financial Inclusion 2022, 2022
8. World Bank: Global Financial Inclusion and Consumer Protection (FICP) Survey (database and reports)
9. World Bank: How to Measure Financial Inclusion, 2015
10. World Bank: Measuring Financial Inclusion: The Global Findex Database, 2012
11. World Bank: The Global Findex Database 2021 (database and reports)

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Database on Digital and Innovative Financial Products and Services for MSMEs Beyond Credit

SME Finance Forum | Women's World Banking | Islamic Development Bank |
The International Fund for Agricultural Development | Better Than Cash Alliance

I. Introduction

The SME Finance Forum, in collaboration with the Islamic Development Bank (IsDB), the International Fund for Agricultural Development (IFAD), Women's World Banking, and Better than Cash Alliance, are pleased to share with the Global Partnership for Financial Inclusion, under the auspices of the G20 Indonesian Presidency, this preliminary collection of findings from the "Digital and Innovative Financial Products and Services for MSMEs Beyond Credit" Database. One of the key objectives of the database is to collect and feature good practices that can be useful examples for all countries.

This report highlights several aspects of the Database, with a primary focus on the characteristics of the 60 submissions included so far. The Database is also designed in ways that allow users to search for relevant case studies based on the following characteristics, namely Savings; Cash Management; Credit Guarantees; factoring, financial educations, insurance, risk management, and others. The database will also allow the viewers to view or download the entire case studies which contain, among others, information about the type of products/ services, the key features of the innovation, the outcomes and impacts of the innovation, lessons learned and policy recommendation.

Furthermore, it provides a brief analysis of the technical aspects of this survey exercise, along with a few lessons learnt and policy implications. Please note the report represents a preliminary overview of what will be a living, expanding repository of good practice cases, and as such, variables and statistics are subject to change and evolve.

On behalf of the participating organizations, the SME Finance Forum wishes to express its sincerest gratitude for the ongoing help and support of its partners in launching and maintaining this living Database website which can be accessed on https://www.g20smecasestudies.org/case-studies. The case studies discussed below represent some of the most innovative digital products and services geared towards MSMEs to date that are actively paving the way towards greater financial inclusion across the globe.

The subsequent report is split into the following sections: (1) Database Overview, (2) Submission Characteristics, (3) Policy Implications and Lessons Learned, (4) Next Steps and Looking Ahead, and (5) Index of Case Studies.

II. Database Overview

The Digital and Innovative Financial Products and Services for MSMEs Beyond Credit is currently home to 60 case studies. These include non-duplicative, non-fully answered, and credible entries[1]. The case studies present a plethora of SME finance topic areas and types of product or services.

The participating institutions comprised of several types, with a majority of what is categorized as "Financial Institutions". Subsequent to these organizations, other participating institutions

[1] There were a number of fully blank, duplicate, and spam entries that are not included in this count.

represented "Development Finance Institutions" (5 submissions), Fintech Companies (12 submissions), State Governments, and several submitters characterized as "Other"[2].

Additionally, although these case studies represent a variety of geographic locations and regions, the majority of case studies hail from the UAE, the Philippines, Türkiye, and China. See graph below:

Graph 1.0 - Case Studies Submitted by Country

Similarly, the geographic locations of the MSMEs these products or services target demonstrate a similar distribution on the world map. Given this, the Database could benefit from a wider range of countries represented.

Graph 2.0 - Primary Geographic Location of MSMEs Served by Product/Service

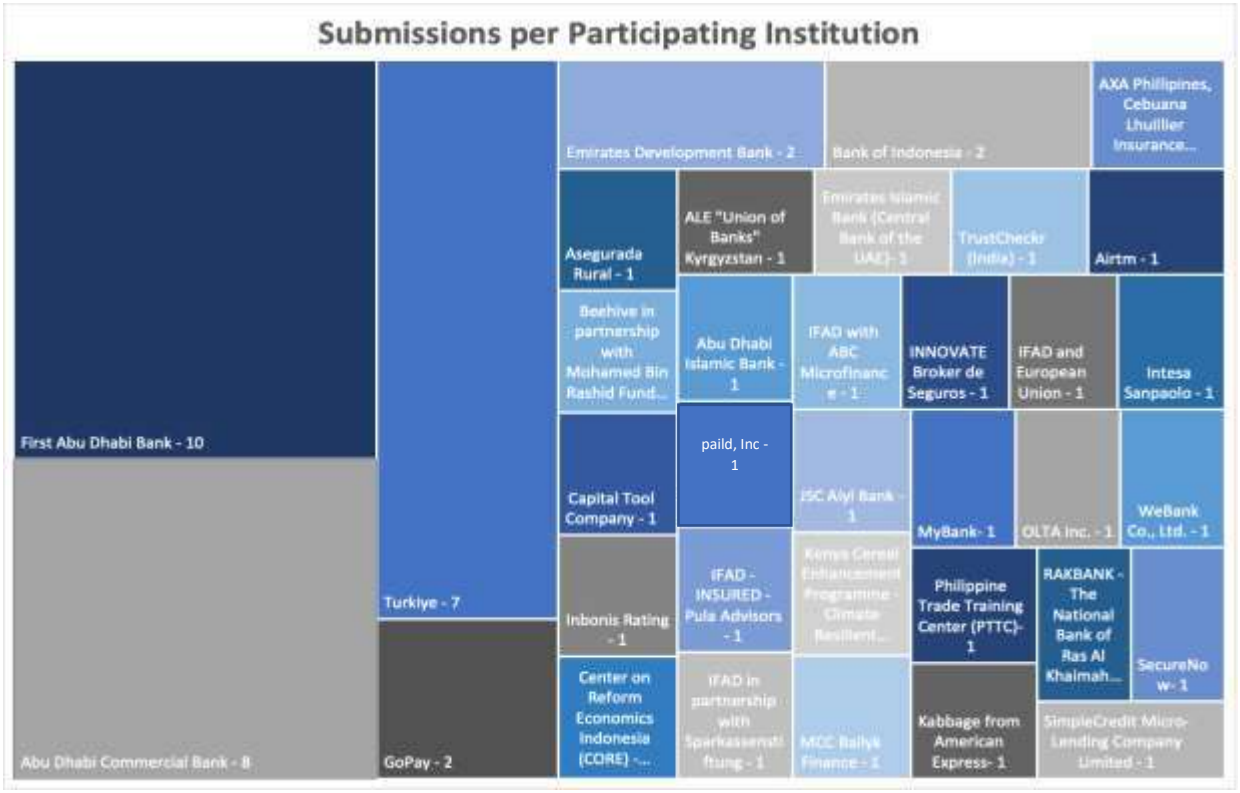
[2] Examples of "Other" types of institutions, were the following: "Private Limited Company", "Insurance Broker", "U.S. Small Businesses", and "Philippine Trade Training Center (PTTC)". These were declared by the submitters, respectively, and not evaluated or categorized by the SME Finance Forum.

III. Submission Characteristics

The 60 submissions currently housed under the Database represent several institutions. However, a number of these dominate the distribution of the total case studies. Most notably, these include the First Abu Dhabi Bank with 10 submissions, the Abu Dhabi Commercial Bank with 8 submissions, and the government of Türkiye with 7 submissions. Many G20 countries have yet to contribute case studies to the database.

The hierarchical graph below presents the distribution of case studies per participating institution:

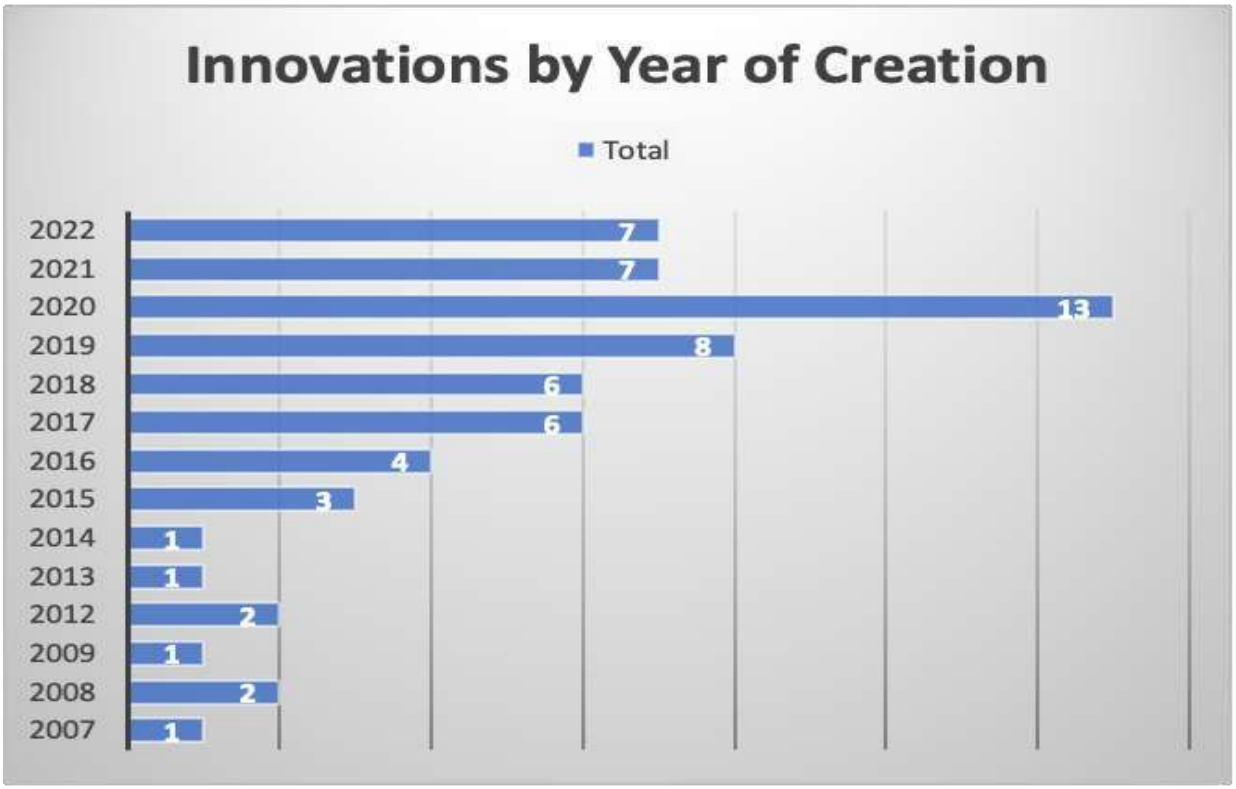
Graph 3.0 - Submissions per Participating Institution



Source: SME Finance Forum

In addition, the years these products and services range from 2007 to 2022, with a notable emphasis on 2020. An increase in digital products in 2020 falls in line with the onset of the COVID-19 pandemic and the level of urgency many companies, banks, and other institutions faced. It demonstrates the mobilization of resources, time, and effort of many of these institutions as well as their ability to quickly adapt to the demands of a rapidly changing market.

Graph 4.0 - Innovations by Year of Creation



Source: SME Finance Forum

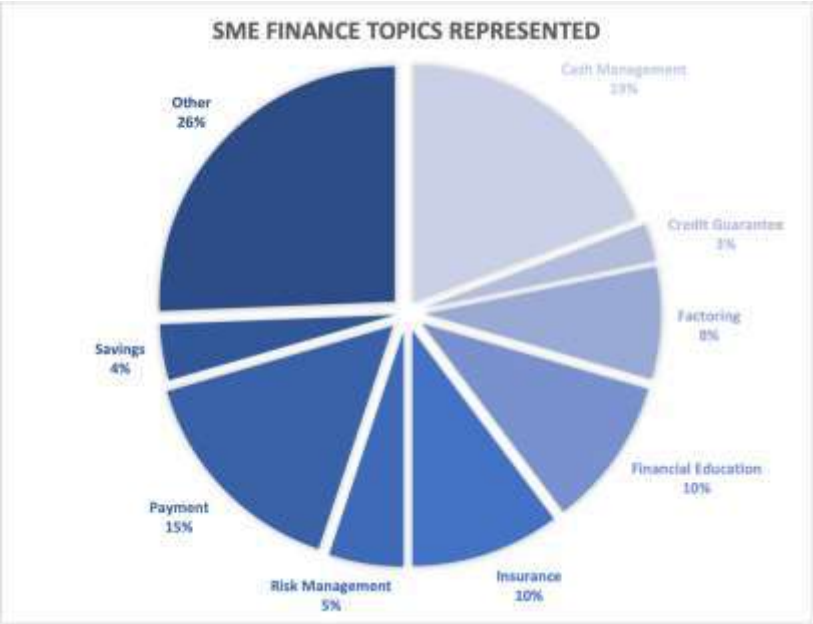
The products and services showcased fall under several categories. The Database provided the following options for selection:

- Savings
- Cash Management
- Credit Guarantees
- Factoring
- Financial Education
- Insurance
- Risk Management
- Payment
- Other

The case studies represented a variety of these categories with Cash Management and Payment being the top two designated categories. However, the top choice represented "Other" types of topics. The following examples were included along with the "Other"[3] topic choice selection:

- Digital crowdfunding platform
- Online risk assessment and management platform
- Digital bank account onboarding platform
- SmartStart Business account
- Online trade finance platform for submitting trade finance related customer requests
- Cross-border health declaration mutual recognition via blockchain
- PKI-based digital signature platform to digitally sign documents on the go
- Sustainability related products and services to enable MSMEs to get their sustainability practices reviewed and ranked
- Manual processing of bank letters for customer request of account details/bank statement analysis
- Online supply chain services such as: risk control data
- Free digital bank account with no minimum balance criteria
- Crowdfunding platform for start-ups and early-stage tech-focused projects/ventures
- Income tax exemption for tech entrepreneurs
- Tax exemption for tradesmen
- Tax incentive for individual participation investors

Graph 5.0 - SME Finance Topics Represented



[3] It should be noted that several products/services were tagged under two categories. For example, the e-voucher platform developed by the Kenya Cereal Enhancement Programme—Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL) through Ministry of Agriculture, Livestock, Fisheries and Cooperatives on behalf of Government of Kenya was attributed under the following categories simultaneously: "Payment, Savings, Financial Education, Cash Management".

Source: SME Finance Forum

Finally, through each SME Finance topic area, submitters could further select the specific groups their product targeted. Under each topic, the following choices were available:

- Women Entrepreneurs
- Youth Entrepreneurs
- Social Finance Recipients
- SMEs

There is a strong pull for SMEs under the categories of "Cash Management", "Payments", and "Remittances". Another impact group afflicted are Women Entrepreneurs under the "Payments" section. This graph, coupled with Graph 4.0 could act as evidence of the urgent need for digital tools MSMEs can utilize to sustain their most basic function; engage in direct transactions. Furthermore, digital cash management allows MSME owners to visualize and collect data about their enterprises that they never had access to before, thus revolutionizing the way they operate, making them more resilient to external shocks, such as the COVID-19 pandemic.

Although this exact correlation has not been studied and backed by data from the Database, this may comprise an interesting analysis for the next stage of the Database.

Graph 6.0 - Groups Impacted by Product/Service

Source: SME Finance Forum

IV. Policy Implications and Lessons Learned

The primary lesson learned across the board for the submitters was the user-friendliness of these digital products. Many submitters have agreed that these innovations need to be "customer-facing" in how they intake and provide eligibility and services. In order to better serve those most in need, banks, fintechs, and governments alike need to prioritize the needs of the end-user when designing these tools.

Additionally, rapid digitalization brings consumer protection challenges because underserved customers and constituents may not be digitally literate. Education is key and clear information about who to address with queries and complaints is important. An example presented in the database by the KCEP-CRAL in Kenya highlighted how digitized agricultural insurance can encourage young people to invest in agriculture by enabling them to access active credit. Insurance can be accepted as collateral for them. Therefore, it is important for governments to subsidize inputs: this allows a good distribution model for the insurance product, which benefits farmers and the insurance market alike.

Regulation holds an important role in creating the pathways within which many of these innovative products and services operate. Institutions should have transparent and open dialogue with their respective governments in order to create awareness and push legislation in the right direction.

V. Next Steps and Looking Ahead

As we transition into the next stage of this process, several important considerations, as specified in ANNEX under "technical considerations for the database", need to be accounted for. Firstly, the questionnaire might be modified and improved to encourage more complete responses, and fewer dropped applications. This may be done both through the questions themselves, as well as through the technical organization of them in the database. One possible remedy is to group questions by SME finance topic area, in order to allow users to provide more relevant statistical and contextual data.

Balancing the quantity of entries with the quality of data will be crucial as this project moves forward. In order to avoid unanswered and empty fields, the relevance and conciseness of questions will need to be closely monitored and evaluated vis-a-vis future submissions.

Most important, the support of the GPFI members and partners is required to motivate more case study submissions from more countries and more institutions. This is essential for ensuring that the products and services living in the Database reflect a well-rounded picture of the innovations existing across the globe.

The SME Finance Forum is pleased to continue spearheading this effort along the help and guidance of its G20 and GPFI partners.

ANNEX

1. Technical Considerations for the Database

The submission form of the Database represented a surveying exercise of open-ended questions and several drop-drown selection menus. These primarily alluded to categorization buckets, for example indicating the “Type of Institution”. However, given the diversity of challenge areas and variety of SME finance topics, a more appropriate structure for this survey could be to identify the type of product and link a cascade of questions relevant to that specific topic area.

For example, the form can initiate with a drop-down menu that prompts the user to select a specific SME finance area (i.e., insurance, factoring, cash management, etc.) Instead of starting a form with product/service specific questions, an array of important points need-to-know should be determined for each different kind of financial product.

This requires thinking through specific elements and building out a different sub-form for each one, or simply making certain questions required over others and adding more specific options by using drop down menus.

For any quantitative values (i.e., estimated cost of service, etc.), it is more appropriate to capture values separately accompanied by clear instructions. When including costs, the submitter should have the ability to indicate and clarify the currency used in order to make the transfer of data more seamless and efficient.

By specifying questions by product-type area, several subsequent questions need to be answered. However, that should not feel threatening or overwhelming for the user. It is possible to prevent the phenomenon of a lengthy and tedious form by incorporating drop down menus that give the user the ability to select specific items pretraining to the area they're referring to. It's a good mechanism for hiding many smaller fields under the umbrella of a drop-down selection.

Lastly, questions should be specified according to the issue a product, and, or service is seeking to address. A way to solve this is by requiring users to include more specific statistical baseline data. This can help the evaluation efforts in the future and enhance the ability to keep submitters accountable to the impact they are setting out to achieve. Further information on the market failure each innovation is trying to address is essential and should be highlighted in our report, rather than being voluntarily offered by our submitters in the "Please describe your product or service" section.

2. Analysis of the response to the most significant submission questions:

One of the main areas of concern for the database may arise from the lack of information disclosed by each participating institution. That may perhaps be due to the open-ended nature of the questionnaire, or in some cases, because of the nascent stage of many of these innovations. The lack of impact data may be attributable to the short time window some of these innovations have had out in the market.

Below is a brief compilation of the top questions on the submission form and their rate of response. A few of these have had a perfect response score, while several have fallen short below the 10% rate of response mark. The questions are listed in the order they appear on the form, but several have been omitted in this analysis to highlight those most significant to the content of each case study.

Question 2 - "Short excerpt about the products/services": 60 out 60 submitters answered, 100% rate of response.

Question 3 - "What year was the innovation produced?": 4 out of 60 submitters answered, 6.67% rate of response.

Question 4 - "Cost of innovation (in local currency) and/or number of MSMEs reached?": 5 out of 60 submitters answered, 8.33% rate of response.

Question 5 - "Estimated number of individuals reached/affected by the product/service": 4 out of 60 submitters answered, 6.67% rate of response.

Question 6 - "Number of institutions that have implemented this innovative product/service": 58 out of 60 submitters answered, 96.67% rate of response.

Question 7 - "Types of Institutions": 58 out of 60 submitters responded, 96.67% rate of response.

Question 8 - "Primary Geographical Location of MSMEs served" - 60 out 60 submitters answered, 100% rate of response.

Question 9 - "Please describe the challenges that your product/service addresses": 59 out of 60 answered, 98.33% rate of response.

Question 11 - "Please describe the innovative product or service" - 60 out of 60 submitters answered, 100% rate of response.

Question 12 - "Please elaborate on the results/impact, or the potential impact, this innovative product/service has had": 58 out of 60 submitters answered, 96.67% rate of response.

Question 13 - "Market conditions that determined the success of your products/services": 0 out of 60 submitters answered, 0% response.

Question 14 - "Policy/regulatory environment that either enables or hinders the success of your products/services": 5 out of 60 submitters answered, 8.33% rate of response.

Question 15 - "What needs to be considered if the initiative is to be replicated?": 47 out of 60 submitters answered, 78.33% rate of response.

Question 16 - "How does the policy/regulatory environment either enable or hinder the success of your product/service: 45 out of 60 submitters answered, 75% rate of response.

3. Index of Case Studies

1. SecureNow Insurance Brokers - (India): Commercial insurance in the COVID era
2. Kenya Cereal Enhancement Programme—Climate Resilient Agricultural Livelihoods Window (KCEP-CRAL) through Ministry of Agriculture, Livestock, Fisheries and Cooperatives on behalf of Government of Kenya:
    a. e-voucher platform in delivering market-based agriculture input services through a PPP Partnership
    b. Area yield index insurance administered through innovative e-voucher scheme (AYII)
3. Babyloan Mali: Crowdfunding platform for diaspora "solidarity investors" (from the Malian diaspora in France) to invest in rural MSMEs in Mali
4. MCC Bailyk Finance - (Kyrgyzstan): Online platform that enables access to loans and provisions of payment to remote locations of the country. Enables hassle-free payments and overall cost-effectiveness in borrowing, as well as networking between buyers and retailers (I.e., smallholder farmers, etc.)
5. JSC Aiyl Bank - (Kyrgyzstan): Online trade and logistics platform for value-chain stakeholders. Provides access to information about the agribusiness sector (supply, demand, prices, markets trends) to smallholder farmers. Enables informed decision-making, networking (access to selected information networks), and security of transactions with escrow account system that verifies or blocks transactions accordingly. *Project still in its inception phase*.
6. ALE "Union of Banks of Kyrgyzstan": Financing for warehousing certificates to satisfy collateral requirement when borrowing. This project will also enable access to information on supply/demand etc. Will also apply digitally sound application to manage stocks, and to secure certificates as collateralizable assets readily acceptable to financial institutions.
7. PayGo Solar Home Systems for Farmers (SHS) - (Zambia): Crop insurance scheme for maize smallholders, bundled with SHS on credit, marketed by the Vitalite providers.
8. INNOVATECH – IFAD in partnership with Sparkassenstiftung - (Haiti, Honduras, El Salvador, Guatemala, Mexico, Bolivia): Assessment of AgriTech/FinTech services, mainstreaming, broadening innovation through financing, monitoring & evaluation, as well as knowledge management.
9. Payong App – Philippine Trade Training Center (PTTC): Web- and mobile based application designed to sensitize MSMEs to the risks of natural calamities and exogenous shocks, raise awareness on risks exposure to create an actionable Business Continuity Plan

(BCP) strategy, and impart knowledge on available risk transfer mechanisms available from the private sector (insurance)

10. Segurosparamujeres.com/INNOVATE Broker de Seguros - (Argentina): Insurance coverage products oriented exclusively to women, that are contracted online and with minimum requirements.
11. AXA Philippines, Cebuana Lhuillier Insurance Brokers: MIcroBiz Protek Jr: microinsurance products for MSMEs licensed by the Philippines Insurance Commission.
12. Beehive in Partnership with Mohamed Bin Rashid Fund for SMEs - (UAE): Fintech solution provider that offers Term & Working Capital Finance via crowdfunding
13. First Abu Dhabi Bank - (UAE):
14. Insurance Coverage for SMEs - eneral & Keyman Insurance for SME Business Owners to protect the business against unplanned losses
    a. Remote Cheque Deposit Services / Corporate Cheque Deposit Services - Allows the company to deposit cheques electronically to the Bank from any location for clearing
    b. FABeSign - Next Generation Digital Signature Solution - PKI based digital signature platform allows customers to digitally sign documents on the go
    c. Sustainable trade services - Initiatives to improve sustainable practices of SMEs
    d. Letter Issuance & Financial Statement Analysis - Automation of letter issuance and Bank Statement extraction and ratio analysis
    e. Extensive Payments Proposition - UAEPGS, IPI, Remote Cheque Printing
    f. Direct Debit Services - Allows billers to collect amounts due from their customers in a timely and automated manner
    g. Prepaid payroll solution: RATIBI - Payroll solution to pay the salaries of employees earn up to AED5,000
    h. FABeAccess Corporate Mobile Banking - A one stop shop for SME customers to manage their transaction banking needs at their fingertips
    i. FABePay & EIPP (Electronic Invoice Presentment & Payment) - Convenient & digitized method for depositing Cash & Cheques with enhanced narration for customers
15. Abu Dhabi Commercial Bank - (UAE):
    a. SME Digital Account Opening
    b. SmartStart Account - Dirham only Current Account proposition specially designed for micro entities

c. ProCash - Corp Online Banking - Provides convenience in initiating payments, reconciliations and managing daily liquidity position
d. CCSS - Corporate Cheque Scanning Solution - Allows to scan cheque remotely for early utilisation of funds
e. Convenient business banking accounts for micro-SMEs - Customized transactional business account proposition for micro enterprises.
f. ProTrade Solution - online trade finance platform for submitting Trade Finance related customer requests
g. ADCB Pace Pay- an innovative solution for "Micro-SME" by ADCB - app that converts merchant's smart phone into a payment acceptance terminal

16. Capital Tool Company - (Netherlands): A clearing house for business. By moving from payment to clearing for business and its financing, financial fulfilment of MSMEs (and large companies) becomes easy, has low cost and enables effective financing and insurance of companies and provision of business administration services.
17. RAKBANK – The National Bank of Ras Al Khaimah - (UAE): Apply for a Business Account digitally; Digital onboarding platform provided to SMEs.
18. Emirates Islamic Bank (P.J.S.C.) - businessONLINE – Digital Cash Management Platform - (UAE)**:** Complete comprehensive digital cash management ecosystem that gives control to SME businesses on all their financial relationships, accounts, and activities. Combined in one user-friendly platform simplifying day-to-day operations and business processes.
19. Airtm - (Mexico, Latin America): The most connected dollar account in the world. Its purpose is to connect the money of Latin Americans with the global market, eliminating borders and reducing commissions. It is an account in digital dollars in the cloud that works with an innovative technology capable of converting almost any money that is entered into digital dollars thanks to the more than 400 ways to fund and withdraw money.
20. ADCB Treasure – Financial Markets Solutions “GO TRADE” - (UAE): Online digital FX platform which client can use from anywhere using PC, Laptop or Tablet. Secure web-based platform, Live FX rates, Online execution without the need to call or email, seamless settlement of the currencies, no minimum ticket requirement, offers FX Spot and Forwards,
    online support service
21. Aseguradora Rural - (Guatemala): First index-based microinsurance strengthening resilience of most vulnerable against NatCat events

22. MyBank - (China): Advanced technologies upgrade factoring for the digital age, helping SMEs to strengthen cash flow
23. WeBank Co., Ltd. - (China): Post-pandemic Travel with a Blockchain Immunity Passport - enables cross-border health declaration mutual recognition leveraging on blockchain
24. ADIB w/External Vendor - (UAE): ADIB Direct Digital Transactional Platform - secure and centralized platform that allows to view account information
25. SimpleCredit Microlending Company Limited - (China): Industry-focused online supply chain financial services - Low-speed vehicle industry as an example
26. OLTA Inc. - (Japan): Short-term online factoring for SMEs in Japan featuring partnerships with regional banks
27. paild, Inc. (formerly known as Handii, Inc) - (Japan): paild is a cloud-based corporate card service
28. Emirates Development Bank - (UAE):
    a. Business banking app provides an unmatched digital bank account which can be opened in minutes
    b. Non-financial services platform provides free essential resources to develop businesses.
29. Bank of Indonesia: SIAPIK, Financial Transaction Recording Application for MSMEs - simple, fast, and easy financial recording system application based on Mobile and Web
30. GoPay – FinanSiap - (Indonesia):
    a. Equip tech-savvy society with financial-savvy capabilities campaign
    b. QRIS GoPay - QRIS is a unification of various kinds of QR from a different payment system service providers using one single QR Code
31. Intesa Sanpaolo International Confirming - (Italy)**:** A fully digital solution for Reverse Factoring cross countries
32. Türkiye:
    a. Receivables Recording Center (RRC) - The purpose of the RRC is to have one platform where all assigned invoices/receivables are posted by the factoring companies and banks to prevent multiple financing of the same receivables while financing mostly SMEs
    b. Trade Chain Finance System (TCFS) - TCFS is a set of technology-based business and financing processes that link the various parties in a transaction – the buyer, seller, financial institutions and banks– to lower financing costs of SMEs

c. TÜRKİYE'S INVESTMENT INITIATIVE (TII) - Türkiye's first dedicated Fund of Funds PLATFORM brings together a selected group of investors to capitalize on Türkiye's risk capital opportunities
d. Crowdfunding: Crowdfunding: In order to provide an alternative source of finance for start-ups, equity based crowdfunding was introduced in 2019 and debt based crowdfunding was introduced in 2021. Companies eligible for financing through crowdfunding include technology and production companies that have a potential for high value added production and employment. Crowdfunding provides a viable alternative to bank lending and is less costly than securities issuance, since it does not require compliance with securities legislation. Systems of the Central Securities Depository are used for transactions during crowdfunding campaigns conducted by platforms, which contributes to the security and reliability of the system. As of August 2022, 8 crowdfunding platforms have been listed by the Capital Markets Board of Türkiye, and a total of TL 79.9 million was raised through equity based crowdfunding to finance 33 projects.
e. Income Tax Exemption for Young Entrepreneurs - Income tax exemption for young entrepreneurs is regulated in Article 20bis of the Income Tax Law No. 193. Pursuant to the mentioned article, fully responsible natural persons, who have income tax
f. Tax Exemption for Tradesmen
g. Tax Incentive for Individual Participation Investors

33. OVO - (Indonesia): SOCIO-ECONOMIC IMPACT OF OVO ON MSME PARTNERS – a study on the Impact of digital payments in strengthening the resilience of Indonesian MSMEs during the pandemic
34. Inbonis – Cofides, La Banque Postale, Sepides, Entrepreneur Invest, Epopee Gestion, Audacia, Institut Valencia de Finances -(Spain, France): Credit Rating for medium-sized enterprises, with specific methodologies and processes that democratize access to these services, both in terms of price (10 to 100 times lower) and time (10 days)
35. Kabbage from American Express - (United States): innovated a data and technology platform to provide U.S. small businesses digital cash flow solutions, including funding, analytics and business checking.
36. TrustCheckr - (India): AI Digital Identity Scoring for BFSI Fraud Prevention - TrustCheckr is a Cross-industry fraud insights platform. We do AI-based social scanning to understand the sentiment of the posts in real-time, extract key fraudsters info like name, email, IP etc.

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G20/AFI PRELIMINARY REGULATORY TOOLKIT
FOR MSME ACCESS TO DIGITAL FINANCIAL SERVICES

Contents

1. Objectives and Purpose 3
Importance of financial system access for MSMEs 3
Digital Financial Services—Potential for a Leap Forward 3
Addressing the MSME financing gap 4
Purpose of the regulatory toolkit 4
2. Regulatory Aims and Principles 6
Three Main Regulatory Aims 6
Four Underlying Principles 6
3. Regulatory toolkit for enhanced digital financial inclusion of MSMEs 8
Pillar I: MSME Access to Digital Financial Services 9
Pillar II: Digitalized Credit Infrastructure 17
Pillar III: Market Efficiency 22
Pillar IV: Special Considerations for Underserved Populations 33
4. Conclusion and summary of key takeaways 37
Appendix A: Survey Data 39
Appendix B: Sources and references 56

1. Objectives and Purpose

The Importance of financial system access for MSMEs

Micro, small, and medium enterprises (MSMEs) account for over 90% of businesses and contribute more than 50% of employment worldwide.[1] However, MSMEs' growth is often constrained by a lack of access to finance, a key enabler for MSMEs to allow them to make productive investments while contributing to economic growth.[2] As a result, MSMEs often have to rely more on internal funds or cash from informal sources (families, friends, moneylenders, etc.) as they are less likely to be able to obtain bank loans than large firms.

A 2017 report from the International Finance Corporation (IFC) and SME Finance Forum found that 65 million firms, or 40% of formal MSMEs in developing countries, have a combined unmet financing need of US$ 5.2 trillion every year, and that about 50% of formal SMEs do not have access to formal credit.[3] Moreover, the financing gap is larger by another US$ 2.9 trillion per year when micro and informal enterprises are considered. As MSMEs account for a significant proportion of the global economy, their lack of access to formal financial services constrains the growth of individual MSMEs and, by extension, the overall economy's growth potential.

Digital Financial Services – Potential for a Leap Forward

Digital financial services (DFS) have been an important lever for: improving the efficiency of financial markets; broadening access to financial services; and increasing competition in the financial sector. Innovative technologies hold potential to improve MSMEs' access to finance, one of the main challenges constraining their growth. The relatively low level of external funding indicates that there is a need to strengthen and expand alternative finance mechanisms for MSMEs. Digital finance through mechanisms such as crowdfunding, P2P lending and Initial Coin Offerings (ICOs) are among the types of alternative finance mechanism which can complement the existing MSME financial landscape and help to bridge the MSME financing gap (GPFI, 2020). By leveraging big data sets and techniques, some traditional challenges such as information asymmetry can be mitigated using alternative credit scoring.

MSMEs have been slower to adopt DFS due to a variety of factors, including low levels of connectivity. Many MSMEs have also resisted formal financial services due to "a deep-seated trust deficit in providers – especially DFS providers."[4] During COVID-19, central banks and other financial regulatory and supervisory authorities implemented new initiatives to promote the use of DFS, including mobile

[1] World Bank (2022), "Small and Medium Enterprises (SMEs) Finance". Available at: https://www.worldbank.org/en/topic/smefinance

[2] Inzinerine Ekonomika-Engineering Economics (2022) Access to Finance: Challenges Faced by Micro, Small, and Medium Enterprises in India, https://inzeko.ktu.lt/index.php/EE/article/view/27998/15269#:~:text=All%20the%20life%2Dcycle%20stages,Demirguc%2DKunt%2C%202006)

[3] International Finance Corporation, "MSME finance gap - Assessment of the shortfalls and opportunities in financing micro, small and medium enterprises in emerging markets", 2017

[4] Swati Sawhney, Sai Krishna Kumaraswamy, Nisha Singh, Elizabeth Kiamba, and Alexander Sotiriou, "No Small Business: A Segmented Approach to Better Finance for Micro and Small Enterprises," [Focus Note] (Washington, D.C.: Consultative Group to Assist the Poor [CGAP], July 2022), 5.

money. A notable portion of these initiatives have included, or specifically targeted, MSMEs to support their adoption of DFS. For example, in our survey of financial regulators, almost half of the respondents mentioned that they had implemented specific provisions for DFS and other financial enablers across businesses, including MSMEs. This ongoing digital transformation can potentially increase the operating productivity of MSMEs and their access to finance.

The ecosystem of financial players has also changed, with the entry of technology players and notable partnerships between innovative FinTech firms and traditional lenders, which can considerably simplify and enhance the various critical aspects of the MSME lending process. For example, GXS Bank, backed by Grab (a listed technology firm) and Singtel (a mobile network operator), has received a full banking license in Singapore to offer MSME loans through its platform. Similarly, the Amazon Pay ecosystem in India has reached over 8.5 million offline small business owners and entrepreneurs, previously reliant on cash transactions, with its digital payments infrastructure.[5]

Addressing the MSME financing gap

Regulatory interventions to address MSME finance gaps should be informed by analysis and quantification of the MSME financing gap, defined as an under-provision of capital to MSME companies based on their performance and level of risk. While the existence of an MSME financing gap across both both G20 and non-G20 economies is well established, quantifying and monitoring it at the country level is important to be able to assess the progress made by regulatory and other interventions.

AFI's previous survey on alternative finance for MSMEs revealed that no MSME Finance working group member had produced an estimate of the funding gap, "pointing to the lack of information about the extent to which MSMEs' funding needs are not met."[6] Whilst there is no single widely accepted analytical method of determining the existence and extent of a financing gap, policymakers are advised to make a rigorous attempt to quantify it before proceeding with interventions, and to institute a consistent monitoring and evaluation ("M&E") framework. [7]

Purpose of the regulatory toolkit

AFI's SME Finance Working Group (SMEFWG) was tasked with developing this Regulatory Toolkit in cooperation with Indonesia's G20 2022 Presidency, and members and implementing partners of the Global Partnership for Financial Inclusion (GPFI), to serve as a resource for financial regulators from both G20 and non-G20 countries. The Toolkit therefore contains a broad range of potential regulatory tools suitable for jurisdictions at all levels of development.

The Toolkit's development began with an extensive review of the current regulatory and academic resources on the intersection of MSMEs and digital finance, supplemented by detailed comments and scope review from SMEFWG and G20 member institutions. These comments and the proposed areas of

[5] Livemint, "Amazon Pay reaches to over 85 lakh SMBs in India", Livemint (June 2022). Available at: https://www.livemint.com/technology/amazon-pay-reaches-to-over-85-lakh-smbs-in-india-11654769790073.html

[6] AFI, "Survey Report: Alternative Finance for MSMEs," 28.

[7] We suggest as useful references along with the ESRI publication cited above: Government of Canada, "Gaps in SME Financing: An Analytical Framework," (Ottawa: Small Business Policy Branch, Industry Canada, February 2002); and Helmut Kraemer-Eis and Frank Lang, "Guidelines for SME Access to Finance Market Assessments (GAFMA)," [EIF Working Paper 2014/22] (Luxembourg: European Investment Fund, July 2014).

inquiry informed a technical survey completed by 92 respondents representing 41 countries. Following this, structured key informant interviews were conducted with financial regulatory institutions from 12 AFI and GPFI members, in addition to a selection of financial institutions active in MSME finance in member countries.[8]

The toolkit leverages on a significant body of existing research and policy recommendations. AFI SMEFWG members have already produced substantial research on MSME access to DFS towards fully implementing the principles of the Maputo Accord and its call for expansion of equitable access to MSME finance and leveraging peer learning across the AFI network by sharing experiences to produce practical regulatory content that guides policy development and implementation. [9] A previous survey report on Alternative Finance for MSMEs[10] revealed three major challenges for MSME alternative financing: (i) lack of market awareness, (ii) lack of trust, and (iii) consequently low take-up of these products. The Network's recently adopted MSME Finance Policy Model provides high-level guidance on regulatory strategies for addressing access to finance constraints.[11] The toolkit also builds on country implementation cases, as well as the previous work of the GPFI and international organizations in this area and is designed consistent with relevant global standards.[12]

This Regulatory Toolkit is intended to provide a range of clear, relevant, and step-by-step practical policy tools which can be introduced by regulators in different stages of their policy implementation process to enhance the regulatory environment for MSMEs to access innovative digital financial services. Financial regulators should not be seen as the sole stakeholder responsible for addressing the challenges of MSME digital finance but rather a collaborator acting in concert with other public and public sector agencies as part of overall MSME development and digital transformation strategies. However, it is critical to acknowledge the need for regulators to *lead* the coordination and collaboration with other public and private sector stakeholders to address the opportunity for enhancing MSMEs' digital financial inclusion comprehensively.

[8] We thank all of those who generously gave of their valuable time and expertise in completing the survey, sitting for interviews, and contributing to the editing of drafts of this toolkit.

[9] Alliance for Financial Inclusion, "Maputo Accord: SME Finance: Path to Greater Financial Inclusion," (Kuala Lumpur: Alliance for Financial Inclusion, September 2021).

[10] Alliance for Financial Inclusion, "Survey Report: Alternative Finance for MSMEs," (Kuala Lumpur: Alliance for Financial Inclusion, 2020).

[11] Alliance for Financial Inclusion. "MSME Finance Policy Model", ," (Kuala Lumpur: Alliance for Financial Inclusion, 2021).

[12] G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women, and SMEs. 2021. saudiG20_youth_women_SME.pdf (gpfi.org); Group of Twenty Countries [G20], and Organisation for Economic Co-operation and Development [OECD], "G20/OECD High-level Principles on SME Financing," (Antalya, Turkey: OECD, November 2015).

2. Regulatory Aims and Principles

The regulatory tools and solutions presented in Section 3 of this Toolkit are based on the following three main regulatory aims and four underlying principles. The aims and principles presented below are mutually reinforcing with the overarching goal of improving MSME digital financial inclusion.

Three Main Regulatory Aims

Policymakers and regulators should consider the following policy aims and outcomes when introducing initiatives aimed at improving MSME access to digital finance.

1. **System stability and integrity:** Initiatives introduced should seek to maintain the systemic integrity and stability of the financial sector. For instance, given MSMEs loans may be viewed as riskier due to their limited credit information and lack of collateral, it is important to ensure that new regulatory tools to promote MSME financing do not increase the overall systemic risk in the financial system and that sufficient prudential standards and safeguards are present when lending to MSMEs.

2. **Economic growth and innovation:** Initiatives introduced should seek to promote MSME growth and innovation given their importance to the economy. For instance, regulations that promote digital tools such as digital financial services (DFS) can help improve MSME productivity and introduce opportunities for them to grow and expand their business. In contrast, policy initiatives that provide direct assistance to MSMEs could help level the playing field between MSMEs and larger businesses with more resources.

3. **Consumer trust and protection:** Initiatives introduced should ensure that trust and consumer protection are maintained. For instance, while it may be useful to introduce regulatory initiatives to encourage DFS uptake by MSMEs and consumers, regulators and policymakers should also ensure that users are protected and able to better manage any potential digital risks and benefits arising from the adoption of DFS. Similarly, initiatives involving collecting personal financial data should also include requirements that ensure such information is protected and secured to foster user trust.

Four Underlying Principles

Presented below are four core principles that have guided the design of this Toolkit. Policymakers and regulators should consider aligning with these when designing regulations or initiatives to improve MSME access to digital finance.

1. **Secure & Inclusive:** Regulatory approaches, frameworks, and initiatives should prioritize security at its core, as without trust, it is challenging to ensure sustained adoption of digital services and achieve meaningful digital transformation. Data, consumer protection, and cybersecurity need to be robust by design, not an afterthought. Regulators and policymakers should also ensure that regulatory approaches are fair and inclusive, with a level playing field for all businesses and consumers. This could include the consideration for a robust competition policy that is digital-first

(see next point), as well as targeted and sustained support for digital and financial literacy to ensure access to and the relevant skills to capitalize on digital opportunities, e.g., through standards and certification.

2. **Digital-first & Interoperable:** Regulatory approaches, frameworks, and initiatives should be consciously designed for the digital (and not analog) era. This is to (i) ensure the applicability of policymakers' regulatory guidance and actions considering ongoing developments, and (ii) build sustainability of approach for future advancements, to allow regulatory guidance to be incrementally introduced, keeping up with the progress of digital transformation, as opposed to drastic reactive shifts in regulatory directions. For example, policymakers could look to focus on regulating activities instead of technologies, with the latter approach running a higher risk of outdated policies. Regulatory guidance and actions should also prioritize promoting interoperability to encourage inclusiveness and efficiency, facilitate domestic and cross-border market expansion, and reduce redundancy of policies, systems, and solutions. For example, a digital-first policy roadmap that supports investment in critical infrastructure to drive digital transformation and digital economy growth should have interoperability in mind. Regulators should also encourage open access, interoperability of systems, data ownership and portability rights for clients, and unbundling of services to ensure a fair and inclusive market.

3. **Legal Clarity & Proportionality:** Regulatory approaches, frameworks, and initiatives should have clear aims and objectives so that policymakers understand how these regulatory tools should be viewed and utilized. Clear language on the aims and objectives also facilitates understanding among other private sector and civil society stakeholders, increasing chances of collaboration and support. This clarity should also be carried through into the implementation aspect of regulatory frameworks and initiatives, reducing regulatory complexity and compliance costs. Critically, the regulatory requirements imposed should be commensurate to the potential risk involved with introducing the regulatory approach, framework, or initiative.

4. **Domestically Coherent & Internationally Harmonized:** Regulatory approaches, frameworks, and initiatives should be coherent across ministries and government agencies, ensuring that there are no overlaps in regulatory mandate and authority, both on policy development and implementation. This does not mean that ministries and government agencies should work in silos; Instead, they should (i) be clear in their mandate and authority, (ii) ensure that this clarity is translated into regulatory frameworks and initiatives, and (iii) have a coordination mechanism that facilitates cross-sectoral alignment of frameworks and initiatives. This will reduce costs and increase the efficiencies of government agencies and private sector stakeholders. These domestic frameworks and initiatives should also be aligned with international best practices to facilitate market access and ensure easy scalability of initiatives, driving significant cross-border growth and benefits.

3. Regulatory toolkit for enhanced digital financial inclusion of MSMEs

Pillar I: MSME Access to Digital Financial Services

- Payment Systems and Transfers
- Digital Finance and Trade
- Sandboxes and other Innovation Enablers for MSME Finance
- Crowdfunding and other alternative financing Sources for MSMEs

Pillar II: Digitalized Credit Infrastructure

- Optimizing MSME Credit Information through digitalisation
- Credit Guarantees and Digital Financial Services
- DFS Credit Providers and Access to Collateral

Pillar III: Market Efficiency

- National roadmaps for digital transformation
- On-line Business Registration
- Digital Financial Literacy and Education
- Alternative Data

Pillar IV: Special Consideration for Underserved Populations

- Women
- Youth
- Migrants and forcibly displaced persons (FDPs)
- Rural, nomadic, and agricultural populations

Pillar I: MSME Access to Digital Financial Services

A. Payment Systems and Transfers

Digital payments, transfers of value that are made via electronic devices and transmission channels, are not new. In fact, they are foundational to the global economy. Digital channels can enhance payment efficiency and security, as well as user experience, thereby delivering significant opportunities allowing MSMEs to optimize their business operations. However, the rise of mass connectivity and pervasive encryption techniques, coupled with the reduced cost of running transfer platforms has led to an explosion in digital payments, for both online and offline goods and services.

Every MSME entrepreneur is involved in payments, both outgoing to suppliers and incoming from customers. The switch to acceptance of digital payments, including debit and credit cards, bank transfers, QR code payments, transfers of digital currencies, and any number of other app- and platform-intermediated payment methods, was slower to reach MSMEs than other larger corporates, but the prevalence of digital payments in other areas of the economy as a reflection of consumer preferences has meant that they have made substantial inroads into MSMEs, even the very smallest informal enterprises in rural areas.

The COVID-19 pandemic accelerated this transition given the desire for touchless payments and remote delivery of many previous in-person products. Although use of cash may rebound somewhat as the pandemic recedes, McKinsey research shows that the change in behavior is fairly durable, estimating that "…roughly two-thirds of the decrease [in cash usage] is permanent."[13]

Greater adoption of digital payments took place simultaneously in the consumer and MSME segments, meaning that businesses were not forced to make investments and then encourage take-up among their customers. The necessity of maintaining daily life overcame to a large extent the consumer trust barrier which was a major hurdle for digital payment adoption previously.[14] As MSMEs tend to make smaller transactions, and to have weaker banking ties, they were previously incurring higher transaction costs and thus have the most to gain from payment systems efficiency. Faster payment cycles improve the cash flow of MSMEs, which tend to lack the large working capital buffers of larger firms.

Increased adoption of digital payments has also improved digitization of MSME processes in general, which can be expected to improve overall productivity and returns on capital. Use of digital payments makes possible additional business automation and customer analysis, including loyalty programs and better marketing and retention.

Regulatory Interventions

Step 1: Systemic Oversight. The payment system is a clearly systemic function, even when spread across a number of entities (or entirely distributed, as in the case of P2P payments). The regulatory imperative here is to ensure safety and soundness of transactions, underlying personal and account data, and the integrity of the system itself. Here regulators should be particularly mindful to work in

[13] Alessio Botta, Philip Bruno, and Jeff Galvin, "The 2021 McKinsey Global Payments Report," (Chicago: McKinsey & Co, October 2021), 7.

[14] Nancy Goel and Vikas Nath, "An Exploratory Study on Digital Payment Systems and its Impact on Trust and Continuance Intention in Newly Remonetized and Digitized Era," Proceedings of the International Conference on Innovative Computing & Communications (ICICC) 2020, March 28, 2020, 2.

cooperation, as payment systems are frequently under the control of a systemic rather than a microprudential regulator where those functions are split. In the case of multiple financial institution regulators (banks, NBFIs, securities, insurance, pensions) as well as other involved industry regulators (e.g., telecom), all have an interest in a properly functioning digital payment ecosystem, and therefore should move in concert.

BOX 1: CLOSE COORDINATION BETWEEN THE CENTRAL BANK OF ESWATINI AND OTHER FINANCIAL REGULATORS

The Central Bank of Eswatini (CBE) clearly sets forth its authority to exercise regulatory and oversight powers over the national payments system. However, it does this in close cooperation with the Communications Regulator, the Financial Services Regulator (which supervises NBFIs), and the Financial Intelligence Unit. CBE has chosen to extend its licensing authority to unsupervised financial institutions which conduct digital/mobile money services, requiring application and approval of business plans as well as periodic examinations, although it has not imposed capital requirements.[15]

Step 2: Clear Legal Framework. As described above, payments are integral to transactions crossing a wide variety of financial institutions, regulatory jurisdictions, and use cases. Regulators should ensure that the legality and acceptance of digital payments is clear and consistent, ideally at the same level as cash or bank instruments. This requires addressing commercial law, data retention and documentation, Anti Money Laundering (AML) and Know Your Customer (KYC) regulations, as well as consumer protection considerations arising from new DFS models.

Step 3: Finality and Speed. The maximum systemic advantage of digital payments is attained when the legal and technical frameworks work together to assure settlement finality and speed of network updates, ideally with as close to real-time gross settlement (RTGS) as possible. As RTGS can increase settlement risk in the case of an insolvency of a member institution (versus batched systems which permit net settlement), regulators should consider whether to institute a legal regime of formal priority for settlement liabilities owed to any centralized payment system in the event of insolvency.

Step 4: Openness: Regulators should promote open access to payments systems by as many participants as possible, consistent with safety and security of the underlying network and protocols. Payment metadata should also be accessible and portable at the option of the transacting parties. Participants which are not licensed entities with prudential capital requirements should be required to post collateral or use guarantors so that any failure will not endanger the settlement of payments.

Step 5: The "India Stack" Approach for Better Access. The digital payment transition is broad but so far not all-inclusive. A risk is that, as access to cash declines, corresponding access to its digital replacement will not be equitable, with vulnerable population groups facing difficulty to navigate the transition to digital services.[16] MSMEs run by and serving these populations are already more likely to be unbanked and not deemed creditworthy, and this transition could leave them further behind without careful attention by regulators. The India Stack approach incorporates biometric digital identification, permissioned e-KYC, universal payment access, and electronic signatures and

[15] Central Bank of Eswatini, AFI Interview, June 22, 2022; National Payment and Settlement Systems Oversight Policy Framework, February 2019; Practice Note for Mobile Money Service Providers, March 2019.
[16] Committee on Payments and Market Infrastructures & The World Bank Group, "Payment aspects of financial inclusion in the fintech era," (Washington, D.C.: The World Bank, April 2020), 32.

documents, all accessible through open APIs.[17] This approach can provide a robust framework for broad financial inclusion which can be used both on- and off-line and thus reaches areas with low data coverage and users who may not have their own devices. The Reserve Bank of India has worked to leverage the growing India Stack platform via supporting regulations and targeted sandboxes and regulatory challenges.[18]

Step 6: Interoperability. Payment processing is a platform-type good with increasing returns to scale. Because it touches so many different parts of the financial industry, and is fundamentally systemic, the core specifications, protocols, and data types should be defined by an open consortium and maintained on a public utility model. Broad participation by different financial institutions, businesses, and consumers should be conditioned upon the acceptance of interoperability and standards for quality, risk, security, and data protection.

BOX 2: INDIA'S UNIFIED PAYMENTS INTERFACE

In 2016, India introduced the Unified Payments Interface (UPI), an instant retail payment system that facilitates interbank persons-to-persons and persons-to-merchant, aiming to advance financial inclusion efforts. The system allows individuals and businesses of all sizes, including street vendors and small traders, to make and receive payments for goods and services through a digital wallet, which could be used even without a bank account. In addition, the lack of fixed transaction costs to the user and tariffs to use the system further helped encourage participation in the system.

UPI is part of the India Stack, a moniker for a set of open APIs and digital public goods that aim to unlock the economic opportunities of identity, data, and payments at scale. The two other 'layers' of the India Stack are the development and launch of a national biometric digital identity system, Aadhaar, and the ongoing work of establishing a new model for data governance in India, including creating a secured consent-base data sharing framework to accelerate financial inclusion.[19]

B. Digital Finance and Trade

Trade finance is an important source of finance for MSMEs. A World Bank study found that 59% of firms in sub-Saharan Africa use material foreign inputs and supplies.[20] The African Development Bank (AfDB) likewise found that 75% of MSMEs in Kenya and Tanzania participate in international trade as importers, exporters, or both.[21] Trade credit is also one of the major sources of finance for MSMEs which is not reliant on property collateral, and so particularly important in terms of working capital. Women-owned MSMEs are more likely to be turned down for trade credit lines, more likely to have credit rationed, and more likely to be discouraged from applying for finance in the first place.

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[17] Yan Carrière-Swallow, Vikram Haksar, and Manasa Patnam, "Stacking Up Financial Inclusion Gains in India," July 2021. https://www.imf.org/external/pubs/ft/fandd/2021/07/india-stack-financial-access-and-digital-inclusion.htm.

[18] Reserve Bank of India, AFI Supplemental Survey Response, September 20, 2022.

[19] https://indiastack.org/open-networks.html
https://www.forbesindia.com/article/isbinsight/how-credit-cardlinked-upi-is-a-step-toward-better-financial-inclusion/77655/1
https://www.imf.org/external/pubs/ft/fandd/2021/07/india-stack-financial-access-and-digital-inclusion.htm

[20] World Bank Enterprise Surveys (http://www.enterprisesurveys.org).

[21] Eugene Bempong Nyantakyi, Ousman Gajigo, Francis H. Kemeze, and Lamin Modou Drammeh, "Trade Finance Demand and Supply in Africa: Evidence from Kenya and Tanzania," (Abidjan: African Development Bank, May 2022), 11.

There is significant opportunity to improve trade finance with the integration of digital financial tools because of the high documentation requirements and cost of data interchange versus traditional lending. Operating costs of trade transactions are high due to the need to interchange documents with numerous parties, including trade counterparties, shippers, customs bodies, and insurers among others, not just the bilateral relationship between lender and borrower. Coordination costs are thus high, and a fixed cost floor for document receipt and review means that smaller transactions may not be economically viable at all.

The use of digital document interchange and retention offers potential to reduce costs and increase transaction speed. In addition, use of automated document inspection and matching and smart contracts offers additional scope for cost reduction and process improvement.

Regulatory Interventions

Step 1: Promote digitization of information, documents, and workflows. Regulators should waive the need for "wet-ink" signatures on loan and other documents in favour of electronic signatures and/or scanned copies wherever possible, and across both industry platforms and government departments. Banks can be advised to accept email certifications in lieu of signed documents, either alone or in conjunction with authenticated SWIFT messages for transactions. Regulators may wish to promote best practices for confirmation of these transactions, such as call-backs. On a longer-term basis regulators can encourage adoption of the United Nations Commission on International Trade Law's Model Law on Electronic Transferable Records as a comprehensive and interoperable solution to outdated documentation requirements.[22]

Because trade finance is typically a multi-party affair, it is most effective for the regulatory authorities to mandate acceptance of electronic documents by all parties rather than simply permitting them. Other government agencies involved in trade can help by supporting electronic documents and email certifications—for example, the US, EU, India and countries are now accepting electronic phytosanitary certificates and other electronic customs document submissions.

Experience of these measures as temporary COVID-19 pandemic-related workarounds in India,[23] Algeria,[24] and other markets has been positive and has shown that the transition can be managed quickly and effectively.

BOX 3 SINGAPORE'S USE OF DIGITAL SIGNATURES

In an effort to further enable cross-border trade transactions, Singapore has mobilized a whole-of-Government team (including the Monetary Authority of Singapore, MoF, Ministry of Trade and Industry, Customs, and tax agencies) to create TradeTrust, a public blockchain utility for digitally

[22] UNCITRAL Model Law on Electronic Transferable Records (2017) | United Nations Commission On International Trade Law

[23] The Securities and Exchange Board of India enabled the usage of electronic signatures in April 2020 for KYC purposes. See: Securities and Exchange Board of India, "Clarification on Know Your Client (KYC) Process and Use of Technology for KYC," [Circular No.: SEBI/HO/MIRSD/DOP/CIR/P/2020/73] April 24, 2020. https://www.sebi.gov.in/legal/circulars/apr-2020/clarification-on-know-your-client-kyc-process-and-use-of-technology-for-kyc_46565.html, accessed July 11, 2022.

[24] Bank of Algeria allowed all banks to receive documents relating to import and financing transactions by electronic means if supported by a confirmation SWIFT message from the bank sending the documents. These documents received electronically can be used to complete all banking and customs formalities. See: KPMG, "Algeria—Government and institution measures in response to COVID-19," August 14, 2020. https://home.kpmg/xx/en/home/insights/2020/04/algeria-government-and-institution-measures-in-response-to-covid.html, accessed July 11, 2022.

signed, MLETR-compliant trade documents with legal validity. This effort included amendments to the Electronic Transactions Act (ETA), and consequential and related amendments to the Bills of Lading Act and the Contracts (Rights of Third Parties) Act in order to allow the creation and use of electronic Bills of Lading (eBLs) that are legally equivalent to paper-based Bills of Lading.

TradeTrust provides legal and data standard frameworks and open-source code that can be integrated with other DLT platforms and traditional centralized data systems and invites participation from financial institutions, logistics and shipping providers, and other governments and regulators.

Step 2: Enabling digitalised Non-Bank Financial Institutions (NBFIs) to Offer Trade Financing. Offering NBFIs the license to make trade finance and other similar MSME loans not extended on traditional collateral (not funded by regulated deposits) may expand access to capital at MSMEs who are poorly served by traditional banks. These NBFIs include fintech companies, specialized leasing entities, factoring and other supply-chain finance companies, and other monoline financial service providers which are especially driven by the efficiencies and speed of DFS. Regulators may consider offering a low-cost specialized NBFI license to finance companies which would seek to offer such services, along the lines of the specialized microfinance institution (MFI) charters extant in many countries.

C. Sandboxes and other Innovation Enablers for MSME Finance

The fast-moving nature of DFS coupled with the more deliberate pace of legislation, regulation, and prudential standards guidance has led many global regulators to implement so-called "regulatory sandboxes" or other enablers in order to facilitate innovation while maintaining overall regulatory control over the financial system.

Regulatory sandboxes are controlled environments used for testing or piloting of new financial products or models—especially in the DFS realm—on a time-limited basis. Typically these are new activities for which no existing rules exist, or for which existing rules are considered to be outdated or overly restrictive. Allowing limited scale or time-bound trials allow both financial institutions and regulators to learn about and explore these abilities and the market and regulatory implications together, before implementing final rules which might otherwise be premature. Sandboxes are now active in over 60 countries.[25]

In addition to sandboxes, innovation enablers include Innovation Hubs or Offices and Regulatory Accelerators.[26] Innovation Hubs provide a centralized point of contact and outreach for firms which may be considering market entry, in order to demystify the licensing and supervisory process and allow iterative development of business plans in consultation with regulatory staff. Unlike sandboxes, they do not involve waiving or modifying any existing rules or licensing conditions, but are simply a means of providing customized information and feedback to technology firms which may not be experienced with the regulatory environment.

[25] Ivo Jeník and Schan Duff, "How to Build a Regulatory Sandbox: A Practical Guide for Policy Makers," [CGAP Technical Guide] (Washington DC: Consultative Group to Assist the Poor, 2020), 2.
[26] World Bank Group, "How Regulators Respond to Fintech: Evaluating the Different Approaches—Sandboxes and Beyond," [Fintech Note no. 5] (Washington, D.C.: The World Bank, 2020), 14.

Regulatory Accelerators provide a means for active joint ventures between regulators who have identified a specific deficiency or desired practice in the market, and (traditional or non-traditional) firms which can identify technology-based solutions to address them. In this model the regulator will contribute some analysis of the problem and market, along with a desired use case, and invite providers to work collaboratively with regulatory staff to develop proof-of-concept models and products which address the market issue. Any active use of implementation of such products must proceed via the normal licensing channels, or through a sandbox process.

Sandboxes have the potential to reduce the cost of testing innovative products by both fintech players and regulators. This is especially critical in underserved markets such as MSME finance, where the economics tend to be marginal to begin with, as both speed to market and the ability to reduce costs in a high-touch segment, can be critical in deepening engagement with the sector.

Regulatory Interventions

Step 1: Narrowly Defined Objectives. Regulators seeking to use sandboxes for MSME financial deepening should have a clear view of the purpose and the specific regulatory or innovation barriers to be addressed. If the aim is simply generalized innovation or to keep watch over developments in the marketplace, an innovation hub or one-stop coordination and information office may be a lower-cost way to achieve this goal, while gathering knowledge which can be used to implement a sandbox at a later time.

Step 2: Multiple Sandboxes. Regulators should not establish a single over-arching sandbox aimed at addressing multiple disparate areas, or one which is an open invitation for any kind of new financial technology which may seek to enter the market on easy terms. Rather, multiple independent sandbox programs can be implemented to deal with discrete issues, such as e-KYC or the use of alternative data sets in credit scoring. Each one of these programs can have its own rules, participants, and lifespan.

Step 3: Define Eligible Participants. Careful thought should be given to eligibility criteria for participating in each regulatory sandbox—and the criteria may well vary depending on the issue to be addressed. Regulators may wish to consider only opening sandbox programs to entities which are already licensed and regulated by them in the jurisdiction, in order to ensure that appropriate oversight and corrective sanctions, if necessary, can take place. Alternatively, sandboxes in some cases may be open only to new players if the desire is to increase competition, with a possible requirement to become licensed at some point in time if the trial is deemed by both sides to be successful.

Step 4: Set Limits. Admission to a sandbox should not be taken as an invitation to expand activities in limitless or reckless fashion. Sandbox admission should be accompanied by clear limits on the number of clients to be on-boarded, transactions to be processed, or other useful metrics, before a review is conducted—which might result in a further expanded stage of testing, a change in policy or regulation, or the closure of the activity, depending on the results.

Step 5: Leverage Cross-border and Cross-regulator Efforts. Regulators should seek where useful to join together in thematic sandboxes in order to share information and experiences, as well as (in smaller countries) to create larger potential markets to attract additional competition. In the MSME domain, we highlight trade finance and import/export supply-chain financing, as well as associated cross-border payments and KYC/AML as areas where sandbox cooperation or joint initiatives can be particularly useful.

Step 6: Education. Because sandboxes may suspend or attenuate traditional consumer protection regulations, and because they by definition involve novel products, business models, and/or delivery mechanisms, such trials involve substantial additional risk of financial harm to participating clients. Therefore, great attention should be paid to disclosures made prior to the trial, appropriate educational materials being made available to those considering participation, and to the evaluation during sandbox trials of suitability and appropriateness of DFS given the observed levels of financial literacy of participants.

Step 7: Tiered Licensing Regimes. If appropriate given the responses above, consider amending the licensing regimes for banking, leasing, payment services, and other DFS models to create special categories for institutions (either for-profit or cooperative/community-based) which are based in or serve primarily underserved markets. These classes of institutions should have low capital requirements and simplified operating needs. Many regulators have done this effectively in the traditional lending space with microfinance institutions and/or credit cooperatives, but less so with NBFIs and DFS providers. Where such institutions exist, helping them to digitize and link to larger DFS platforms, as the Central Bank of Egypt has done with traditional gamey'a savings cooperatives, can be a useful and low-cost intervention. [27]

D. Crowdfunding and other alternative finance sources for MSMEs

Regulatory approaches to addressing the MSME credit gap via DFS tend to focus primarily on financial institutions and lending—for good reason given their outsized importance as financing sources. However, it is useful when devising a complete plan for digital financial inclusion to consider sources of equity for MSMEs such as crowdfunding, SME investment funds, and relaxed exchange listing standards for smaller companies, as well as non-FI intermediated debt sources such as peer-to peer (P2P) lending.

Crowdfunding is a digitally mediated version of traditional friends-and-family pooled business investment structures, with the added benefit that use of the internet permits greater scale and the involvement of non-local investors including the diaspora community. Crowdfunding typically provides equity, which can be difficult for entrepreneurs to obtain through other channels, and which can then catalyze debt funding. Crowdfunding has been shown to have positive effects on business performance which extend beyond the provision of capital: in East Africa "crowdfunding was shown to increase the outward visibility and transparency of a company, which in turn increases its perceived trustworthiness with customers, investors and partners," even when the entrepreneur's funding goal was not achieved.[28]

P2P lending is a variant of crowdfunding focused on debt rather than equity. In both cases regulators should carefully consider the needs of MSMEs as well as the need to balance protection for what may be relatively small and unsophisticated investors.

Larger MSMEs can also be served by special relaxed regulatory rules for equity or debt funds investing specifically in MSMEs, or for local stock exchange listings for smaller emerging companies.

[27] Alliance for Financial Inclusion [AFI; Financial Inclusion Strategy Peer Learning Group], "Enhancing Financial Inclusion in Rural Areas," [Guideline Note no. 50] (Kuala Lumpur: Alliance for Financial Inclusion, May 2022), 11.
[28] Samuel Raymond, "Crowdfunding in emerging markets: lessons from East African startups," [infoDev Working Paper no. 103279] (Washington, D.C.: The World Bank, February 2016), 14.

Regulatory Interventions

Step 1: Develop a regulatory framework for crowdfunding and peer-to peer lending. Policies and the regulatory regime should allow external fundraising from sources other than FSPs for MSMEs and other businesses. Digital technology and the internet can be used for crowdfunding and P2P lending. Ensure clear and enforceable supervisory and regulatory regimes to prevent crowdfunding platforms or any borrowings from being misused by the providers or MSMEs. Policies supporting stakeholder collaborations must enhance the effectiveness and efficiency of crowdfunding and P2P lending in the jurisdiction and encourage potential sourcing of external funding outside the jurisdiction.

Step 2: Ensure that policies are developed to mitigate any potential and emerging risks of crowdfunding. Effective risk mitigation measures that deal with potential or emerging risks from crowdfunding and P2P lending will build trust in the market and the sustainability of this alternative credit mechanism. Policies to monitor risk and regulatory gap analysis will enable the market to remain up-to-date with any changes in the risk profiles of new technologies, products, and services.

Step 3: Ensure appropriate regulation for market stability and consumer protection. A robust and proportionate regulatory regime for technology-based alternative credit mechanisms (crowdfunding and P2P lending) is important as there is the potential for domestic MSMEs to access international sources of funding. Without appropriate risk measures, this may cause market shocks impairing financial stability and effective market conduct. Policies that encourage domestic and international collaboration among regulators will enhance risk mitigation in this technology-based alternative credit mechanism.

Step 4: Consider specific sandbox or innovation hub challenges for crowdfunding and P2P issues to facilitate regulator-innovator engagement and learning. The development of innovation hubs and regulatory sandboxes that test a wide range of technologies and innovations will enhance domestic adoption, implementation and regulation of technology-based alternative credit mechanisms such as crowdfunding and P2P lending. The UK was the first to use this concept to enable crowdfunding.[29]

Step 5: Provide tax and registration incentives for funds targeting MSME investment. Where possible, regulators can provide incentives for private equity or lending funds which are dedicated only to investment in and support of MSMEs, via reduced registration and/or capital requirements, exemption from or reduced rates of taxation on gains, and/or matching funds or guarantees.

Step 6: Reduce listing requirements for smaller companies. Local stock exchange regulators may have in place standards which are difficult for small and fast-growing businesses to meet. These include minimum asset size or profit levels, extended business track records, onerous reporting and disclosure requirements, and the like. Where consistent with investor and market protection, regulators can consider streamlining these rules for all companies, or alternatively creating a second board for smaller companies only, with reduced requirements and possibly access limited to professional investors only. Small company boards can work in conjunction with crowdfunding platforms to facilitate secondary market trading.

[29] infoDev [Trade and Competitiveness Global Practice], "Crowdfunding's Potential in The Caribbean: A Preliminary Assessment," (Washington, D.C.: The World Bank, 2017), 80.

Pillar II: Digitalised Credit Infrastructure

A. Optimising MSME Credit Information Through Digitalisation

Poor information quality relating to MSMEs is a persistently identified issue which inhibits financial inclusion and access to credit. In the absence of robust credit information, MSMEs will always be at a disadvantage due to their tendency to have less available collateral, lack of audited financial statements, and shorter trading histories, along with typically smaller loan sizes which make the fixed cost of obtaining credit information more expensive. AFI's Alternative Finance for MSMEs (2020) highlighted that some of the key barriers for MSME alternative financing are information asymmetry (47.7% of MSMEs mentioned) and lack of track record (75%).[30] Even where credit information exists, coverage of MSMEs is typically much lower than that of larger corporates: as low as 5.8% coverage in Sub-Saharan Africa, for example.[31] This under provision of credit data and the resulting information asymmetries between MSMEs and prospective lenders is a key cause of the financing gap.[32]

Research shows that improved credit information registries are particularly effective at increasing credit in less-developed countries.[33] For this reason the G20 Action Plan on SME Financing highlights improvement of the credit reporting framework for SMEs as its first priority reform measure.[34] Mandatory reporting of positive and negative data of as many types as possible increases effectiveness and usage.

Regulatory Interventions

Step 1: Promote Proper Usage of Alternative Data. Data collection and access should be extended to as many alternative sources and channels as possible, including utilities and telecoms, payment systems providers, trade creditors and leasing companies, and the like. These sources of relevant information are frequently excluded from credit information schemes, despite their importance as sources of useful data relating to MSME behaviour. In this light it is worthy of regulatory attention to promote proper usage of alternative data so that creditworthy but underserved MSMEs can attract new investment.

Step 2: API Access. Open API access lowers costs of credit scoring and permits faster credit decisions and automated lending channels. Access by verified institutions and lenders to the credit bureau's information system should be made as open and automated as possible, subject to appropriate controls on data security and use of personal information. This will enable real-time checking of credit data and automated scoring, making novel digital financial products such as instant loan approvals possible.

Step 3: Supervision and Oversight of Credit Data Usage. Regulators should maintain supervision authority over not only any credit bureau itself, but also over the use of credit data and internal scoring algorithms by financial institutions. However, automated scoring mechanisms is possible to replicate and perpetuate bias due to data set skews or biased algorithm construction. In the case of

[30] https://www.afi-global.org/wp-content/uploads/2021/01/AFI_MSMEs_survey-report_AW_digital_0.pdf
[31] Michael Turner, "Credit Data Gaps Exist, But They Can be Filled," [SME Finance Forum] https://www.smefinanceforum.org/post/credit-data-gaps-exist-but-they-can-be-filled, accessed June 30, 2022.
[32] International Committee on Credit Reporting, "Facilitating SME Financing Through Improved Credit Reporting," (Washington, D.C.: The World Bank, May 2014), 6.
[33] Simeon Djankov, Caralee McLiesh, and Andrei Shleifer, "Private Credit in 129 Countries," [NBER Working paper no. 11078] (Cambridge, MA: National Bureau of Economic Research, June 2006), 6.
[34] Group of Twenty Countries [G20], "G20 Action Plan on SME Financing—Implementation Framework: Credit Infrastructure Country Self-Assessment," (G20, July 2016), 3.

machine-learning models popular with fintech companies, it may be difficult to spot algorithmic bias ex-ante due to the inability of developers to explain exactly how the scoring model is developed; therefore, close attention must be paid to outcomes and different measures of fairness. Regulated financial institutions that use internal credit scoring models should be required to periodically validate them not only for efficacy but also for unwarranted bias against underserved populations, as of the periodic regulatory examination process. If necessary, the regulator should have the clear authority to conduct its own inspection of the scoring model and inputs and outputs used in order to determine whether there is algorithmic bias.

B. Credit Guarantees and Digital Financial Services

Credit guarantee schemes (CGS) for SMEs are overwhelmingly bank-based and intermediated, excluding non-traditional types of institutions such as fintech lenders and supply-chain finance providers, which tend to be NBFIs, MFIs, or even unlicensed lenders. Note that this emphasis skews guarantee schemes away from women, youth, the disabled, and migrant communities which tend to have weaker relationships with commercial banks.

It also mitigates against the effective use of credit guarantees in DFS, given that the processes are laborious and traditionally paper-based as well as processed via banks. This has led to credit guarantees going disproportionately to the largest SMEs, to SMEs with collateral, and to SMEs which are already recipients of bank loans.[35] Digitization and automated scoring of CGS can aid not only in speeding approvals (and thus enhancing the counter-cyclicality of guarantee schemes during downturns) but can broaden access to DFS providers who seek a completely digital underwriting process.

Although there is limited empirical evidence from trials of CGS digitization throughout a full credit cycle, a number of COVID-era schemes have embraced fast-track processes and reduced documentation requirements, including in some cases automated underwriting.[36]

Regulatory Interventions

Step 1: Properly designed guarantee programs. Guarantee programs should be open to all lenders, both banks and NBFIs/fintechs, which serve the MSME community and can meet appropriate prudential and operating standards. An ADB evaluation of credit guarantee schemes found that they had limited ability to assess the business models and creditworthiness of non-traditional companies, and hence fell back on collateral and financial statements. This prevents the capabilities and assets of knowledge-based companies from being properly evaluated.[37] The heavy involvement of financial regulators in guarantee schemes gives them influence in reimagining the design of credit guarantee schemes along these lines.

[35] See, for example: Le Ngoc Dang and Anh Tu Chuc, "Challenges in Implementing the Credit Guarantee Scheme for Small and Medium-Sized Enterprises: The Case of Viet Nam," [Asian Development Bank Institute Working Paper no. 941] (Tokyo: Asian Development Bank Institute, April 2019).
[36] European Association of Guarantee Institutions [AECM], "SME Support in the COVID Crisis: The Role of Guarantee Institutions," (Brussels: European Association of Guarantee Institutions, February 2021), 6.
[37] Roohollah Aboojafari, Alireza Daliri, Farhad Taghizadeh-Hesary, Mohammad Mokhtari, and Mohsen Ekhtiari, "The Role of Credit Guarantee Schemes in the Development of Small and Medium-Sized Enterprises with an Emphasis on Knowledge-Based Enterprises," [Asian Development Bank Institute Working Paper no. 930] (Tokyo: Asian Development Bank Institute, 2019), 18.

Step 2: Credit Guarantee Substitute for Collateral. An Effective credit guarantee programs should focus on making certain that the guarantee is used as a substitute for collateral and a true credit enabler, rather than a secondary credit enhancement in addition to collateral. Opening up credit guarantee schemes to DFS providers with more experience in automated underwriting and the use of alternative data sets can help expand the addressable universe of MSMEs reached by credit guarantees beyond those with immovable collateral.

C. DFS Credit Providers' Access to Collateral

Digital financial lenders, with access to alternative credit data and other innovative fintech funding models such as crowdfunding and receivables finance, may in time reduce reliance on collateralized lending. Nevertheless, for the time being, it remains the predominant source of financial institution funding for businesses, with the World Bank Enterprise Survey finding that collateral was required in over 75% of all loans, and this requirement increasing in lesser-developed markets.[38]

Principles underlying collateral registries are particularly critical in the area of MSME access to finance and DFS since:

- DFS credit providers are less likely to be secured by real estate, and more likely to be physically remote from the borrower. Therefore, they are more reliant on their ability to establish claims over movable collateral, and less likely to be able to see it in person; and
- DFS business models frequently have lower spreads and therefore rely on volume of origination, and hence speed of underwriting. The need for individual manual assessment of collateral and in-person registration of liens is costly and not compatible with automated credit decision-making.

Therefore, even more so than that with traditional finance, DFS relies on consistency, accessibility, and predictability of information, registration, and access to collateral.

Regulatory Interventions

Step 1: Institute a Registry for Collateral. If a registry for movable collateral and associated security interests therein does not exist, it should be a high regulatory priority to form or promote the formation of one as soon as possible. In doing so consideration should be given to any existing technical infrastructure which could be leveraged to add such a registry, such as existing credit bureaus, land registries, or corporate registries. Using an existing service has the advantage of a built-in user base, and can help minimize confusion among different naming or identification schemes for entities covered.

Step 2: Universal and Digital Accessibility. Both registration of security interests and checking of existing interests should be available to any registered user (not just banks) for a minor fee, and the registry should be both available on-line and able to be queried automatically via an API layer or other automated feed system. IFC data shows that using an online database can lead to a dramatic increase in the number of registrations.[39] Universal access which can be integrated with existing credit and

[38] Inessa Love, María Soledad Martínez Pería, and Sandeep Singh, "Collateral Registries for Movable Assets: Does Their Introduction Spur Firms' Access to Bank Finance?," [World Bank Policy Research Working Paper no. 6477] (Washington, D.C.: The World Bank, June 2013), 2.

[39] Alejandro Alvarez de la Campa, Santiago Croci Downes, and Betina Tirelli Hennig, "Making Security Interests Public: Registration Mechanisms in 35 Jurisdictions," (Washington, D.C.: International Finance Corporation, 2012), 11.

approval systems will aid in the development of fintech-enabled lending by both incumbent financial institutions and new types of digital lenders. As MSME lending tends to have high fixed costs, any improvement that reduces this barrier will not only lower total costs of funding for clients, but in many cases will make new types of loans viable which were not previously economic at any market-clearing price.

Step 3: Easy Notice Registration. There are two types of security interest registration: notice and document. Document registration requires provision and recording of the actual agreement between borrower and lender and sometimes other documentation regarding the specific collateral and the entities involved. Notice registration does not require documents to be registered (except when attempting to enforce the security interest in a court proceeding), just sufficient information to alert a potential creditor or buyer of a claimed security interest in the asset described in the notice.

Jurisdictions requiring additional documentation may also require use of notaries, certified copies of the original agreements, and/or personal appearances for filing by either or both of the parties. These systems create additional cost and time barriers which are material to MSME owners. In addition, the barriers are most severe for rural entrepreneurs, who may live far away from the nearest filing centers, and for disabled business owners, who may face additional difficulties in appearing in person for filings.

An additional consideration is that document-based registration systems frequently have a temporal gap between the filing of paperwork regarding a security interest and the entry and reflection of that interest in the system. Such a gap creates an opportunity for unscrupulous borrowers to quickly pledge the same asset to multiple lenders before the first security interest is updated and can be seen. That this possibility exists will cause lenders—especially DFS providers who would like to make instantaneous or automated credit decisions and can not wait for information to be updated—to be wary of relying on a registration system, knowing that it may be outdated and that there may be a prior (and therefore superior) lien wending its way through the system. Any such uncertainty will lower the amount of credit provided.

For all these reasons, IFC experts note that: "A notice [rather than document] registration system is considered ideal for registration of security over movable assets."[40]

Step 4: Open to all. Collateral registry data should be accessible to the public via the internet and potentially through registry staff for those who may not be on-line. Registry searches should be encouraged and should be free or extremely low-cost, with the cost of maintaining the system paid for either by filings or as a public service. Searching the registry should require minimal registration information and should be instantaneously available without verification beyond the users email address or phone contact, as opposed to filing a security interest which may require additional contact information.

Keeping searches free and easy to initiate incentivizes potential lenders to search proactively. IFC notes an "interesting aspect regarding the number of searches is the ratio of the number of searches to the number of new registrations. Where there is rough parity in those numbers, it is an indication that users value the registry as a risk management and prudent lending tool to assure priority. It means they are searching before making lending decisions and registering. Where the ratio is low, it is an indication that users register only because it is part of a process. They do not search before making

[40] *Ibid.*, 7.

decisions and take more risks than creditors that use the search function as a prudent lending technique."[41]

Data should be searchable by debtor name, unique debtor ID number (such as corporate registry number or tax ID), or by a serial number if looking for collateral which bear the same.

[41] *Ibid.*, 16.

Pillar III: Market Efficiency

A1: National roadmaps for digital transformation

National roadmaps for digital transformation can set out the challenges, including infrastructure, financing, and skilling challenges, faced by economies in achieving digital transformation and the corresponding strategies to address these challenges. Such roadmaps are useful in aligning public and private institutions on the overall direction of digital transformation and can be a precursor to more detailed strategies dealing with specific areas such as MSME digital adoption or fintech adoption. Importantly, by providing clear signals on the direction of digital transformation, a digital transformation roadmap can help to guide policymakers in creating the policy environment necessary to foster digital transformation and focus the direction of private sector interest and investment into relevant digital infrastructure, including infrastructure to support DFS.

BOX 4 KENYA'S DIGITAL ECONOMY BLUEPRINT

Kenya's Digital Economy Blueprint that sets out the key strategic directions for Kenya in its pursuit of a digital economy. The Blueprint sets out five pillars of focus including digital government, digital business, infrastructure, innovation-driven entrepreneurship, as well as digital skills and values. Specific to MSMEs, the Blueprint sets out plans to enable new business models for MSMEs through digitalisation, including through a 'Digitisation Campaign for SMEs' that will provide support to MSMEs to adopt digital solutions amongst other initiatives.[42]

A2: Programs to support MSMEs in adopting digital tools

In both developed and developing countries, MSMEs lag large corporations in digital adoption. This is attributed to a lack of knowledge of digital needs and a lack of resources to adopt relevant tools. As such targeted policies to guide the digital transformation of MSMEs are critical to ensure that they can harness the benefits of digital transformation and DFS. Policymakers can take reference from MSME support programs in Singapore and Australia (see Box 1).

BOX 5: HELPING MSMES GO DIGITAL IN SINGAPORE AND AUSTRALIA

In Singapore, the SMEs Go Digital program supports MSMEs in using digital technologies and building stronger digital capabilities. Various forms of support are available under the program to help firms understand their digital needs and enable them to meet these needs. One example is the Industry Digital Plans that have been created to guide firms in adopting 4IR technologies, particularly MSMEs. The plans provide clear guidance on the industry-specific digital tools that firms can adopt at different stages of growth. Diagnostic tools are available for firms to gauge their readiness to adopt various digital tools.[43] Other tools complement the Industry Digital Plans under the SMEs Go Digital program. The Productivity Solutions Grant (PSG) supports firms keen on adopting IT solutions and equipment to enhance business processes by subsidizing the cost of adopting a suite of MSME-friendly approved solutions, including solutions to help businesses build and operate an e-commerce

[42] Government of Kenya (2019), "Digital Economy Blueprint: Powering Kenya's Transformation." Available at: https://www.ict.go.ke/wp-content/uploads/2019/05/Kenya-Digital-Economy-2019.pdf

[43] IMDA. Industry Digital Plans.https://www.imda.gov.sg/programme-listing/smes-go-digital/industry-digital-plans

presence.[44] The SME Digital Tech Hub provides expert advice to MSMEs on how they can transform their businesses using digital technologies.[45]

In Australia, the Digital Solutions – Australian Small Business Advisory Services program provides independent advice to Australian small businesses to help them build their digital capabilities. The first interaction with the service is free. After that, small businesses with fewer than 20 full-time employees and sole traders can access consultancy services at a subsidized rate of AUD 44 for seven hours of support. Specific advice is offered in areas such as how digital tools can help the business, e-commerce, social media and digital marketing, cybersecurity, and data privacy.[46]

A3: Programs to strengthen the capacity of MSMEs for digital transformation

In both developing and developed countries, MSMEs are likely to face challenges in hiring and training workers adept at using digital tools compared to large corporations with better economies of scale and more resources. Therefore, incentive schemes to encourage MSMEs to provide training to workers could contribute to building a digital-ready workforce better able to leverage the benefits of digital tools and DFS while reducing the number of workers made obsolete by digital transformation in the long-run.

For instance, in Singapore, the Enhanced Training Support for SMEs program provides funding for up to 90% of course fees when MSMEs send their employees to attend training courses. In addition, to ensure that employers are not deterred by the loss of the workforce when employees undergo training, the program also offers absentee payroll funding to cover up to 80% of the worker's salary during the training period.[47] Eligible training courses include courses to understand digital finance innovations and developments in the fintech space. Such courses ensure that MSME workers are equipped with the necessary digital tools for DFS adoption. Similarly, in Japan, the "Jinzai Kaihatsu Shien Joseikin" ("Subsidy to Support Human Resource Development") program subsidizes firms for their reimbursement of employees' wages during training, with the amount of subsidy being tailored to the type of training and size of the firm.[48]

A4: Collaborative frameworks or partnerships with digital platforms

Compared to large corporates, MSMEs lack economies of scale to develop their unique digital platforms or tools and are often reliant on digital platforms as their primary digital service providers. This could include e-commerce platforms for goods such as Amazon, service platforms such as Food Panda, and providers of broader digital tools to increase productivity such as Microsoft or Amazon Web Services.

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[44] Enterprise Singapore. Productivity Solutions Grant. https://www.enterprisesg.gov.sg/financial-assistance/grants/for-local-companies/productivity-solutions-grant

[45] IMDA. SMEs Go Digital. https://www.imda.gov.sg/programme-listing/smes-go-digital

[46] Business.gov.au. Digital Solutions - Australian Small Business Advisory Services. https://business.gov.au/expertise-and-advice/digital-solutions-australian-small-business-advisory-services

[47] Skills Future Singapore. Enhanced Training Support for SMEs. https://www.ssg.gov.sg/programmes-and-initiatives/training/enhanced-training-support-for-smes.html

[48] OECD (2018). Getting skills right: future-ready adult learning systems. https://read.oecd-ilibrary.org/education/getting-skills-right-future-ready-adult-learning-systems_9789264311756-en#page1

These platforms are familiar with the needs and challenges faced by MSMEs and could be useful partners to collaborate with policymakers to address these needs. For instance, governments could work with these platforms to increase digital adoption and promote secure B2C or B2B payment ecosystems that would help MSMEs to transact securely in the digital space. For example, in the Philippines, Grab – a regional ridesharing and food delivery platform – worked with the Department of Agriculture for the eKadiwa Program as well as with the Department of Tourism for the Philippine Harvest Initiative. Both initiatives aim to connect farmers and other rural agri-entrepreneurs with consumers. Grab is also an active supporter of the Department of Trade and Industry's MSME Reboot Program, which aims to provide digitalization support and solutions for MSMEs, especially during the pandemic.[49]

Regulatory Interventions

Step 1: Review the national landscape and develop a digital economy roadmap. The first step is to identify issues that limit strong digital connectivity and access to digital services as well as potential solutions. National roadmaps for digital transformation can set out the challenges, including infrastructure, financing, and skilling challenges, faced by economies in achieving digital transformation and the corresponding strategies to address these challenges. Such roadmaps can be a precursor to more detailed strategies dealing with specific areas such as MSME digital adoption or leveraging the benefits of technology for financial inclusion.

Step 2a: Identify the specific issues faced by MSMEs. After the broader strategies to strengthen digital connectivity and access to digital services at the national level have been considered and established, the next step is to identify the specific issues faced by MSMEs. These could include a lack of knowledge of digital needs, a lack of resources to adopt relevant tools or a lack of skilled manpower. These issues could be identified through surveys with MSMEs or consultations with industry chambers focused on engaging MSMEs. Once the specific issues have been addressed, programs can be devised to meet the needs of MSMEs. In this stage, it is critical to distinguish between sectoral issues for MSMEs in specific sectors and cross-cutting issues that impact MSMEs in all sectors, as the solutions could differ significantly.

Step 2b: Identify potential partners to rollout MSME support programs. In devising programs to meet the needs of MSMEs, it is also important to identify the stakeholders or partners involved in delivering such programs. In the case of training programs, this could include the type of training providers available. It could also include key ecosystem partners such as platform providers that can help to make access to digital services more secure and affordable for MSMEs.

Step 3: Create robust feedback mechanisms. As programs to strengthen support for MSMEs are developed and implemented, robust feedback mechanisms would also need to be put in place to measure the effectiveness of these programs and ensure that they can be adjusted even as the needs of MSMEs change. For instance, when implementing training programs for MSME workers, it is important to tailor the focus and level of such programs to the changing digital proficiency levels of workers and changing technology needs as new technology emerge.

[49] Grab (2020). Grab launches new program to help small businesses thrive online in the 'new normal'. https://www.grab.com/ph/press/others/grab-msme-socialimpact/

B. Promote On-line Business Registration

MSMEs may exist in or on the verges of the informal economy, meaning that registration of any kind is a hurdle for them. Good regulatory interventions will among other things promote registration by adding benefits to offset the time and effort required to participate, and the cost of entering the formal economy. Business registries serve as the central legal entity identity (LEI) authority, as well as providing some parts of a centralized KYC platform. Business registration can also be linked with other related functions as part of a "one-stop" government service bureau.

BOX 6: ARMENIA'S ONE-STOP SHOP

Business registration can be linked with other related functions as part of a "one-stop" government service_bureau. This might include business registration and incorporation or LLC filing if warranted, tax ID declaration, specific business licenses, VAT account opening, and employee registration. Armenia's process (see case box below) is a good example and also incorporates mandatory bank account opening as part of the tax ID and payment process; taxes can only be filed and paid on-line from a bank account.

We would suggest that in order to increase the use of financial accounts and e-payments, registrars should consider implementing such a requirement as part of the business registration process. This would involve either an affirmative "must-open" requirement for banks to provide account services to any registering entity, or alternatively to use e-wallets or mobile money, perhaps via a national payment system rather than full bank accounts. Such innovation will mean that every registered business can trade and pay online and receive monies electronically as desired.

Armenia launched a Business Entry One-stop Shop within the Ministry of Justice in March 2011. Companies and individual entrepreneurs can now obtain the name reservation, business registration and tax identification number on-line or at a single location and at the same time. An application for a taxpayer identification number is filed to the tax authority at the one-stop shop, and the State Registrar issues the TIN. Since January 2019, VAT registration can take place a year after a business exceeds the threshold of AMD 58.35 million. Starting from January 2018, entrepreneurs can opt for voluntary VAT registration within the application for company registration. In that case, no additional follow-up or interaction is required to complete the VAT registration. The VAT number (same as TIN, with the additional number "1" at the end) will be included in the incorporation certificate. This process contributes to Armenia's Starting a Business Score of 96.1 for 2020, ranked #10 in the world. Business registration can be linked with other related functions as part of a "one-stop."[50]

Establishing the identity of a business is important for many reasons: to establish KYC for financial institutions, access government services and pay taxes, provide accountability for customers or counterparties who may need to contact or make complaints against them, and for the accuracy of national statistical information. Frequently this is done by means of a business or corporate registry, a prosaic but essential piece of financial systems infrastructure.

[50] —World Bank Group, "Doing Business 2020: Economy Profile: Armenia," https://www.doingbusiness.org/content/dam/doingBusiness/country/a/armenia/ARM.pdf

BOX 7: THE GLOBAL LEGAL ENTITY IDENTIFIER

An example of a unique ID for businesses is the Legal Entity Identifier (LEI), a standardized 20-character code promoted by the Global LEI Foundation (GLEIF)[51] to identify companies, their ownership and other key information accurately. The LEI has been adopted by government and regulatory agencies in the USA, the EU and India. The new digitized and cryptographically verifiable LEI offers potential for instant, global, and automated identity verification and is now being discussed for greater adoption by economies.[52]

Regulatory Interventions

Step 1: On-line Business Registration. Registration itself be able to be completed on-line, with the basic filing and assignment of a unique LEI being without cost, and charges for higher tiers (where checking of documentation may be necessary) being set at most for cost recovery. Querying the registry should be available on-line, both manually and via an API layer for automated checking, and at least for small numbers of inquiries should be free, once again to encourage participation.

Step 2: Biometric and Digital ID Eases Ownership Authentication. Identifying those authorized to sign on behalf of a business or who serve as the business's legal representatives can integrate with any national identification system, including biometrics and/or e-IDs, permitting easy authentication of transactions on behalf of businesses. The ability to rapidly query and confirm entity data via an API means that fintech providers can provide rapid or even real-time onboarding without any loss in quality of KYC checking.

Step 3: Interoperability. The benefits of a comprehensive on-line database of business entities with unique identifiers are that it can be used to disambiguate other private and government services. For example, integration with collateral registers or land cadastres is possible and reduces the amount of new information which must be collected.

Step 4: Tiered information. The registry should establish several ascending tiers of information, with the basic information being simply the canonical name, location, unique identifier (be it tax ID, registration number, or something else), form of business entity, and its controlling party(ies). This information will also lower the cost and waiting period of onboarding of new MSME clients for financial institutions, including especially those with digital and mobile-first models which may not have many points of physical presence where entrepreneurs can present themselves.

BOX 8: THAILAND'S IMPLEMENTATION OF E-KYC

The Bank of Thailand initiated a multi-stage sandbox process for testing and validating e-KYC using a shared KYC utility built on top of the National Digital Identity Platform (NDID). The initial test involved 12 commercial banks and payment services providers focused on using facial recognition to verify customer identity. Using the results of this test, the BoT developed initial guidance for financial institutions using e-KYC on how to meet AML and CFT requirements.

[51] The GFEIF is a non-profit established by the Financial Stability Board with the support of the G20.

[52] APEC (2021), "Asia-Pacific Financial Forum Virtual Roundtable: Accelerating MSME Digital Transformation through Finance". Available at: https://www.smefinanceforum.org/sites/default/files/publication/MSME%20Digital%20Trans%20RT%20Report%202021-07-14%20Final.pdf

Following this initial round of testing and policy adaptation, the BoT launched a second round with six local banks in 2020 allowing their clients to remotely "open saving accounts with new banks through secure digital channels by using the verification and information from accounts which they already have with their existing bank in order to verify their identities using reliable facial recognition technology." (BoT, 2020).

This effort is intended to eventually result in making remote biometric authentication via NDID broadly available to all financial sector participants.[53,54]

C. Digital Financial Literacy and Financial Education for MSMEs

AFI has formulated a definition of digital financial literacy as "acquiring the knowledge, skills, confidence and competencies to safely use digitally delivered financial products and services, to make informed financial decisions and act in one's best financial interest per individual's economic and social circumstance."[55]

The experience with consumer financial literacy is highly relevant to financial inclusion of SMEs as they tend to make decisions about financial products based mainly on the knowledge of their founders or majority owners. Especially in the realm of digital financial services, education is a critical part of effective take-up, as providers must overcome not only inherently low financial literacy but the added unfamiliarity with novel digital tools and business models.

Digital financial literacy is an area of keen focus for nearly all our responding regulatory agencies—80% or more of respondents are currently engaged in or planning/considering each of the separate mandate areas we surveyed, with 97% engaged in education on the rights and responsibilities of borrowers and users of financial products and 93% with programs aimed at avoiding fraudulent schemes and fake counterparties.

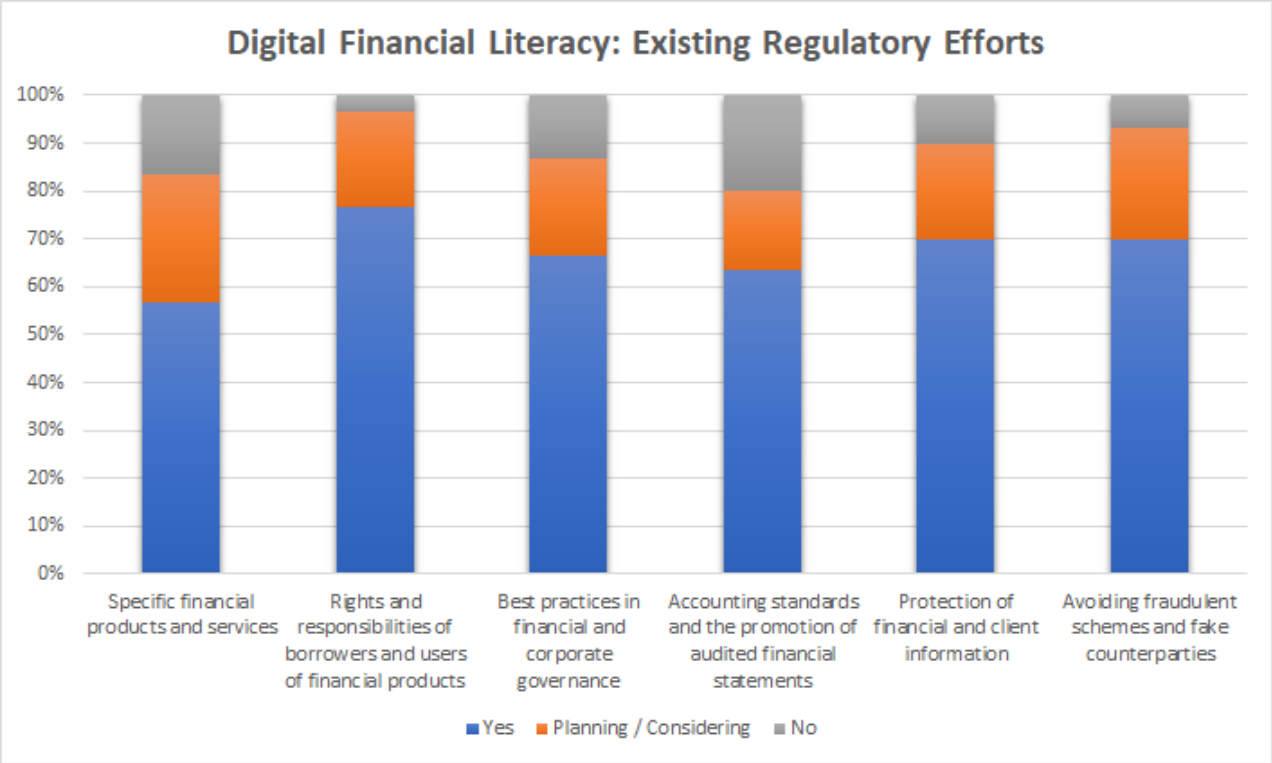
It should be remembered that even these figures do not represent the totality of regulatory efforts in this area, in that in many countries there are separate agencies responsible for financial education or in the case of multiple prudential and systemic regulators a single lead agency responsible for consumer financial education, so we can conclude that the number of jurisdictions pursuing such a mandate overall is even higher than this survey would suggest.

[53] Bank of Thailand, "The Bank of Thailand Approves Banks to Provide Online Cross-bank Identity Verification for Opening Bank Accounts in the Regulatory Sandbox," [BOT Press Release No. 6/2020], February 6, 2020. https://www.bot.or.th/English/PressandSpeeches/Press/2020/Pages/n0663.aspx, accessed August 1, 2022.

[54] Jeník and Duff, "How to Build a Regulatory Sandbox," 11.

[55] Alliance for Financial Inclusion [AFI; Digital Financial Services Working Group and Consumer Empowerment and Market Conduct Working Groups], "Digital Financial Services Literacy Toolkit," (Kuala Lumpur: AFI, July 2021), 4. https://www.afi-global.org/wp-content/uploads/2021/07/AFI_DFS_Literacy_Toolkit_V5_29July.pdf.

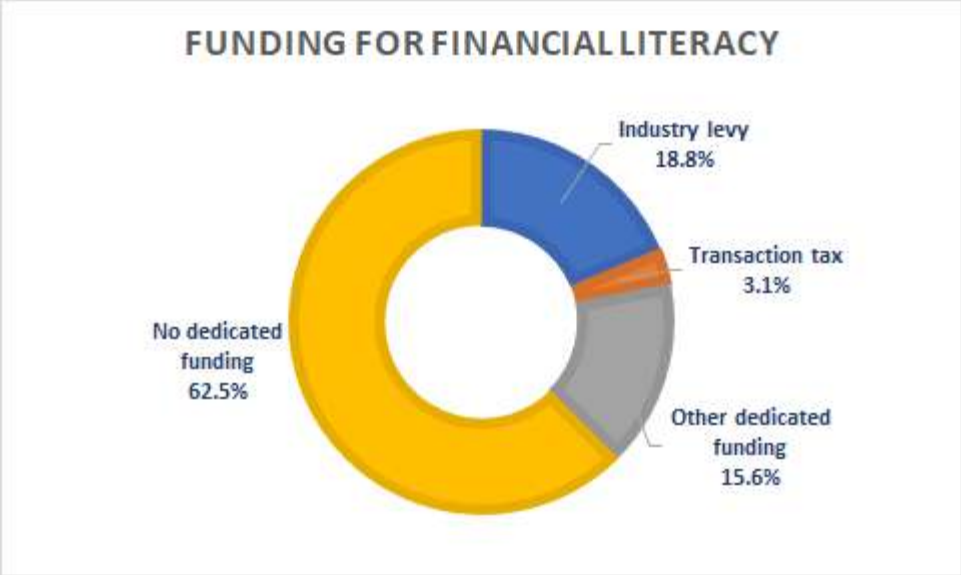
Figure 1: Survey Results—Digital Financial Literacy Programs



Source: AFI/G20 Survey, July 2022

An interesting finding of the survey is that while the mandate to pursue consumer digital financial literacy is well-established, a dedicated source of funding for these programs is generally lacking. Of our respondents a substantial majority have no dedicated funding for financial literacy, depending on annual discretionary budget allocations.

Figure 2: Survey Results—Digital Financial Literacy Funding



Source: AFI/G20 Survey, July 2022

Regulatory Interventions

Step 1: Measure financial literacy. As with many regulatory interventions, effective policy depends on being able to establish a baseline of financial literacy—including across different sub-populations and groups—and repeat the survey periodically so as to assess the impact of educational measures. The OECD/INFE survey (see box, below) is a useful starting point which can yield not only data about the absolute level of financial literacy but also relative metrics versus a wide variety of countries at all levels of development.

Step 2: Tailor financial education to specific populations. Consistent findings across all literature on financial literacy are that: 1) early financial education is the most effective, especially when given simultaneously with a basic numeracy curriculum; 2) women have consistently lower financial literacy than men; 3) older populations are significantly less likely to have facility with non-financial digital products, which impedes digital financial literacy especially; and, 4) rural, migrant, and disabled populations also have specific challenges which may cause them to have generally lower financial literacy—especially in the digital realm. Therefore, specific interventions and programs can and should be designed for each of these groups in order to promote broad and equitable financial literacy and thus inclusion.

Step 3: Integrate digital financial services concepts into financial literacy programs. With DFS rapidly-evolving, it is likely that existing financial literacy programs may either omit key DFS categories or have outdated concepts and product examples which are not helpful in understanding the current DFS choices faces by MSMEs. Sponsors should ensure that materials and programs are frequently reviewed and updated so as to contain specific and current information relevant to actual DFS issues in the marketplace.

Step 4: Consider providing digital tools and calculators. MSME owners and managers in particular may have limited time in which to evaluate their financial options. Providing digital tools for

comparison, cost calculators, simulations, and walk-throughs of various activities relating to digital financial services can assist in simplifying financial choices and providing unbiased information.

Step 5: Use survey results to guide regulation and disclosure. Regulators should seek to identify from survey and other observational results key areas of confusion or lack of understanding about digital financial services (*e.g.*, opaque fees, uncertain total costs of usage, mis-assessment of product risks) and to mitigate these areas with additional disclosure requirements or other regulations. This is a minimalist and effective way of using regulatory powers to have maximum impact on areas of highest priority. AFI's Policy Model on Consumer Protection for Digital Financial Services can be a useful resource in adapting such regulatory interventions into those specific for MSMEs. [56]

Step 6: Establish dedicated funding. The majority of jurisdictions without a dedicated funding source for digital financial literacy should carefully consider whether a consistent stream of program funds should be established, and which entities or activities should be included in the funding. Popular methods include either a dedicated industry levy or a transaction tax of some kind; in some cases there are multiple funding sources with each dedicated to a separate area of financial education. In either case, regulators should look broadly at participants in DFS—who may not all be regulated—and consider to what extent all of these participants should bear some of the cost of education efforts.

BOX 9: THE OECD/INFE TOOLKIT FOR MEASURING FINANCIAL LITERACY

The OECD/INFE toolkit is a useful way to begin any assessment of baseline financial literacy. [57] The toolkit also includes a useful survey instrument and a dataset which can be used or adapted to serve in a variety of conditions so as to obtain not only baseline readings but an evaluation comparable across many countries, which can be helpful to regulators in assessing the true level of development and thus which best practices and models might be most applicable.

Note that the survey instrument itself—originally written in English—is now available in Afrikaans, Albanian, Arabic, Chinese, Croatian, Czech, Dutch, Estonian, Finnish, Flemish, French, Georgian, German, Hungarian, isiZulu, isiXhosa, Korean, Latvian, Lithuanian, Malaysian, Norwegian, Polish, Portuguese, Russian, Setswana, Thai, tshiVenda, Turkish, and Xitsonga

D. Alternative Data

Alternative data models use non-traditional sources of data to help make better credit decisions, or to be able to make decisions about new classes of borrowers for whom the traditional data—generally detailed historical financial statements and records of previous borrowings and repayments—are absent or too sparse to make clear assessments. These alternative sources include metadata, raw transaction data, utilities and other payments, social media activity, location logging, and psychographic data. DFS and the sector's facility with large data sets and machine-learning has been able to take advantage of these new sources of data to underwrite new products and business models not previously sustainable.

[56] Alliance for Financial Inclusion [AFI; Digital Financial Services Working Group and Consumer Empowerment and Market Conduct Working Groups], "Policy Model on Consumer Protection for Digital Financial Services," (Kuala Lumpur: AFI, September 2020). https://www.afi-global.org/publications/policy-model-on-consumer-protection-for-digital-financial-services/.

[57] https://www.oecd.org/financial/education/2018-INFE-FinLit-Measurement-Toolkit.pdf

Lack of credit information is one of the main barriers for MSME access to finance. Alternative data offers some promise in bridging that gap to credit, or in showing that certain MSMEs are better credit risks than the traditional data would indicate, and thus deserving of lower interest rates. In this light it is worthy of regulatory attention to promote proper usage of alternative data so that creditworthy but underserved MSMEs can attract new investment. However, as with all new business models there are new risks and regulatory concerns, primarily centered around data security and model bias.

Regulatory Interventions

Step 1: Ensure Data Security. The indiscriminate intake and correlation of massive amounts of data on people and companies creates large risk of access breaches which would expose personal and/or proprietary business information. Regulators should require all supervised/licensed institutions which use such data to establish and submit clear protocols for:

a) encrypting and otherwise securing the data;

b) protecting their systems from intrusions and unauthorized access; and

c) timely reporting of security breaches.

If an institution's plan for data security is unclear, or if intrusions are recorded despite the measures taken, regulators should consider requiring their institutions to obtain an independent audit or validation of the methodologies and practices before commencing or resuming business.

Step 2: Protect Privacy. Although business alternative data is not as sensitive as that of individuals, MSMEs tend to be closely associated with their principals and so in some cases the two overlaps. In addition, MSME data can be proprietary and contain valuable insights which could be used by competitors. Finally, the transaction data of MSMEs will necessarily contain personal information about their customers, employees, and suppliers, who may be individuals requiring additional protection. Regulators should mandate that where possible data sets shared with third parties be obfuscated or anonymized so that personal data is not easily extracted even in the event of data breach.

Where possible, given that big data techniques can also be used by malefactors to correlate and *de-anonymize* data, consideration should be given to requiring or encouraging active differential privacy[58] or other similar measures for data sets.

Step 3: Safety and Soundness. For institutions which rely on deposits or which are otherwise systemically-important, the use of big data does not eliminate traditional regulatory concerns around the soundness of credit analysis and its potential impact on loss provisions and, as a derivative, capital adequacy. As with other models important for institutional risk, regulators should require periodic validation and testing of alternative data models used for credit extension.

Step 4: Monitor for Algorithmic Bias. Algorithmic models based on data can exhibit bias, even when they are derived purely through machine learning and do not have any human intervention. The availability of data may be different from population to population (women, for example, have a lower

[58] See Alexandra Wood *et al.*, "Differential privacy: A primer for a non-technical audience," *Vanderbilt Journal of Entertainment & Technology Law* 21, no. 1 (2018): 209-275.

rate of access to smartphones, and so any data set consisting of mobile social data will underrepresent them), data may be selected for use in a biased way, data may be labelled in a way which perpetuates stereotypes, and the data sets selected to train the model may be different from the data the model actually encounters in the wild.

Any bias introduced in such a fashion is particularly difficult to detect given the potential lack of human intervention, as well as the low knowledge base of regulators in this area. Our detailed interviews revealed that regulators are at an early stage of inquiry into the issue of algorithmic bias: in Indonesia gender bias in particular is seen as a potential issue, and authorities are now working on disaggregating data so as to be able to test for it.[59]

Step 5: Establish Open Standards. Although regulators may focus more on risks, as we have pointed out the potential advantages of alternative data also merit attention. To the extent that regulators can help set standards for interchange, and promote safe use of existing government data, they can aid in an environment where information sufficient to make credit decisions exists for more MSMEs. In China, the Hong Kong Monetary Authority started its Open API Framework in 2018 to promote interoperability for sharing of data with a common method of managing customer consent.[60] Elsewhere, the Central Bank of Armenia is looking at incorporating alternative data on MSMEs into the existing credit bureau, such as tax and utility payments.[61]

[59] Bank Indonesia, AFI Interview, June 15, 2022.
[60] Hong Kong Applied Science and Technology Research Institute [ASTRI], "Alternative Credit Scoring of Micro-, Small and Medium-sized Enterprises (MSMEs)," [White paper] (Hong Kong: Hong Kong Monetary Authority, November 2020), 111.
[61] Central Bank of Armenia, AFI Interview, June 23, 2022.

Pillar IV: Special Considerations Around Participation of Underserved Populations in MSME Finance

It is well documented that MSMEs owned and/or run by women, youth, the elderly, migrants, forcibly displaced persons, and rural populations, amongst others, face specific additional challenges in accessing finance, and can also face additional barriers in navigating the transition to digital financial services. Policymakers and regulators should therefore consider additional tailored actions to ensure effective reach and inclusion of such underserved populations.

A. Regulatory Interventions: For all underserved populations

Step 1: Data Collection. Ensure that financial system participation data (and MSME activity data, where possible) is specifically collected and analyzed with entities owned by underserved populations disaggregated. This in most cases requires revamping methods of statistical collection, but the added granularity will permit tracking the problem over time, and the success of specific regulatory interventions taken.

Step 2: Tiered Licensing Regimes. Consider amending the licensing regimes for banking, leasing, payment services, and other DFS models to create special categories for institutions (either for-profit or cooperative/community-based) which are based in or serve primarily underserved markets. These classes of institutions should have lower capital requirements and simplified operating needs. Many regulators have done this effectively in the traditional lending space with microfinance institutions and/or credit cooperatives, but less so with NBFIs and DFS providers. Where such institutions exist, helping them to digitize and link to larger DFS platforms, as the Central Bank of Egypt has done with traditional *gamey'a* savings cooperatives,[62] can be a useful and low-cost intervention.

Step 3: Tiered and risk-based KYC. MSMEs and their owners as part of underserved populations have considerably lower rates of formal documentation and identification, and the cost of obtaining ID or registering their MSMEs is relatively higher due to financial, social, and geographic factors. Regulators can help encourage tiered and risk-based KYC and onboarding by working with financial institutions to implement a risk-based approach to the Financial Action Task Force standards, for example specifying low risk products (e.g. those with capped balance and transaction limits) for which alternative methods of KYC such as identification by community leaders or use of non-standard documentation can be used.

B. Women Owned MSMEs

Women-owned MSMEs have substantially greater difficulty accessing financial services across almost every dimension, contributing to a financial inclusion gender gap of seven percentage points globally and nine percentage points for developing countries.[63] Structural issues resulting in different firm characteristics of woman-owned businesses include "lack of financial identification documents, lower financial independence, less financial literacy, greater risk aversion, and sociocultural norms preventing women from accessing financial services," as well as "additional barriers related to ownership of capital and childcare."[64]

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[62] Alliance for Financial Inclusion [AFI; Financial Inclusion Strategy Peer Learning Group], "Enhancing Financial Inclusion in Rural Areas," [Guideline Note no. 50] (Kuala Lumpur: Alliance for Financial Inclusion, May 2022), 11.
[63] Alliance for Financial Inclusion [AFI; Digital Financial Services Working Group], "Lessons on Enhancing Women's Financial Inclusion Using Digital Financial Services (DFS)," (Kuala Lumpur: Alliance for Financial Inclusion, May 2020), 6.
[64] DiCaprio, Yao, and Simms, 2-3

Exacerbating these issues of women-owned businesses is that gender skew is a major factor in financial literacy: the most comprehensive data set shows that "There are notable gender differences in the level of financial knowledge in some countries, and on average across all participating countries, 61% of men achieve the minimum target score compared with only 51% of women…"[65] In the DFS realm, this financial literacy gap is exacerbated by lower access to technology for women, which impedes takeup of DFS, for example in Ghana: "…there is still a gender gap in both mobile phone ownership of 16% and similarly mobile money account ownership of 17%."[66]

The COVID-19 pandemic has widened the gender gap in financial services, in part because women-owned MSMEs are more likely to be in face-to-face retail or service businesses which were disproportionately hurt by quarantine orders, and in part due to lower financial capacity and resiliency to begin with. The World Bank estimates that women-owned MSMEs were 6% more likely to have closed their businesses during the pandemic than male-owned businesses.[67]

Regulatory Interventions

Step 1: Champion issuance of national ID documentation to women as a strategic goal for financial inclusion.

Step 2: Make special efforts to promote registration of women-owned businesses, even in the informal sector. Where registration includes ownership information, be aware that in the case of jointly-operated household-enterprises, "listing only a single or the primary owner on registration forms may marginalize women."[68]

Step 3: As part of the licensing process, monitor how business models and/or products will serve women-owned MSMEs and contribute to closing the gender gap. Set specific metrics and targets which can be reported on an ongoing basis.

Step 4: Review and remove requirements and barriers used in credit guarantee schemes or other government schemes which disproportionately affect women.

C. Youth Entrepreneurs

In the developing world there are 1.2 billion people between the ages of 15 and 25.[69] Youth unemployment is particularly high in North Africa, at almost 30%, and is also significantly elevated in South Asia, Latin America, and the Caribbean.[70]

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[65] Organisation for Economic Co-operation and Development [OECD], "OECD/INFE International Survey of Adult Financial Literacy Competencies," (Paris: OECD, 2016), 31.
[66] GSMA, "Mobile Money: Bringing financial inclusion to life for women in Ghana," January 4, 2018. https://www.gsma.com/mobilefordevelopment/blog-2/mobile-money-bringing-financial-inclusion-life-women-ghana/, accessed July 27, 2022.
[67] Markus Goldstein, Paula Gonzalez Martinez, Sreelakshmi Papineni, and Joshua Wimpey, "The Global State of Small Business during COVID-19: Gender Inequalities," September 08, 2020. https://blogs.worldbank.org/developmenttalk/global-state-small-business-during-covid-19-gender-inequalities, accessed September 21, 2022.
[68] Anne M. Golla, "Engaging Informal Women Entrepreneurs in East Africa: Approaches to Greater Formality—An ILO-WED Issue Brief," (Geneva: International Labour Organization, October 2015), 5.
[69] United Nations, "State of the World's Youth," https://www.un.org/en/global-issues/youth, accessed August 19, 2022.
[70] *Ibid.*, and Susannah Horton, Helena Molina, Ammar Khalid and Patteera (Mae) Chaladmanakul, "Unlocking Finance for Youth Entrepreneurs: Evidence from a Global Stocktaking," (Washington, D.C.: World Bank, 2020), 1.

Youth entrepreneurs face special barriers to finance in addition to the traditional challenges common to all MSMEs. They are severely restricted in access to credit and other financial services due to lack of track record and collateral, as well as age stereotyping.

Changing business models due to the rise of DFS provide an opportunity to rethink these barriers, and for regulators to make special efforts on the part of youth-owned MSMEs.

Regulatory Interventions:

Step 1: Assess legal barriers to contract on the part of youth—are those not legally adults able to access deposit and payment services? How about DFS products which contain a credit component? Can a guarantor program be used to permit MSMEs run by minors to contract, at least for basic financial services?

Step 2: Promote the use of alternative scoring data to compensate for short formal credit histories of youth MSME owners. Regulators can do this by a) ensuring that capital requirements for small youth loans lacking collateral are not punitive, and by accepting statistically-rigorous alternative data sources as equivalent risk mitigants; and b) by licensing new DFS business models for lending which complement existing bank collateral-based regimes and are specifically-targeted towards youth-owned MSMEs.

Step 3: Ensure that licensing regimes permit (and have achievable requirements for) micro-leasing companies. Micro-leasing coupled with digital payments (where lease fees can be deducted at source, daily or weekly) is a transparent DFS business model which can help youth and members of other underserved segments who do not have collateral available.

D. Migrants and Forcibly Displaced Persons (FDPs)

Global migration has risen steadily over the past two decades, with the UN recording 281 million people living outside their countries of origin in 2020, a 62% increase from 2000 levels. Of particular concern underlying these overall figures are the over 34 million migrants who have been forcibly displaced across national borders, fleeing war, violence, and persecution.[71]

Barriers for migrant and FDP MSMEs centre around documentation, work permits, and the ability to attract capital. There is potential for some of these barriers to be addressed through digital finance and regulatory intervention.

Regulatory Interventions:

Step 1: Promoting fast and early documentation of FDPs and migrants, who may arrive without accepted forms of ID;

Step 2: Issue specific guidance on tiered KYC to ensure that entering migrants are able to open appropriate accounts and make transactions using the documentation they will likely have or be issued;

Step 3: Coordinate with other public sector agencies on migrants' permission to work and register businesses.

[71] United Nations Department of Economic and Social Affairs, Population Division (2020), "International Migration 2020 Highlights," [ST/ESA/SER.A/452] 6.

BOX 10: SPECIAL CONSIDERATIONS FOR FORCIBLY DISPLACED PERSONS (FDPS)

FDPs starting a micro or small business in their host country are likely to face challenges including documentation, work permits, and the ability to attract capital.

Regulators can assist by:

- Promoting fast and early documentation of FDPs and other migrants, who may arrive without proper ID, or ID in a form which is contemplated by national laws and regulations.
- Use local officials and international aid organizations to issue documentation on the spot, potentially leveraging trusted members of the community to vouch for and identify other new arrivals and vet foreign documents.
- Issuing specific provisions and guidance on tiered KYC to ensure that entering migrants can open accounts and make transactions using the documentation they will likely have or be issued. This means explicitly giving safe harbor to financial intermediaries for onboarding of migrants and FDPs within limits of exposure and transaction volume.
- Granting permission to work, employ others, and form businesses, and making registration of such businesses accessible and possible with the documentation at hand.

E. Rural, nomadic, and agricultural populations

Providing the benefits of DFS to rural and nomadic populations can be extremely difficult. Penetration of mobile phones is lower (and especially low for rural women), and connectivity tends to be limited.

Regulatory Interventions:

Step 1: Ensure access to both traditional banking and DFS via agency banking measures, licensing and promoting these "last-mile" enablers who can operate both traditional "cash-in, cash-out" services as well as newer DFS analogues such as digital wallet refills or electronic payments.

Step 2: Partner with local officials and cooperative associations for identification of rural people who lack formal ID, under a tiered KYC system, so that they and their businesses can access financial services.

Step 3: Use special rural banking, payment services provider, and leasing licenses with lower capital and operating requirements for rural areas, to promote additional cooperative and microfinance institutions which can help bridge the gap to the wider DFS landscape.

4. Conclusion and Summary of Key Takeaways

This regulatory toolkit has outlined how DFS can benefit MSMEs by removing some key constraints to their access to finance and by creating access to new products and services. The toolkit provides guidance and aims to assist financial regulators and policy makers from G20 and non-G20 jurisdictions in different stages of their policy implementation process to enhance the regulatory environment for MSME to access to innovative digital financial services and complements existing financial landscape. Besides outlining the tools available to financial regulators, it also highlights the need to learn from other jurisdictions, collaborate with other regulators/ government agencies and the private sector, and work towards cross-border harmonization of the ecosystem.

Key Insights and Recommendations from the Toolkit

1. Digital financial services can help address the MSME funding gap

Innovative technologies and digital financial services can help bridge trust and information gaps, and therefore improve MSMEs' access to finance, enabling growth and development.

2. Financial regulators have a key role in market development and creating a safe and innovative environment

Regulatory agencies need to work in collaboration with public and private sector agencies to create an enabling environment for DFS. They can enable best practices for systemic stability, consumer protection, and market efficiency. Any plan for intervention should start by quantifying the MSME funding gap and monitoring the effectiveness of interventions over time.

3. Think holistically: the "Stack Approach"

Regulators can achieve the most impact when initiatives in different digital products and domains interact with and build on one another. India's example to leverage national biometric IDs into a universal payment layer, shared eKYC, and digital certifications and documents is an example of the whole being greater than the sum of the parts.

4. Bring legal clarity

The pace of digital financial innovation has given rise to uncertainty and fear, as technology has outpaced rulemaking. Regulators should be technology-agnostic, but ensure that the legality, finality, and acceptance of DFS is as clear and consistent as their traditional analogues. Provide explicit guidance and safe harbours wherever possible for avoidance of doubt.

5. Promote open, digital access to resources

Regulators should promote open access to key platforms and systems by as many participants as possible, consistent with safety and security of the underlying network and protocols. In order to promote innovative products which have minimal manual intervention, data stores and platforms should be accessible on-line, and via transparent APIs so that they can be integrated into DFS providers' own workflows and systems.

6. Encourage Interoperability

Unified national and regional systems help to increase returns to scale and increase take-up on both demand and supply sides. In order to avoid balkanization and/or lock-in by single-provider proprietary

systems, regulators should prefer that for fundamental and systemic infrastructure the core specifications, protocols, and data types should be defined by an open consortium and maintained on a public utility model. Broad participation by different financial institutions, businesses, and consumers should be available, conditioned upon the acceptance of interoperability and standards for quality, risk, security, and data protection.

7. Support digitization of information, documents, and workflows

Regulators have a key role to play in driving digitalization of processes both inside other areas of government and in the market. These enabling technologies can increase speed of service and lower costs of providing DFS—especially critical for MSMEs which may not be profitable to service via traditional means.

8. Enable innovation and product testing

Sandboxes and other innovation enablers can be used to test new products and evaluate concepts without risk to financial stability, integrity or consumer protection. Effective use of such enablers requires the design of specific, narrow challenges to surface potential solutions in areas where there are identified gaps in market provision.

9. Tailor DFS policies to ensure inclusion of underserved populations

Measurements of the MSME financial market and the impact of regulatory interventions should include disaggregated data specifically designed to assess the inclusion of underserved populations such as women, youth and the elderly, migrants and FDPs, and rural and agricultural groups. Tiering of licensing and KYC requirements can be used to promote inclusion without compromising compliance with global financial stability and integrity standards.

Appendix A: Survey Data

As part of the process of generating this regulatory toolkit, AFI under the sponsorship of the Working Group and the G20 conducted a detailed survey of the status of existing SME initiatives in digital financial services, as well as the key current concerns of regulators. We received complete responses from 44 agencies as well as numerous comments which helped to shape the survey and the structure of the detailed participant interviews which followed. We discarded duplicate and unidentifiable responses. Key insights from the survey follow, with additional data on specific areas addressed throughout this toolkit.

The area of greatest overall concern to survey participants was in the area of data security, encompassing customer data protection, privacy concerns, and cybersecurity. This is an area in which prudential and systemic regulation lags behind the very fast pace of change in the DFS arena—itself a concern to survey respondents, over half of whom rated the ability of regulators to keep up with the rate of change in the industry as a 4 or 5 on a scale of 1-5, with 5 being most critically concerned. Other key issues center around the ability for foreign platforms and companies to serve MSMEs from outside the regulatory jurisdiction, including potentially from jurisdictions where they are not required to be licensed or regulated at all. Respondents expressed concern over the "ability of offshore platforms to provide digital financial services to MSMEs in our country without being subject to local licensing / supervision" as well as the "entrance of foreign/global platforms which provide digital financial services to MSMEs into our country after being granted local licenses, in that they may displace domestic financial players or not be firmly committed to servicing our market in the future."

Translating some of these issues into high-level systemic concerns, respondents worried that the long term effects of a DFS transition could impair their ability to make monetary policy decisions or might destabilize the currency, as well as giving rise to unmonitored concentrations of systemic risk.

Following are summarized survey results and findings, ahead of our detailed interviews.

Regulatory Structure and Priorities

Our regulation of digital financial products and services in general is oriented around:

	Entirely	Mainly	Partially	Not at all
Institution / License type and activity	17	13	12	2
Specific financial product / activity	9	18	15	2
Specific risk dimensions and concentrations	11	11	14	8

Comments:

Respondent regulatory authorities are still primarily oriented towards regulating DFS based on the licensing type and activity of the engaging financial institution. This produces regulatory gaps and arbitrage opportunities when Fintech companies engage in similar activities to those of traditionally- licensed institutions, but where the regulatory requirements may be radically different.

As a regulator, our approach to regulation and supervision of novel financial products/services within our own remit is to:

	Yes	Partially	Planning / Considering	No
Develop new laws and regulations specific to new financial products before permitting their use	29	6	5	3
Permit existing authorized financial institutions to engage in new products which are analogous to existing products with notification only	19	8	5	11
Allow limited testing of new products via sandbox	22	6	7	8

Comments:

Most respondents prefer to specify the regulatory rules for novel financial products before permitting their introduction, although a majority have also implemented limited testing via regulatory sandbox programs.

We have regulatory / systemic risk / data privacy / competition and economic development concerns regarding the trend towards digital financial products as to:					
Not at all concerned				**Critical concerns**	
1	**2**	**3**	**4**	**5**	
Ability of offshore platforms to provide digital financial services to MSMEs in our country without being subject to local licensing / supervision	9	5	8	12	7
Entrance of foreign/global platforms which provide digital financial services to MSMEs into our country after being granted local licenses, in that they may displace domestic financial players or not be firmly committed to servicing our market in the future.	12	9	8	8	4
Lack of transparency in transaction / capital flows causing problems for monetary policy and/or currency value management	12	2	8	11	8
Lack of transparency in transaction / capital flows causing problems for taxation	12	3	6	11	8
Lack of transparency in transaction / capital flows causing undiscovered concentrations of systemic risk	10	3	10	10	7
Cybersecurity and systemic digital infrastructure hardening	6	5	2	13	15
Protection of customer data and privacy	7	3	4	8	19
Speed of change in financial products / services outpacing ability of regulators to evaluate and alter rules	7	2	11	10	11

Erosion of business of incumbent local financial institutions by digital models leading to systemic risk issues	9	3	13	12	4

Comments:

Survey respondents' areas of most critical concern are protection of customer data and privacy and cybersecurity and systemic digital infrastructure hardening, rated "critical" by 46% and 37%, respectively. On the process side, respondents have strong concern about the speed of change in financial services versus the slower pace of regulatory actions, as well as the ability of offshore fintech providers to service in-country clients without parallel licensing and regulation.

Regulatory Concern	**Weighted Concern Rating**
Protection of customer data and privacy	3.71
Cybersecurity and systemic digital infrastructure hardening	3.63
Speed of change in financial products / services outpacing ability of regulators to evaluate and alter rules	3.39
Ability of offshore platforms to provide digital financial services to MSMEs in our country without being subject to local licensing / supervision	3.07
Lack of transparency in transaction / capital flows causing undiscovered concentrations of systemic risk	3.03
Lack of transparency in transaction / capital flows causing problems for monetary policy and/or currency value management	3.02
Lack of transparency in transaction / capital flows causing problems for taxation	3.00
Erosion of business of incumbent local financial institutions by digital models leading to systemic risk issues	2.98
Entrance of foreign/global platforms which provide digital financial services to MSMEs into our country after being granted local licenses, in that they may displace domestic financial players or not be firmly committed to servicing our market in the future.	2.59

Our jurisdiction has implemented specific licenses and/or laws/regulations for credit products and other financial enablers used by MSMEs:			
Yes	**Planning / Considering**		**No**
Factoring	15	7	16
Reverse Factoring	9	6	23
Financial leasing	18	7	13
Loan securitization	19	4	15
Loan participations / syndications	22	4	12
Trade finance	19	6	13
Alternative credit scoring methods and/or registries	15	8	15
Lending against warehouse receipts	11	6	21
Shared KYC service providers or bureaux	18	6	14
Moveable collateral registries	23	9	6
Blockchain or other distributed ledgers	5	11	22
ICOs	4	9	25
Digital / Cryptocurrencies	8	9	21
Stablecoins	6	6	26
Smart contracts	10	8	20
Credit insurance / guarantees	25	6	7

Comments:

Most responding agencies reported that they have made specific provision for credit guarantees, loan syndications and movable collateral registries, although there is still clearly work to be done on all three. As expected with such relatively new and unclear financial instruments, few agencies have made explicit rules for cryptocurrencies, blockchain implementations, ICOs, or smart contracts.

An interesting potential area of focus, given its importance for digital MSME finance due to the lack of immovable collateral typical of such borrowers, is the relatively low attention paid to such well-known traditional products as factoring, lending against warehouse receipts, and leasing.

AML/ KYC					
The areas in which our regulated institutions face the biggest challenges in maintaining AML / KYC compliance **regarding MSME clients[72] specifically** are:					
	Not at all a challenge				**Severe Challenge**
	1	**2**	**3**	**4**	**5**
Ascertaining the identity of client entities	17	5	7	3	3
Ascertaining the ownership/control of client entities	12	7	9	2	5
Documenting the identity of owners/control parties	16	7	5	4	3
Maintaining adequate records of client onboarding and KYC processes	12	9	6	5	2
Assessing the risk of clients and transactions	7	6	11	6	5
Screening transactions for high-risk or non-conforming transactions and counterparties	9	5	14	5	2
Cost/benefit of qualifying and maintaining compliance for small-value customers	9	10	8	6	2

Comments:

In the AML/KYC realm we face a divergence between the reported concerns of regulators and the reported experience of financial institutions, especially those engaged in digital finance. Survey respondents' agencies reported relatively low levels of concern over the challenges of ascertaining and documenting identity and ownership of MSMEs, with somewhat more difficulty seen in risk assessment and transaction screening, but even there a fairly low level of apprehension.

However, our conversations with MSME DFS providers themselves have revealed that they consider establishing identity and ownership—especially in a digital manner—an extremely challenging problem and one which impedes client onboarding and credit decisions. We are not certain why the disconnect exists, but we believe based on such channel checks that these areas are not as well-settled as the regulatory community would think.

[72] As defined in your jurisdiction – if you have a customized definition of SME or MSME please provide details or references.

Our jurisdiction participates in				
Yes	**Partially**	**Planning/ Considering**	**No**	
A national business registry which is accessible on-line	14	6	2	12
A national agency or entity responsible for the promotion of MSMEs	25	3	0	6
Legal entity identifier programs (LEIs) for any entities	8	7	4	15
LEIs specific to MSMEs	6	6	2	19
Verifiable LEIs (vLEIs)	5	4	4	20
Electronic signatures for commercial documents	14	6	4	10
Electronic signatures for government and legal documents	18	6	3	7
Electronic transferable records[91] for trade and invoice documentation	10	5	5	14
National identification credentials for individuals	23	3	1	7

Comments:

A majority of surveyed institutions report that their jurisdiction has a national agency for the promotion of MSMEs, which is seen as a valuable means of coordinating various efforts of regulators, direct credit subsidies, and lawmaking. Majorities also have national identification credentials (which can be leveraged for MSME registration and representation) and accept electronic signatures, at least in some applications. We believe that a positive outcome of the pandemic is that this last items shows significantly more acceptance than would have been the case 3 years ago.

Accessible business registries and legal entity identifiers lag well behind, however, a possible reason why FDS providers report so much difficulty in onboarding.

[91] Within the general meaning and intent set forth by the 2017 United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records (MLETR).

Collateral and Credit			
Our jurisdiction maintains:			
Yes	**Planning / Considering**		**No**
A national public credit information utility, aggregating negative credit information only	8	6	20
A national public credit information utility, aggregating negative and positive credit information	17	5	12
One or more private credit information bureaux	20	4	10
A shared or public KYC registry (national or regional) for businesses, including MSMEs	11	5	18
A program of direct credit subsidies, insurance, or guarantees for MSME credit.	19	7	8

Comments:

Credit bureaus are well-established in the majority of surveyed jurisdictions; however, discussions and interviews reveal that breadth of coverage is an issue. Direct credit guarantees or insurance continue to be among the most popular interventions on behalf of MSMEs, with nearly 80% of respondents either having or considering active programs.

Shared KYC services and registries have failed to make much headway despite considerable attention.

We have regulatory / economic development concerns regarding the credit information infrastructure in our jurisdiction **regarding MSME clients** as to:

Not at all concerned					**Critical concerns**
1		**2**	**3**	**4**	**5**
Accuracy of the data collected in credit databases	6	2	14	5	4
Sufficiency of the data points collected regarding each entity	3	7	12	5	4
Broad inclusion of existing MSMEs in any existing credit databases or information services.	7	7	9	4	4
Broad inclusion of existing MSMEs in any existing credit databases or information services, specific to rural and peripheral areas of the country	7	5	9	7	3
Ratings or algorithmic bias against women-owned MSMEs	7	9	6	7	2
Ratings or algorithmic bias against MSMEs owned by migrants or FDPs	11	7	7	4	2
Ease of access to credit databases by a wide range of financial intermediaries and lenders	11	5	8	3	4
Transparency of information maintained to borrowers, and ability to challenge erroneous data	10	3	8	4	6

Regulatory Concern	**Weighted Concern Rating**
Sufficiency of the data points collected regarding each entity	3.00
Accuracy of the data collected in credit databases	2.97
Broad inclusion of existing MSMEs in any existing credit databases or information services, specific to rural and peripheral areas of the country	2.81
Transparency of information maintained to borrowers, and ability to challenge erroneous data	2.77
Broad inclusion of existing MSMEs in any existing credit databases or information services.	2.71
Ratings or algorithmic bias against women-owned MSMEs	2.61
Ease of access to credit databases by a wide range of financial intermediaries and	2.48

lenders	
Ratings or algorithmic bias against MSMEs owned by migrants or FDPs	2.32

Comments:

National regulators are fairly content with the quality of information collected by credit information services, as well as the transparency and recourse offered. Ratings and algorithmic bias are not a key current concern, although our structured interviews revealed that many regulators are still looking at ways to evaluate and test this going forward, and so are ill-equipped to make decisions about it in the near term.

Our maintains:

Yes	Partially	Planning / Considering	No
Digital/on-line registers for viewing ownership of land and real property	15	3	2	10
Digital/on-line registers for viewing security interests in and liens on land and real property	12	3	3	12
Digital/on-line registers for initiating and perfecting security interests in and liens on land and real property	14	2	4	10
Digital/on-line registers for viewing ownership and security interests in other business assets / movable collateral	12	4	5	9
Digital/on-line registers for initiating and perfecting security interests in other business assets / movable collateral	11	6	4	9
Centralized or distributed on-line registers for invoice discounting or accounts receivable-based finance	7	3	2	18

Comments:

Existence and accessibility of digital property and security interest registers are a key barrier to MSME finance, and one where there is considerable room for improvement based on our survey results. We commend to the attention of interested regulators the applicable sections of this toolkit for reference as to best practices in this area.

Insolvency Restructuring			
As a regulator, we provide incentives for our supervised institutions to:			
Yes	**Planning / Considering**		**No**
Seek voluntary out-of-court restructurings of stressed MSME credit	12	3	15
Re-age or reprofile restructured MSME loans after a period of renewed performance	14	4	12
Engage in collective voluntary corporate debt restructuring (London Approach or other) for multi-creditor exposures	5	4	21
Agree to provide or subordinate to debtor-in-possession or other similar new financing for restructuring companies	6	3	21

Comments:

Voluntary corporate restructuring provisions, including debtor-in-possession financing and other collective action clauses have been seen to be a useful feature of financial system recoveries after credit crises of the last 20 years; however, they tend to receive less attention during good times. None of the insolvency and restructuring rules or interventions surveyed garnered a majority of institutions implementing it, and some such as voluntary CDR and DIP financing had relatively minimal take-up.

Our jurisdiction maintains:			
Yes	**Planning/ Considering**		**No**
A simplified or expedited insolvency process for MSME firms	8	3	19
A simplified or expedited court process for judicial restructuring of MSME firm debts	5	4	21
A process for restoration of troubled MSME firms, including re-aging/classification of restructured debts.	9	3	18
Any specialized "second chance" or standstill process or program in place specifically designed to cope with the effects of the COVID-19 pandemic.	17	1	12
A specialized insolvency court or specialist judges for dealing with insolvency of firms	4	5	21

Comments:

As above, the only judicial measures around MSME insolvency and restructuring to show material take-up were specialized standstill arrangements organized around the COVID-19 pandemic and ensuing economic disruption. These experiences should be carefully studied so as to assess which, if any, interventions might make sense to implement in future crises or as permanent legal features.

Financial Literacy

As a regulator, we are involved in promoting digital financial literacy of SMEs regarding:

Yes		Planning / Considering	No
Specific financial products and services	17	8	5
Rights and responsibilities of borrowers and users of financial products	23	6	1
Best practices in financial and corporate governance	20	6	4
Accounting standards and the promotion of audited financial statements	19	5	6
Protection of financial and client information	21	6	3
Avoiding fraudulent schemes and fake counterparties	21	7	2

Is there a dedicated source of funding for the ongoing promotion of financial literacy?

Yes		Planning / Considering	No
Yes, dedicated industry levy	6	0	1
Yes, dedicated transaction tax	1	0	2
Other dedicated funding	5	0	2
No dedicated funding, annual budget appropriations	20	0	0
No funding	0	0	7

Comments

There is very broad agreement among regulators and other responding agencies that financial literacy and education are important parts of furthering digital financial services take-up among MSMEs,

especially in underserved populations which tend to have lower baseline levels of financial literacy.

Worth noting is that for all of the emphasis (properly) placed in this area, dedicated funding mechanisms are scarce, with most financial literacy efforts being funded with (sometimes sporadic) annual appropriations.

Does your agency (or another government department or agency) periodically survey or measure the financial literacy of MSME owners/managers?			
	Yes	**Planning/ Considering**	**No**
	17	7	5
Consumer Protection			
Has your organization or country taken steps to institutionalize consumer protection and informed disclosure as part of the legal and regulatory regime?			
	Prudential regulatory level for individual institutions	**Distinct consumer protection regulatory level for individual institution**	**Through legal rights with enforcement via judiciary**
Yes	24	0	2
Planned or in progress	20	0	4
No	15	0	6

Comments:

The overwhelming majority of regulators surveyed have made consumer protection and disclosure part of their prudential standards and expectations for licensed institutions, and our structured interviews reported that most were confident that these standards were actually being used in the supervision process. Relatively few jurisdictions have implemented direct consumer protection standards outside the prudential regime as yet, so efforts of supervision and surveillance staff remain critical.

Has your jurisdiction implemented:			
	Yes	**Planning / Considering**	**No**
Laws and regulations covering consumer protection in financial services provided by non-traditional institutions.	17	4	3
Laws and regulations protecting the use and transfer of customer data, even in alternative and digital finance providers.	16	6	6
An ombudsman, complaint bureau, and/or redress procedure for customers who feel these regulations have been violated.	19	3	4
A program of coordination between financial regulators and other ministries and agencies, either ad-hoc or via a centralized coordinating agency.	15	2	4
A public digital register of offenders against such laws and regulations.	7	5	14

Comments:

In the area of consumer protection for financial services provided by non-traditional (including DFS and offline) institutions, regulations are somewhat less well-developed, possibly due to the prevalence of regulation by license type as seen in the responses to question 1. Nevertheless, there is substantial movement in the direction of stronger protections seen in the number of regulators which have partially implemented protections, or which are actively considering or planning to do so.

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Global Partnership for Financial Inclusion
G20 Indonesia Presidency 2022

Progressing the Agenda on

MSMEs Data Harmonization Framework

Halaman ini sengaja dikosongkan

I. Introduction and background

MSMEs play an important role in most emerging and advanced economies, providing a non-negligible contribution in terms of value added, employment, investment and innovation. Difficult access to - or even exclusion from - formal financial services hampers the growth capacity of MSMEs, exacerbates risks during economic crises and can have negative effects at macroeconomic level.

For these reason, policy makers are called upon to identify frictions in the supply and demand of financial services for MSMEs and to act appropriately to mitigate possible financial constraints. Therefore, reliable data covering the main aspects of MSMEs' financial inclusion are crucial for policy makers' decisions in this area.

However, while several international surveys provide useful indicators of adults' financial inclusion (e.g. the WB Global Findex or the IMF Financial Access Survey), similar information for MSMEs is very limited; in particular, gender and other disaggregated supply-side data is generally non-existent. Therefore, progressing data harmonization in this area could make a valuable contribution to global and national efforts to improve the use of financial services by smaller entrepreneurs.

Progressing data harmonization on MSMEs can serve different purposes. First, cross-country information can help inform policies and policy interventions, including an understanding of existing gaps and potential steps ahead. Second, it can facilitate the identification of vulnerable subgroups of MSMEs. Third, it can enhance policy evaluation through the comparison of outcomes across countries and over time. Finally, the collection of cross-country comparable information on MSME financial inclusion can stimulate research on the topic than otherwise would have not been possible.

Of course, while data harmonization has many benefits, it comes with different operational and methodological challenges, particularly when focusing on the pooling and the updating of information into a new integrated dataset in order to ensure consistency and comparability over time. Setting out clearly the policy objectives, timeline and precise scope of data collation is key for the successful outcome of a similar project.

This report contributes to data harmonization on MSMEs in two ways. First, it presents a recognition of the available data sets or surveys that contain information on MSME finance that could be used or adapted to obtain indicators of enterprises financial inclusion. Second, it reports the results of a workshop held in July 2022 to discuss measures that may be implemented by countries to obtain sex-disaggregated data on small business finance. The following sections are organized according to this dual objective.

II. Main international databases on MSME finance

Statistics on firms' financial inclusion could be divided into demand-side and supply-side indicators, depending on the source of information. Demand-side indicators are those based on business surveys that collect firm-level information directly from representative samples of enterprises. Supply-side or administrative data on MSMEs finance are instead provided by national authorities or financial intermediaries or business associations. While supply-side data may be highly reliable when based on official national statistics, they often lack detailed information that allow to properly identify financial exclusion issues. Conversely, demand-side data are rich of information on individual firms but may be less informative if based on small or unrepresentative samples.

Several international agencies and institutions are actively advancing the knowledge base and awareness of the importance of MSMEs financial inclusion data collection and indicators.

II.a) Demand-side

As for demand-side sources of information, highly harmonized data on MSMEs comes from the World Bank Enterprise Surveys (WBES). The WBES provides firm-level data on a broad range of business environment topics including access to finance (other issues are corruption, infrastructure, crime, competition, and performance measures). Currently, over 174,000 firms in more than 150 countries have been surveyed since 2002, with the emerging economies being the primary focus of the survey and a few developed economies being surveyed for comparative purposes. A high degree of comparability of data across countries is ensured by using a "global methodology" that includes the same questionnaires, definitions, sample stratification rules, and data weighting rules. Two indicators of the G20 Financial Inclusion Indicators database are already drawn from the WBES: i) the percentage of MSMEs with an account at a bank or other formal financial institution and ii) the percentage of MSMEs with a loan.

II.b) Supply-side

As for supply-side international data on MSME, the Financial Access Survey (FAS) is a dataset managed by the IMF on access to and use of financial services. The FAS is based on administrative data provided by central banks and other financial regulators. Covering about 190 countries over more than 15 years, the FAS mainly include indicators of financial inclusion related to adults. However, the G20 Financial Inclusion Indicators database borrows from the FAS a couple of indicators for MSMEs (number of MSMEs' deposit accounts and loan accounts as a percentage of non-financial corporation borrowers).

Another relevant example of international supply-side database is the OECD Scoreboard on SMEs and entrepreneurs financing. The Scoreboard reports data for about 50 countries around the world and includes indicators on a wide range of financing channels (debt, equity, asset-based finance, etc.). Moreover, it regularly monitors framework conditions and policy developments. At the individual country level, the Scoreboard provides a coherent picture of SME access to finance overtime. However, there are limits to cross-country comparisons mainly due to differences in the statistical definition of an SME among participating countries.

Overall, existing data collection initiatives face major constraints due to several factors. The most important issues are related to (i) different MSME definitions across surveyed countries; (ii) lack of comparability across methodological approaches; (iii) failures in coordinating efforts among international data collectors, including on specific set of indicators agreed by policy makers, financial institutions, data collectors and stakeholders.

III. The GPFI Workshop on "New Approaches to Closing Finance & Data Gaps for Women-Led Businesses"

Women-owned enterprises may face more severe constraints in the access to formal financial system. However, the financial inclusion of female business is even more difficult to detect or analyse with respect total MSMEs sector for the lack of sex-disaggregated data. For this reason, the GPFI Workshop on "New Approaches to Closing Finance & Data Gaps for Women-Led Businesses" focused on the importance of promoting gender-inclusive MSMEs measurement, both globally and in-country. Co-sponsors of the event included the SME Finance Forum, the WE Finance Initiative (WE-FI), the International Finance Corporation (IFC), the Asian Development Bank (ADB), the Financial Alliance for Women (FAW), the Women20 (W20), the Organization for Economic Cooperation and Development (OECD) and Data2X.

Many panelists shared their experiences spotlighting the leading role the public sector can play in collecting sex-disaggregated data. Most of them reinforced the challenge of taking similar initiatives for SMEs. The differences between the models adopted in several countries highlighted the flexibility required to adapt a global framework to local needs and the resulting challenges in maintaining an appropriate level of data harmonization.

A successful initiative taken in the UK (*UK Investing in Women Code*) has been presented as a possible model for pursuing the double aim *i)* to promote female business financing and *ii)* enabling a better understanding of entrepreneurial gender parity through the collection of sex-disaggregated data. The *UK Investing in Women Code* is a partnership between financial institutions, trade associations and government created that has led over 160 UK financial institutions to start tracking and reporting MSME data on a sex-disaggregated basis. This effort

resulted in a substantial commitment to increase female business financing by domestic financial institutions.

Building on the UK experience, the WE-FI Secretariat proposed a *WE Finance Code* that is a global framework to support women entrepreneurs and address related data gaps. The *Code* would ask signatories to pledge to three actions, including reporting on an aggregate basis a finite number of sex-disaggregated indicators related to financing women-led firms. An annual report would enable benchmarking and data-driven actions by the financial ecosystem to increase access to finance for women entrepreneurs. To encourage a global adoption by as many financial institutions as possible, the *Code* would provide a framework that may be adapted to local needs. Such efforts would be implemented by local champions, including national actors facilitating industry-wide participation. The *Code* would be developed through consultation with a broad set of possible national stakeholders, including governments, authorities, financial intermediaries, development banks, and other players in the financial ecosystem.

Summary and step forward

MSMEs data harmonization is a key element to monitor enterprises' financial gaps and address them. At the same time, it is important to knowledge the many difficulties of such a project, from an organizational, technical and political point of view.

One possible way forward could be to pursue the goal of data harmonization building on the experiences of existing surveys, such as those managed by the World bank, the IMF or the OECD. Of course, this implies a great amount of human, technical and financial resources. As an alternative, less ambitious projects could be pursued, through national initiatives, although based on uniform standards, as it is the proposal of the WE Finance Code.

It is a goal of the GPFI to progress MSMEs data harmonization. The aim of this note is to provide a recognition of different experiences in order to build a solid and shared starting point for next year discussions.

G20/OECD High-Level Principles on Financial Consumer Protection

2022

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G20/OECD High-Level Principles on Financial Consumer Protection

Background

The G20/OECD High-Level Principles on Financial Consumer Protection ("the Principles") were first endorsed by G20 Leaders on 3-4 November 2011 and adopted by the OECD Council on 17 July 2012. The Principles were originally developed by the G20/OECD Task Force on Financial Consumer Protection in response to the call from G20 Leaders to enhance financial consumer protection, as part of the strategic response to the global financial crisis. The Principles set out the elements of an effective and comprehensive financial consumer protection framework.

The Principles were revised and updated in 2021/2022, following a comprehensive and inclusive review conducted by the G20/OECD Task Force on Financial Consumer Protection, in collaboration with the Global Partnership for Financial Inclusion. The review process comprised extensive gathering and analysis of inputs and a public and stakeholder consultation process.

The updated Principles were approved by the Global Partnership for Financial Inclusion at their meeting on 12-13 May 2022 and endorsed by the G20 Finance Ministers and Central Bank Governors at their meeting on 12-13 October 2022. The Principles are transmitted to the G20 Leaders for endorsement at their Summit on 15-16 November 2022.

The Principles are also embodied in an OECD Recommendation, included in the Financial Stability Board Compendium of Standards and referenced in the G20 Financial Inclusion Action Plan.

Context

Financial consumer protection policies play an important role, alongside financial inclusion and financial literacy, to contribute to fairer, more sustainable and inclusive growth and financial system stability. It is important for people to have access to quality financial products and services, be included in the financial system, have support to make informed decisions and have appropriate protections in place, for instance to adequately protect people from harms or provide redress mechanisms when harms occur. Consumer finance policies are enhanced by broader policies aimed at efficient financial system stability, regulation and corporate governance, to support the financial resilience and ultimately the well-being of individuals, families and communities.

The G20, via the GPFI, have played a key role in supporting and elevating the importance of financial inclusion, financial consumer protection and financial literacy in the international arena. Since the endorsement of the Principles by G20 Leaders in 2011, the GPFI has produced among others: the G20 High-Level Principles for Digital Financial Inclusion (2016); the G20 Fukuoka Policy Priorities on Aging and Financial Inclusion (2019); the G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth,

Women and SMEs (2020); and the G20 Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection (2021).

This body of work, guided by the Principles, recognises that consumer trust and confidence is also important for the proper functioning of the financial system, and consumers should be knowledgeable, safe and secure in their dealings with financial services providers and their intermediaries. The integration of financial consumer protection policies into regulatory and supervisory frameworks therefore contributes to strengthening financial stability, addresses information asymmetries, and ensures that consumers are treated fairly and adequately protected from harms.

Among other important aspects, the updated Principles recognise the importance of advancements, such as financial innovation and digitalisation. They aim to support policymakers in ensuring that consumers can benefit from these new opportunities while managing risks to consumers and maintaining an appropriate degree of financial consumer protection. The updated Principles recognise that some consumers may experience vulnerability in the context of financial transactions or be exposed to risks such as frauds and scams due to a combination of personal characteristics (e.g. disability, age, gender, low education or poor linguistic proficiency), behavioural biases (e.g. overconfidence, information overload, impulsiveness, cognitive limitations) and market conditions (e.g. unemployment).

Importantly, the updated Principles incorporate lessons learnt from the impact of the COVID-19 pandemic on consumers of financial products and services and trends and developments impacting consumers, such as digitalisation and sustainable finance. These aspects ensure the updated Principles are forward looking, represent best practice and contribute to consumers' financial resilience and well-being.

The Principles are monitored and maintained by the G20/OECD Task Force on Financial Consumer Protection, which conducts assessments of implementation at regular intervals.

Cross-cutting themes

The following cross-cutting themes are relevant to the consideration and/or implementation of each and all of the Principles, which are set out below:

- The **financial well-being** of financial consumers[1] and their resilience. Financial consumer protection policies should contribute to the overall financial well-being and financial resilience of consumers.[2]
- The impact, opportunities and risks of **digitalisation and technological advancements** for financial consumers. This includes considering the ways that consumers increasingly interact with digital financial products and services including cryptoassets and digital currencies, consumer behaviour in a digital environment, the impact of greater use of artificial intelligence, machine learning technology and algorithms.
- The impact, opportunities and risks of **sustainable finance** for financial consumers. This includes considering that financial services providers are increasingly incorporating environmental, social and governance (ESG) and other sustainability-related factors into their operations, products and services, and growing consumer demand for such products.

[1] While the meaning of financial consumer is not defined so as not to restrict coverage, it is generally considered to include private individuals at a minimum, but may also include micro and small enterprises however defined by jurisdictions.

[2] An OECD working definition of individual financial well-being refers to being in control, feeling secure and having freedom about one's own current and future finances, based on objective and subjective factors.

Principles

Principle 1: Legal, Regulatory and Supervisory Framework

Financial consumer protection should be an integral part of the legal, regulatory and supervisory framework, it should comprehensively cover all types of financial products and services and should reflect the diversity of national circumstances and global market and regulatory developments within the financial sector.

Regulation should reflect and be proportionate to the characteristics, types, risks and variety of the financial products and services, providers and consumers. Regulation should account for the various rights and responsibilities of the relevant actors and be responsive to new products, services, designs, technologies and delivery channels. Approaches should be developed to address new delivery channels for financial products and services, including through digital distribution, while preserving the potential benefits of these channels for consumers. Strong and effective legal and judicial or supervisory mechanisms should exist to protect consumers from and sanction against misconduct, financial frauds, abuses and errors.

The legal, regulatory and supervisory framework should provide regulators and supervisors with an appropriate regulatory toolkit which is flexible so they can adapt to emerging risks as required, including to changes at the regulatory perimeter. Where relevant, to complement approaches relating to conduct and processes, the framework could include promoting appropriate outcomes for consumers to contribute to their financial well-being.

Financial services providers and intermediaries[3] should be appropriately and proportionately regulated and/or supervised, with account taken of relevant service and sector specific approaches.

Relevant non-governmental stakeholders – including industry (including small business) and consumer organisations, professional bodies and research communities – should be consulted when policies related to financial consumer protection and education are developed or reviewed. Access of relevant stakeholders and in particular consumer organisations to such processes should be facilitated and enhanced.

Principle 2: Role of Oversight Bodies

There should be oversight bodies (dedicated or not) explicitly responsible for financial consumer protection, with the necessary authority to fulfil their mandates. They require clear and objectively defined responsibilities and appropriate governance; operational independence; accountability for their activities; adequate powers; resources and capabilities; defined, effective and transparent enforcement framework and clear and consistent regulatory processes. Oversight bodies should observe high professional standards, including appropriate standards of confidentiality of consumer and proprietary information and the avoidance of conflicts of interest.

Oversight bodies should have the capability, flexibility and the appropriate range of tools and powers to carry out their role. This may mean adapting market monitoring, for instance relating to technological or sustainable finance developments, or the power to intervene in specific, high-risk products to protect consumers from harm where appropriate. Oversight bodies should regularly assess the effectiveness of supervision tools and enforcement mechanisms. Effective enforcement mechanisms may include, for example, penalties, sanctions, licence revocation, variations in permissions to trade, publicising enforcement outcomes, compensation, restitution and other remedies.

[3] Intermediaries are understood to mean third parties acting for the financial services provider or in an independent capacity. They include any agents (tied and independent agents), representatives, brokers, advisors and distributors etc.

The oversight approach should ensure that policy, regulatory and supervisory actions that promote financial innovation, stability, integrity, inclusion or other objectives appropriately account for their effects on financial consumer protection and consumer outcomes.

Co-operation with other financial services oversight authorities and between authorities or departments in charge of sectoral issues should be promoted. A level playing field across financial products and services should be encouraged as appropriate. International co-operation between oversight bodies should also be encouraged, while specific attention should be considered for consumer protection issues arising from international transactions, including cross-border payments, marketing and sales, and risks arising from digitalisation and automation of financial products and services.

Principle 3: Access and Inclusion

Governments, oversight bodies and financial services providers and intermediaries should seek to support consumers' access to and use of financial products and services where possible and promote an inclusive financial system. Achieving these objectives requires both addressing barriers that prevent consumers from accessing and using financial products and services in the formal, regulated financial system, as well as ensuring consumers remain included in the financial system, for example, in the event of financial hardship or other circumstances giving rise to financial exclusion.[4] To support this, policy makers and oversight bodies should consider embedding financial inclusion and financial consumer protection objectives in policies and strategies relating to innovation.

Governments, oversight bodies, and financial service providers should leverage digitalisation where relevant, including the use of interoperable systems. At the same time, it should be recognised that consumers may have different needs and levels of digital skills that affect financial access and usage, for instance, access to cash and traditional forms of financial services may be important for some consumers.

Principle 4: Financial Literacy and Awareness

Financial literacy[5] and awareness should be promoted by all relevant stakeholders as part of a wider financial inclusion and/or literacy strategy. Appropriate mechanisms should be developed to help consumers gain the knowledge, skills, behaviours and attitudes to be aware, understand risks and opportunities, make informed choices, know where to go for assistance, and take effective action to support their financial well-being and resilience. Such mechanisms may also involve enhancing digital financial literacy skills, raising awareness of digital security risks and promoting safe online and digital transactions.

Financial literacy programmes, including clear and timely information on consumer protection, rights and responsibilities, should be easily accessible by all consumers and should be promoted, especially for relevant target groups, for example, those experiencing vulnerability.

Taking into account national circumstances, financial literacy and awareness programmes should be delivered through diverse and appropriate channels, including digital ones where relevant. Financial literacy programmes should begin at an early age and be accessible for all life stages, and should include mechanisms to evaluate and improve their effectiveness. Further, national and international comparable information on financial literacy and awareness should be collected in order to assess and enhance the effectiveness of approaches to financial literacy. All relevant stakeholders should be encouraged to

[4] Financial inclusion generally refers to the effective and quality access to and usage of – at a cost affordable to the customers and sustainable for the providers – financial services provided by formal institutions: 2017 G20 Financial Inclusion Action Plan, GPFI July 2017.

[5] Financial literacy is defined as a combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being: OECD 2020. Some jurisdictions use different terms, for example, financial capability. Financial education is understood as the process to achieve financial literacy and ultimately supporting financial well-being.

implement the international principles, guidelines and methodologies on financial literacy developed by the OECD International Network on Financial Education (INFE).

Principle 5: Competition

Fair, efficient and competitive markets should be promoted in order to provide consumers with greater choice amongst financial products and services, create competitive pressure on providers to offer quality and competitively priced products, enhance innovation, foster inclusion and maintain high service quality. Policy makers should aim to ensure that competition between providers meets these objectives without compromising consumer outcomes. Consumers should be able to search, compare, share data and, where appropriate, switch between products and providers easily and at reasonable and disclosed costs, for instance by leveraging interoperable systems.

Principle 6: Equitable and Fair Treatment of Consumers

All financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial services providers. Treating consumers fairly should be an integral part of the good governance and corporate culture of all financial services providers and intermediaries. The enhanced use of digital technology to support decision making by financial services providers should not lead to inappropriate or discriminatory outcomes for consumers.

Special attention should be paid to the treatment of consumers who may be experiencing vulnerability. Approaches may take into account that consumer vulnerability can manifest differently and be applicable in different circumstances, and may be due to a combination of personal characteristics, economic situations and market conditions. Approaches could include, for example, the provision of impartial debt advice for consumers suffering financial hardship due to over-indebtedness.

Principle 7: Disclosure and Transparency

Financial services providers and intermediaries should provide consumers with key information on the fundamental benefits, risks and terms of the product, including for cross-border payments and other transactions and regardless of the distribution channel. They should also provide information on conflicts of interest associated with the intermediaries through which the product is sold.[6]

In particular, appropriate information should be provided on material aspects of the financial product at all stages of the relationship with the consumer. All financial promotional material should be accurate, honest, understandable, transparent and not misleading. Standardised pre-contractual disclosure practices (e.g. forms) should be adopted where applicable and possible to allow comparisons between products and services of the same nature. Specific disclosure mechanisms, including possible warnings, should be developed to provide information commensurate with the complexity and riskiness of products and services. The use of digital channels may provide innovative opportunities to engage consumers with disclosure information via different formats.

Where possible, consumer research should be conducted and behavioural insights used to help determine and improve the effectiveness of disclosure requirements, acknowledging the limits to disclosure by itself in terms of ensuring consumer understanding and engagement. Improved transparency may help consumers make more informed choices and encourage financial institutions to address these factors. For example, as sustainable finance becomes increasingly important to consumers and financial services

[6] Financial services providers and intermediaries should provide clear, concise, accurate, reliable, comparable, easily accessible, and timely written and oral information on the financial products and services being offered, particularly on key features of the products and (where relevant) on possible alternative services or products, including simpler ones, they provide. In principle, information should include prices, costs, penalties, surrender charges, risks and termination modalities.

providers, transparency on methodology will be important to help consumers understand their investments and counter the risk of greenwashing.[7]

Consumers should also be made aware of the importance of providing financial services providers with relevant, accurate and available information.

Principle 8: Quality Financial Products

Quality financial products are those that are designed to meet the interests and objectives of the target consumers and to contribute to their financial well-being. There should be appropriate product oversight and governance by financial services providers, and where appropriate, by intermediaries, to ensure that quality financial products are designed and distributed. This may include requirements for appropriate systems to design, approve, manage and monitor financial products through their life cycle to ensure that they meet the interests and objectives, and aim to contribute to the financial well-being, of consumers that the products and services are designed for, as well as the relevant regulatory requirements.

In order to promote quality financial products that offer value to consumers, financial services providers may be required to define a target market for a financial product, conduct research and consider behavioural insights to understand the target market and, depending on the type, complexity and risk of the product, carry out testing before launching the product.

Principle 9: Responsible Business Conduct and Culture of Financial Services Providers and Intermediaries

Financial services providers and intermediaries should have as an objective to work in the best interest of consumers and be responsible for upholding financial consumer protection. Financial services providers should also be responsible and accountable for the actions of their intermediaries.

The conduct and culture of financial services providers and their intermediaries should be aligned to promoting the fair treatment of consumers and achieving appropriate consumer outcomes that contribute to their financial well-being.

Depending on the nature of the transaction and based on information primarily provided by consumers, financial services providers and intermediaries should assess the related financial capabilities, situation and needs of consumers before agreeing to provide them with a product, advice or service. They should recommend to consumers suitable products or services that aim to deliver appropriate outcomes and ultimately contribute to their financial well-being.

Financial services providers and intermediaries (especially those who interact directly with consumers) should be properly trained and qualified. Financial services providers and intermediaries should endeavour to avoid conflicts of interest, for example, from remuneration or other incentive structures. When such conflicts cannot be avoided, financial services providers and intermediaries should mitigate the impact by having in place internal mechanisms to manage such conflicts, ensure proper disclosure or decline to provide the product, advice or service. Disclosure as a means of effectively managing conflicts of interest may be limited due to consumer understanding and behavioural responses, and behavioural insights should be used, where relevant, to test and inform approaches.

The provision of advice, regardless of the distribution channel, should be objective, in the best interests of the consumer and should be based on the consumer's profile considering the complexity of the product,

[7] Generally, greenwashing is understood as financial products being marketed as being more environmentally friendly than they are.

the risks associated with it, as well as the consumer's financial objectives, knowledge, capabilities and experience.

The remuneration structure for both financial services providers and intermediaries should be disclosed and made transparent to consumers, and be designed to encourage responsible business conduct, fair treatment of consumers and to avoid conflicts of interest.

Principle 10: Protection of Consumer Assets against Fraud, Scams and Misuse

Relevant information, control and protection mechanisms should be appropriately developed and implemented by oversight authorities and financial services providers and with a high degree of certainty protect consumers' deposits, savings, and other similar financial assets, including against fraud, scams, misappropriation or other misuses. These protection mechanisms should be readily adapted to the ways new technologies, such as digital assets, are used, as well as to online scams, fraud and misuse, and other digital security risks. They should include clear and transparent liability arrangements between financial services providers and consumers in the event of financial loss.

Policy makers and oversight authorities should work collaboratively with relevant stakeholders, including other government and regulatory agencies, digital security agencies, law enforcement agencies, financial services industry and utility companies, to raise public awareness of digital security risks and promote safe online and digital transactions.

Principle 11: Protection of Consumer Data and Privacy

Consumers' financial and personal information should be protected through appropriate control and protection mechanisms. These mechanisms should define the purposes for which the data may be collected, processed, held, used and disclosed (especially to third parties). The mechanisms should acknowledge the rights of consumers regarding consenting to data-sharing, accessing their data, being informed about breaches impacting their data, and seeking redress such as the prompt correction and/or deletion of inaccurate, or unlawfully collected or processed data. There should be co-operation among oversight bodies responsible for consumer data protection and privacy.

Principle 12: Complaints Handling and Redress

Jurisdictions should ensure that consumers have access to adequate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient. Technology may be leveraged to facilitate the effective design of these mechanisms, which should not impose unreasonable cost, delays or burdens on consumers. The needs of consumers, including those experiencing vulnerability, should be considered when designing and publicising complaints handling and redress mechanisms.

In accordance with the above, financial services providers and intermediaries should have in place mechanisms for complaint handling and redress. Such mechanisms should allow providers to monitor and address systemic issues and support improved financial consumer outcomes.

Recourse to an independent redress process should be available to address complaints that are not efficiently resolved via the financial services providers' and intermediaries' internal dispute resolution mechanisms. At a minimum, aggregate information with respect to complaints and their resolutions should be made public. Information relating to consumer complaints should be available to oversight bodies to support their supervisory or enforcement functions.

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2022 Updated G20/OECD High-Level Principles on SME Financing

G20 Finance Ministers and Central Bank Governors (FMCBG)

July 2022

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Table of contents

1 Preamble 3
Background 3
Key developments in the landscape for SME finance since 2015 5
Process and timeline for the update of the Principles 8

2 2022 Updated G20/OECD High-Level Principles on SME Financing 9
1. Identify SME financing needs and gaps and improve the evidence base 9
2. Improve transparency in SME finance markets 9
3. Design regulation that supports a range of financing instruments for SMEs, while ensuring financial stability and investor protection 10
4. Promote financial inclusion for SMEs and ease access to formal financial services, including for informal firms 10
5. Enhance SME financial skills and strategic vision 10
6. Strengthen SME access to traditional bank financing 11
7. Enable SMEs to access diverse non-traditional financing instruments and channels 11
8. Leverage the role of financial technologies, Fintech institutions and digital relationships to reduce barriers to SME access to finance 12
9. Strengthen the availability and uptake of sustainable finance for SMEs 12
10. Strengthen the resilience of SME finance in times of crisis 12
11. Encourage timely payments in commercial transactions and public procurement 13
12. Design public programmes for SME finance which ensure additionality, cost effectiveness and user-friendliness 13
13. Adopt principles of risk sharing for government-supported SME finance instruments 13
14. Monitor and evaluate public programmes to enhance SME finance 13

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1 Preamble

Background

1. Small and medium-sized enterprises (SMEs)[1], including micro-enterprises, are important engines of innovation, growth, job creation and social cohesion in high income and emerging economies as well as low-income developing countries (LIDCs)[2]. However, they also experience gaps in relation to larger companies, such as in the areas of productivity, digitalisation and others. SMEs and entrepreneurs can only reach their full potential if they obtain the finance they need to start, sustain and grow their business.

2. A lack of appropriate forms of finance is a long-standing hurdle for SMEs, with varying severity of financing constraints across countries. In developing countries, credit to the private sector as a share of GDP is well below the average in high-income countries, SME loans represent a smaller proportion of business credit, and the lack of a well-developed financial infrastructure poses challenges[3]. Financing is also a major constraint in advanced economies, where financing gaps for SMEs and entrepreneurs persist, and where SMEs remain more vulnerable to shocks and downturns than their larger counterparts. For example, the 2008-09 financial and economic crisis had long-lasting impacts on SME access to finance. Furthermore, the recent economic crisis caused by the COVID-19 pandemic disproportionately affected SMEs, requiring significant policy responses to ensure that finance could continue to flow to these firms.

3. SMEs are typically at a disadvantage with respect to large firms when accessing finance, owing to opacity, under-collateralisation, high transaction costs and lack of financial skills. As a consequence, SMEs generally face higher interest rates, tighter borrowing terms and are more likely to be credit-rationed than large firms. Informal SMEs in particular may be unserved or underserved by financial institutions. Capital gaps also exist for innovative and growth-oriented firms, as well as for medium-sized enterprises that seek to invest and expand, and for SME seeking to undertaken green investments. Furthermore, financial sources tend to dry up more rapidly for small firms than for large companies during economic downturns, making the economic and social consequences of crises more severe and long-lasting for SMEs. More generally, financing needs and constraints vary widely across the business population, with firm size, age of the firm, phase of business development, and gender, ethnicity and other characteristics of the business

[1] It should be noted that SMEs are defined differently across countries and regions, reflecting specificities in the economic, social and regulatory environment. In addition, different definitions are adopted for different policy purposes, such as based on profitability for taxation purposes or on number of employees for employment legislation.

[2] In high-income economies, SMEs undertake the majority of private economic activity, accounting for more than 60% of private sector employment and 50% of private sector GDP. In emerging economies, SMEs contribute on average to more than 50% of private sector employment and 40% of private sector GDP. In LIDCs, SMEs contribute significantly to broadening employment opportunities, social inclusion and poverty reduction.

[3] Financial infrastructure refers to the framework and institutions for financial sector transactions, and includes elements such as payment systems, credit information bureaus and collateral registries.

owner having an important bearing on the type of financing needed as well as on access to different sources of financing.

4. While many SMEs face problems obtaining bank finance[4], access to non-bank financing is often even more constrained[5], despite recent improvements in SME uptake of alternative financing instruments. Most sources of finance beyond straight bank debt[6] are at the reach of only a small share of SMEs, especially in economies where private capital markets are thin and SMEs lack the scale, knowledge and skills to approach alternative sources of finance. While bank financing will continue to be crucial for the SME sector across all economies, the need to develop a more diversified set of options for SME financing remains pressing, in order to reduce the vulnerability of SMEs to changes in credit market conditions, strengthen their capital structure, seize growth opportunities and boost long-term investment. This will also contribute to the resilience of the financial sector and the real economy and to fostering new sources of growth that help address key challenges such as digitalisation and sustainability. Financial diversification has become even more compelling in the post-pandemic world, where higher levels of business debt and the prospect of higher interest rates could pose challenges for SME debt management.

5. The origins of the G20/OECD High-Level Principles on SME Financing date back to April 2015, when the G20 Finance Ministers and Central Banks' Governors asked the OECD, together with other relevant international organisations, to develop voluntary high-level principles on SME financing[7]. These Principles, welcomed by G20 Leaders in November 2015, are voluntary and non-binding, and emphasise the need to strengthen SME access to traditional bank financing, while also promoting non-bank finance. The Principles are addressed to G20 and OECD members and other interested economies, since they can apply to different economic, social and regulatory environments. They provide broad guidelines for the development of cross-cutting policy strategies, policy benchmarking and the assessment of initiatives on SME financing at the local, national and international levels. They are complementary to other ongoing efforts to identify operational solutions to support SME financing, in particular those undertaken through the work of the G20 Global Partnership on Financial Inclusion (GPFI). The Principles also aim to encourage dialogue, exchange of experiences and coordination, including regulatory coordination, among stakeholders in SME finance, including policy makers, financial institutions, research institutions and SME management. They are included in the Compendium of Standards of the Financial Stability Board (FSB).

6. Following the development of the G20/OECD High-Level Principles on SME Financing, G20 Leaders called for support to identify effective approaches to facilitate the implementation of the Principles through their 2015 Antalya Action Plan. Following this request, in July 2018, the G20/OECD Effective Approaches for Implementing the G20/OECD High-Level Principles on SME Financing were developed and issued in July 2018. This report highlights common approaches in the implementation of the Principles across G20 and OECD countries, based on the results of two surveys submitted to policy makers through

[4] Banks are defined here as licensed financial institutions, including chartered banks and credit unions, whose primary role is to receive monetary deposits from individuals and organizations, and to supply credit and other financial services to households and businesses.

[5] This is especially true for groups already at a disadvantage in credit markets, such as women and minority-owned businesses.

[6] Straight bank debt includes bank loans, overdrafts, credit lines and the use of credit cards. The defining characteristic of straight debt instruments is that they represent an unconditional claim on the borrower, who must pay a specified amount of interest to creditors at fixed intervals, regardless of the financial condition of the company or the return on the investment. The interest rate may be fixed or adjusted periodically according to a reference rate. Straight debt does not include any features other than payment of interest and repayment of principal, i.e. it cannot be converted into another asset, and bank claims have high priority in cases of bankruptcy ('senior debt').

[7] OECD (2018), "G20/OECD Effective Approaches for Implementing the G20/OECD High-Level Principles on SME Financing", Effective-Approaches-for-Implementing-HL-Principles-on-SME-Financing-OECD.pdf.

the OECD Working Party on SMEs and Entrepreneurship (now the OECD Committee on SMEs and Entrepreneurship) and the G20/OECD Task Force on Institutional Investors and Long-Term Financing (now the G20/OECD Task Force on Long-term Investment).

Key developments in the landscape for SME finance since 2015

7. Since the release of the G20/OECD High-Level Principles on SME Financing in 2015, there have been several important developments in the landscape for SME finance, which call for updating the Principles. For example, financial technologies (Fintech) and Fintech institutions have continued to grow in importance, particularly in developing and emerging economies where digital technologies are making it possible to deliver new financial services to previously excluded low-income individuals and businesses. In contexts characterised by high information asymmetries, Fintech has become a powerful tool for financial inclusion, by leveraging the speed, security and transparency of digital technologies. Across both high-income and middle-income economies, the use of online banking has continued to spread, both in traditional banks that offer an increasing number of services online, and through the proliferation of fully online banks. The use of digital credit scoring methodologies has also been growing, while collateral registries and credit bureaus have increasingly gone online, making financial information easier to access. Fintech platforms, such as those dedicated to peer-to-peer lending and crowdfunding, have also seen rapid growth in recent years.

8. Another important development relates to the increasing priority that governments attach to sustainability concerns, including adapting to and mitigating climate change[8]. Given the predominance of SMEs in the business economy and in greenhouse gas emissions by businesses[9], as well as their important contributions to green solutions, these businesses will play a central role in meeting ambitious climate objectives. In this context, the role of sustainable finance for SMEs takes on greater importance, as research shows that lack of financing[10] is a key challenge these firms face when trying to undertake green actions in the transition to a more sustainable economy[11]. Furthermore, the challenges SMEs face in adapting to sustainable finance market practices and other emerging environmental, social and governance (ESG) disclosure requirements may limit their ability to tap into sustainable financing instruments.

9. Furthermore, beginning in 2020, the world experienced an unprecedented global economic crisis brought about by the COVID-19 pandemic and extended lockdowns. These events underlined the need to strengthen the resilience of SME financing, particularly in times of crisis. The crisis highlighted the critical role that responsive public support can play in addressing liquidity constraints of SMEs; in reducing the social and economic consequences of crisis; and in ensuring that otherwise viable businesses can survive. It also demonstrated the importance of adapting government policy responses to a rapidly evolving context,

[8] 197 Parties signed the Paris Agreement on Climate Change at the COP21 meeting on 22 April 2015. This Agreement aims to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

[9] SMEs are estimated to account for 50-70% of GHG emissions in the business sector.

[10] For instance, 27% of European SMEs signal a lack of financial resources as the main reason preventing them from becoming more sustainable, significantly higher than for large firms.

[11] With a view to supporting SMEs' access to sustainable finance, the OECD launched at the end of 2021 the OECD Platform on Financing SMEs for Sustainability, which provides a forum to foster dialogue and knowledge sharing among public and private financial institutions, policy makers and SME representative organisations on the topics related to financing for the SME green transition.

so that public support reaches its intended beneficiaries[12], and of deploying an appropriate mix of instruments, so that increased public and private debt do not become a stumbling block for recovery.

10. Finally, there has been a growing demand by policy makers for more disaggregated information on SME access to finance, in order to strengthen the evidence base and design policy responses tailored to different business needs, for example at regional or sector level, or based on the gender of the business owner[13]. These issues warrant additional attention in the context of efforts to improve demand- and supply-side data collection on SME finance[14].

11. The 2022 Updated G20/OECD High-Level Principles on SME Financing takes these important developments into account through the inclusion of three new Principles:

- Principle 8: Leverage the role of financial technologies, Fintech institutions and digital relationships to reduce barriers to SME access to finance.
- Principle 9: Strengthen the availability and uptake of sustainable finance for SMEs.
- Principle 10: Strengthen the resilience of SME finance in times of crisis.

12. The content of Principle 1 has also been updated to reflect the emphasis on the need for more disaggregated data on SME financing. Other Principles have also been the subject of updates to reflect the latest developments.

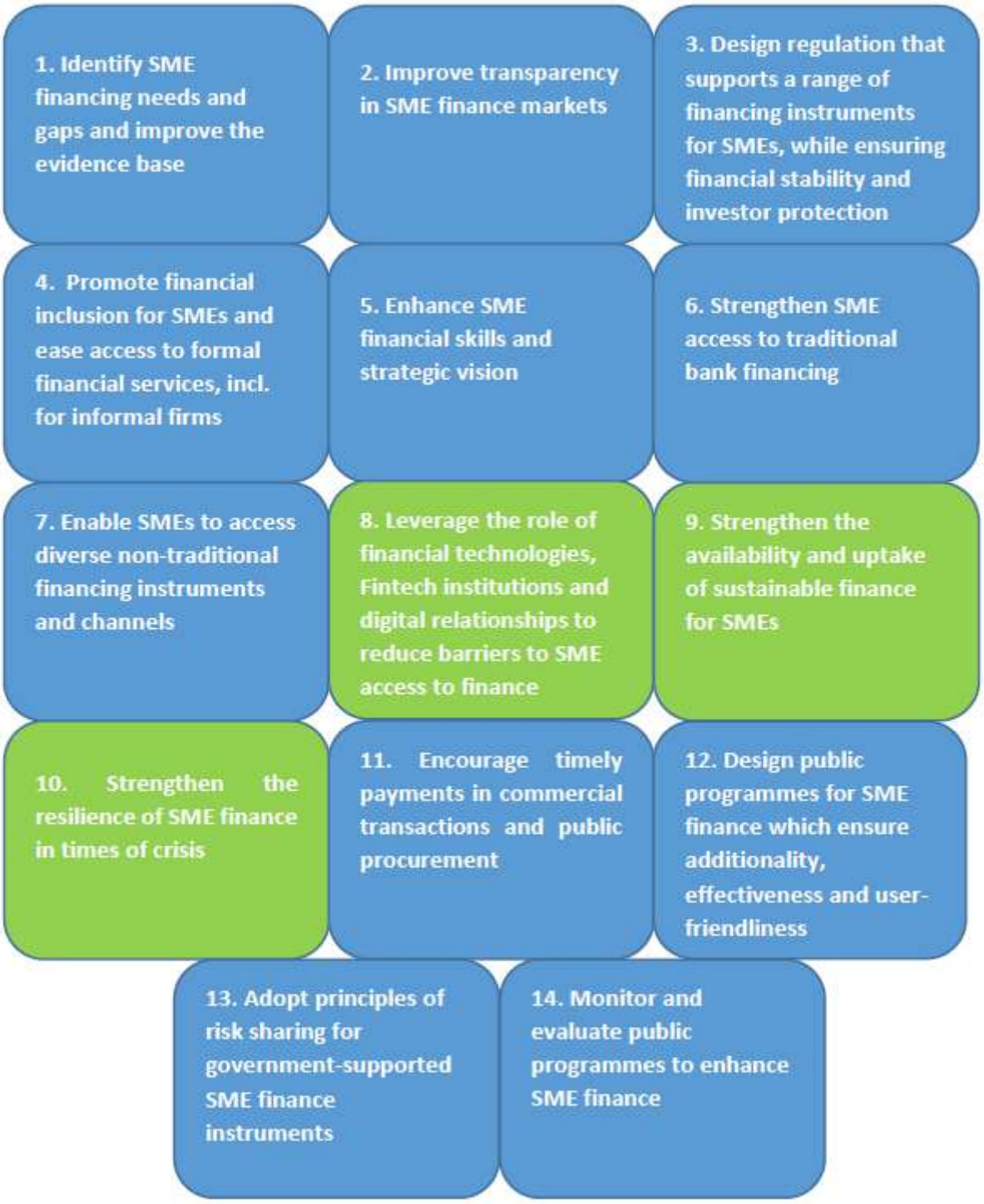
13. Figure 1.1 provides a graphic representation of the 2022 Updated OECD/G20 High-Level Principles on SME Financing, with the new Principles highlighted in green. The ordering of the Principles has also been changed compared to the 2015 Principles, to go from the ones at the more macro level, for example concerning the regulatory framework, to the ones at the more micro level, for example dealing with issues related to policy design and implementation.

[12] The COVID-19 crisis also showed that, especially in emerging and developing economies, certain segments of the business population, such as informal entrepreneurs and workers, found it more difficult to access public support when needed.

[13] For example, women entrepreneurs face specific barriers to receiving external finance, which is a consequence of many women-owned businesses clustering in low-margin, low-growth industries, but also of an insufficiently strong understanding of the needs and drivers of women entrepreneurs by financial institutions.

[14] The GPFI, for example, is undertaking work on the collection of cross-country comparable information on SME financial inclusion, looking at both demand- and supply-side data.

Figure 1.1. Updated OECD/G20 High-Level Principles on SME Financing at a glance



Process and timeline for the update of the Principles

14. In June 2020, the G20 International Financial Architecture (IFA) Working Group discussed the evolution and trends in SME financing polices since the global financial crisis, based on the presentation of a paper by the OECD Secretariat[15]. In their July 2020 Communiqué and first G20 Action Plan progress report, G20 Finance Ministers and Central Bank Governors (FMCBG) noted that the OECD would consider reviewing and refining, as necessary, the G20/OECD High-Level Principles on SME Financing to incorporate the most recent data and financial developments[16]. The 2021-22 OECD Programme of Work includes the development of an update to the Principles, under the OECD Committee on SMEs and Entrepreneurship (CSMEE). In their October 2021 Communiqué, the FMCBG looked forward to the revision of the G20/OECD High Level Principles on SME Financing in 2022[17]. In February 2022, the FMCBG also looked forward to this revision, to be deliberated by the OECD Committee[18].

15. The update of the Principles was channelled through the OECD CSMEE, in consultation with the G20/OECD Task Force on Long-term Investment, which brings together OECD countries and the G20. A light consultation was also undertaken with the G20 Global Partnership on Financial Inclusion (GPFI). Other OECD and G20 groups and stakeholders were consulted on specific issues or principles in the Update[19]. The preparation of the update proceeded along the following timeline:

- End-March: first draft of the Updated Principles circulated in writing to the OECD CSMEE and the G20/OECD Task Force on Long-term Investment.
- 12-13 April: Presentation and discussion in the CSMEE.
- 27-28 April: Presentation to the OECD International Network on Financial Education (INFE).
- 28-29 April: Presentation and discussion in the G20/OECD Task Force on Long-Term Investment.
- 12-13 May: Presentation and discussion in the G20 GPFI.
- May: second revised version circulated to the CSMEE and Task Force in writing for any further written comments by 31 May 2022.
- June: Circulation of third revised draft to the CSMEE for agreement, along with the Task Force.
- July: Transmission of the document to the G20 Finance Ministers and Central Bank Governors.

16. Comments received throughout this process were carefully considered and fed into the development of the final draft of the 2022 Updated G20/OECD High-Level Principles on SME Financing, which was submitted for agreement on 17 June 2022 to the OECD the OECD Committee on SMEs and Entrepreneurship, along with the G20/OECD Task Force on Long-term Investment. The final version was approved on 30 June, and the 2022 Updated G20/OECD High-Level Principles on SME Financing are now transmitted, as planned, to G20 Finance Ministers and Central Bank Governors.

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[15] OECD (2020), "Evolution and Trends in SME Finance Policies since the Global Financial Crisis", Policy developments in SME finance since the global financial crisis (oecd.org).

[16] Virtual meeting of the G20 finance ministers and central bank governors, 18 July 2020, Communiqué, Communiqué: G20 Finance Ministers and Central Bank Governors, April 15, 2020 (utoronto.ca).

[17] Italian G20 Presidency, Fourth G20 Finance Ministers and Central Bank Governors meeting, Communiqué, 13 October 2021, https://www.mef.gov.it/inevidenza/2021/article_00064/G20-FMCBG-Communique-Fourth-G20-FMCBG-meeting-13-October-2021.pdf.

[18] G20 Finance Ministers and Central Bank Governors Meeting, 17-18 February 2022, Jakarta, Indonesia, Communiqué, https://g20.org/wp-content/uploads/2022/02/G20-FMCBG-Communique-Jakarta-17-18-February-2022.pdf

[19] For example, the International Network on Financial Education (INFE) was consulted on the Principle on financial skills and strategic vision.

2 2022 Updated G20/OECD High-Level Principles on SME Financing

17. The Update of the G20/OECD High-Level Principles on SME financing is addressed to the G20 and OECD members and other interested economies to support their efforts to enhance access to a diverse range of financing instruments by SMEs, including micro-enterprises, informal enterprises and entrepreneurs. The principles are voluntary and non-binding, and build on existing international financial principles and guidelines.

18. Cross-cutting policy strategies to enhance SME access to finance are needed to provide a coherent framework for government actions in this area, within the broader policy ecosystem for SMEs. Such strategies are instrumental to define specific policy objectives; design, coordinate and implement policy measures; and to provide a framework for monitoring and evaluation[1].

19. The Principles that follow may serve the development of such strategies. They can apply to diverse circumstances and different economic, social and regulatory environments.

1. Identify SME financing needs and gaps and improve the evidence base

20. As a first step in developing a strategy to enhance SME access to finance, governments should assess the extent to which SMEs' financing needs are met and where gaps exist, in cooperation with relevant stakeholders, including central banks and financial supervisory authorities, financial and research institutions, financial sector organisations[2] and SME representatives, among others. This requires a strong evidence base and a better understanding of SME financing needs and challenges by public authorities and financial suppliers.[3] Efforts should be placed on improving statistical information on SME financing, including through the use of public identification codes to match data about the same company from different datasets, particularly in developing economies, where a lack of reliable evidence constrains policy design, implementation and assessment. Furthermore, the heterogeneity of SMEs and SME financing conditions requires adapted policy solutions. Efforts to collect and disseminate more disaggregated data, including breakdowns by size, sector, location, age and stage of development of the firm, and gender of the business owner[4], can enable the design of policies that are tailored to specific business needs. This calls for cooperation at the national and international levels (including through an expansion of the OECD Scoreboard on Financing SMEs and Entrepreneurs) to increase transparency regarding definitions, improve the comparability of data and indicators[5], within and across countries, and regulatory coordination, and shed light on outstanding financing gaps, issues and good practices[6].

2. Improve transparency in SME finance markets

21. Information asymmetries in finance markets should be reduced to increase market transparency, encourage greater investor participation and reduce financing costs for SMEs. Information infrastructures

for credit risk assessment[7] should aim to support an accurate evaluation of the risk in SME financing. To the extent possible and appropriate, credit risk information should be standardised and made accessible to relevant market participants and policy makers to foster both debt and non-debt SME financing instruments[8]. Making such infrastructure available online can facilitate access and use by market participants. Accessibility of this information at the international level should be supported to foster SMEs' cross-border activities and participation in global value chains. Governments can also consider open banking, with a view to further improving transparency in credit markets and increasing competition in the banking sector, while ensuring data protection and privacy rights[9].

3. Design regulation that supports a range of financing instruments for SMEs, while ensuring financial stability and investor protection

22. Policy makers and regulatory authorities should ensure that regulation is designed and implemented that facilitates SMEs' access to a broad range of financing instruments without compromising financial stability and investor protection, and enables a return on investment. Regulatory certainty is needed to ensure a predictable and stable operating environment for firms and investors. The combined effects of different regulations should also be considered. Regulations should be proportionate to the risks of different financing instruments, including those offered by Fintech institutions, while taking into account their impact in terms of financial inclusion. Efforts should be made to avoid undue administrative burdens (including through digitalisation), cut red tape and facilitate bankruptcy resolutions. Particularly in the equity space, flexibility provided to SMEs should be compatible with investor protection, integrity of market participants, corporate governance and transparency. Good corporate governance in SMEs should be encouraged to enhance their access to equity markets. Legal, tax and regulatory frameworks (including tax policies which provide incentives to encourage both debt and equity financing) should contribute to foster diverse sources of finance[10]. International regulatory coordination can serve to promote cross-border financing for SMEs[11].

4. Promote financial inclusion for SMEs and ease access to formal financial services, including for informal firms

Policy should aim to maximise the number of SMEs which have access to and use formal financial services and products at a reasonable cost. Financial inclusion is also an important tool to reduce business and labour informality[12]. National financial inclusion strategies should include reviewing the legal and regulatory framework of the financial sector; defining a public intervention strategy and identifying appropriate delivery instruments; and ensuring the existence of tools for groups excluded from or underrepresented in the formal banking sector, including micro-entrepreneurs, women[13], youth and other target populations[14]. Microfinance schemes should be given adequate attention, particularly in developing countries, as a means to enhance entrepreneurs' access to small amounts of funding at a more affordable cost than in informal credit markets[15]. Financial technologies (Fintech) and Fintech institutions should help extend banking and other financial services to wider segments of the population, making it particularly relevant in emerging economies[16].

5. Enhance SME financial skills and strategic vision

23. To enable SMEs to develop a long-term strategic approach to finance and improve business resilience and prospects, governments should support the financial literacy of SME managers,[17] as a way to improve their awareness, understanding and ability to use a broad range of available financial instruments, including alternative and digital ones, and to be aware of changes in legislation, public support

and programmes for SMEs[18] [19]. Public authorities should support and inform such efforts with the collection of evidence on the financial skills of SME managers, including through the use of the OECD/INFE survey on MSMEs' financial literacy[20]. SME managers should be encouraged to devote due attention to finance issues, acquire skills (including digital skills) for accounting and financial and risk planning, improve communication with investors and respond to disclosure requirements.[21] Efforts should also aim to improve the quality of start-ups' business plans and SME investment projects, especially for the riskier segment of the market[22]. Programmes should be tailored to the needs, levels of financial literacy and levels of digitalisation of different constituencies and target groups, including groups that are underserved by financial markets and that have limited digital access and skills, such as micro-entrepreneurs, women, young entrepreneurs, minorities, and entrepreneurs in the informal sector, and to different stages in the SME business cycle, including early stages.

6. Strengthen SME access to traditional bank financing

24. As a main source of external finance for most small businesses, efforts to improve banks' capacity to lend to SMEs should be pursued. Measures may include credit guarantees, securitization[23], credit insurance[24], credit mediation, and adequate provisioning for loan losses. Risk mitigation measures should be strengthened, making use of new technologies and mechanisms for underwriting risk[25], while recognising the role of "relationship lending" in easing access to finance for SMEs[26]. Effective and predictable insolvency regimes should ensure creditor rights while supporting healthy companies and offering a second chance for entrepreneurs who have gone through a transparent and orderly bankruptcy process. Likewise, SMEs should be afforded credit on reasonable terms, taking into account existing macroeconomic and credit market conditions, and with appropriate consumer protection measures in place. Policy makers should consider enabling SMEs to use a broader set of assets beyond fixed collateral to secure loans, including through the establishment of collateral registries for moveable assets[27]. The use of intangible assets, including intellectual property rights, as collateral should be carefully considered to ease access to lending, particularly for knowledge-based companies and start-ups[28]. Governments should also foster the use of credit information to improve credit risk management for lenders and access to funding for borrowers[29]. The use of alternative data, including online data, to enhance credit risk assessment should be explored, while ensuring protection of privacy[30].

7. Enable SMEs to access diverse non-traditional financing instruments and channels

25. Recognising the complementary nature of the role of banks and other financing channels, including Fintech institutions, access to a sufficiently broad range of SME financing instruments is desirable in order to obtain the form and volume of financing best suited to SMEs' specific needs and the stage of the firm life-cycle, as well as to reduce SME vulnerabilities to financial shocks. Multiple and competing sources of finance for SMEs should be supported, and efforts should be made to increase entrepreneurs' awareness of the available financing options through targeted outreach initiatives[31]. The development of alternative financial instruments for SMEs should also aim to attract a wider range of investors, including institutional investors[32], and to enhance their understanding of SME markets. Asset-based finance could be fostered to enable young and small firms to finance working capital on rapid and flexible terms[33]. Similarly, supply chain and trade finance should be encouraged, where appropriate, to support the integration of SMEs in national and global value chains. Alternative forms of debt could be cultivated to enable SMEs to invest, expand and restructure[34]. Adequate policy attention should go to the development of hybrid tools[35] and equity and quasi-equity instruments[36] to strengthen SMEs' capital structure and boost investment in innovative start-ups and high-growth SMEs[37]. Special consideration should be given to venture and private equity financing, including capital for seed, early and later stage investments.

8. Leverage the role of financial technologies, Fintech institutions and digital relationships to reduce barriers to SME access to finance

26. Governments should encourage responsible financial innovation that supports the provision of affordable SME financing, reaches underserved market segments and regions, and increases competition among providers of financial services[38]. By generating alternative data and the use of machine learning models[39], financial technologies and Fintech institutions should contribute to enhance credit risk assessment, including through collaboration with traditional financial institutions, especially in underserved markets where information asymmetries are more pronounced, thus improving access to external finance for SMEs[40]. Fintech institutions can also be used to disburse loans more rapidly and to provide SMEs with the types of financing suited to their needs[41] [42].Digital banking can help reduce transaction costs in banking services and simplify customer relationship management. Digital payment systems can support SMEs through safer and faster payments, increased transparency of transactions, improved bookkeeping, and by leading the unbanked to access other formal financial services. Given the rapid evolution of financial technologies, innovation through experimentation may be explored, including through the use of regulatory sandboxes[43], and regulatory frameworks for new Fintech institutions should take a technology-neutral approach. Monitoring and sharing information across countries on regulatory and supervisory approaches to Fintech can also prove useful. Consumer protection concerns should also remain at the forefront, including the collection and use of personal data, and the security of transactions on digital platforms[44].

9. Strengthen the availability and uptake of sustainable finance for SMEs

27. Governments should strengthen the availability and uptake of sustainable finance for SMEs[45] in order to help reach environmental, social and governance (ESG) objectives[46]. Governments and public financial institutions can facilitate SME access to a range of tailored sustainable finance instruments suitable to their diverse needs and ambitions[47]. Financial support should be complemented with non-financial support in order to close gaps in SME awareness and knowledge of sustainable finance, improve SME reporting capabilities, strengthen investment-readiness[48] and boost SME demand for and access to sustainable finance. Governments should also promote the inter-operability of definitions, data and methodologies related to the integration and measurement of ESG standards to support the demand for and supply of sustainable finance[49]. Proportionality in ESG reporting requirements could be considered, in line with SMEs' ability to measure and report on their ESG performance and efforts[50]. Governments could also consider flexible timelines for the implementation of ESG considerations in SME business practices[51], while supporting capacity building for reporting and compliance.

10. Strengthen the resilience of SME finance in times of crisis

28. In times of crisis, when firms often struggle with liquidity, governments should work to ensure the rapid delivery of SME financing support, including through the simplification of eligibility requirements and procedures and provision of related advisory services, while safeguarding accountability[52]. Support should seek to mobilise a wide range of instruments and traditional and non-traditional channels, including by leveraging relationship lending and digital delivery systems. Efforts should seek to reach vulnerable SMEs and entrepreneurs (e.g. micro-entrepreneurs, young firms, women entrepreneurs, entrepreneurs from under-represented groups, informal firms and firms in the hardest-hit sectors), that may be disproportionately affected by crises and may face challenges in accessing existing policy measures[53]. The implementation and uptake of support measures should be carefully monitored and adjusted as appropriate during the crisis. During the recovery phase, reductions of broad-based support and shifts towards more targeted measures, including those that contribute to structural objectives, should be

considered[54]. The phasing out of exceptional support measures should be managed through carefully designed and well-communicated exit strategies, in order to enable viable firms to adjust to their withdrawal.

11. Encourage timely payments in commercial transactions and public procurement

29. Timely payments and transparency in Business to Business (B2B) and Government to Business (G2B) transactions could be encouraged to enhance the cash flow of small business suppliers, recognising that timely payments are often essential in the cash-flow management strategies of small companies[55]. Policy makers and regulators should ensure that SMEs, which are particularly vulnerable to late payments or non-payment[56], are offered clear and appropriate payment terms which are respected in practice. Norms could be designed, implemented and enforced to discourage late payments in commercial transactions, including for cross-border trade[57].

12. Design public programmes for SME finance which ensure additionality, cost effectiveness and user-friendliness

30. The design of public programmes to enhance SME access to finance should ensure financial and economic additionality[58], along with cost effectiveness. Policy coherence[59] across levels of government and between government and non-government bodies dealing with SME finance should be pursued, based on reliable evidence. The target population, eligibility criteria, credit risk management and fees structure should be considered carefully and defined clearly when designing programmes, which should be easy to understand for SMEs. The administrative burden and compliance costs of new and existing policies should be proportionate to the service provided, the impact on beneficiary firms and the broader economy, as well as to the nature and size of the targeted businesses.

13. Adopt principles of risk sharing for government-supported SME finance instruments

31. Public programmes for SME finance should help catalyse and leverage the provision of private resources, especially in risk capital markets. Under certain conditions[60], public schemes can be effective in kick-starting the offer of financing tools for SMEs. Leveraging private resources and competencies is important to enhance the resilience[61] of SME financing in the face of rapid economic and regulatory change. Policies should aim at encouraging the participation of private investors and developing appropriate risk-sharing and mitigating mechanisms with private partners which ensure proper functioning of public measures, including the allocation of government resources to their most efficient use. Policies should also be designed to avoid “moral hazard”, i.e. excessive risk-taking against the public interest[62], and potential crowding-out effects[63]. Multilateral development banks (MDBs), national development banks (NDBs) and other public funds should be encouraged to promote SME financing, directly and indirectly, in particular when SMEs are underserved by commercial banks[64].

14. Monitor and evaluate public programmes to enhance SME finance

32. Monitoring and evaluation of policies to ease SMEs’ access to finance should be promoted. Ex ante and ex post evaluation[65] should be performed regularly based on clearly defined, rigorous and

measurable policy objectives and impacts and in co-operation with financial institutions, SME representatives and other stakeholders. Evaluation findings should feed back into the process of policy making, in particular when measures fail to meet their stated objectives or are found to have undesirable impacts. The use of new data[66], depending on availability, should be explored to potentially produce more timely evaluation results, while maintaining appropriate standards of confidentiality[67]. The establishment of national and international core metrics for the evaluation of SME finance programmes could help improve benchmarking the impact of these programmes within and across countries[68]. Regional, national and international policy dialogue and exchange of experiences on how to monitor and evaluate public programmes to enhance SME finance should be encouraged.

Endnotes

[1] Strategies may be developed at various geographical and sectoral levels.

[2] Financial sector organisations include, among others, Fintech institutions, insurance providers and leasing and factoring companies.

[3] Evidence on SME financing, including micro data and micro analysis, is needed for informed policy discussion; the evaluation of policies; monitoring the implications of financial reforms on SMEs' access to finance; and for a better understanding by financial suppliers' of SME financing needs. Evidence on financing needs and gaps by firm size and stage in the firm life cycle is especially important to tailor policy strategies. In this regard, regular quantitative demand-side surveys can represent an important source of information, and their coordination and harmonisation at the national, regional and international levels should be encouraged to improve the quality of information and cross-country comparability.

[4] Evidence shows that women are often disadvantaged in credit markets, making data collection by gender useful to tackle gender biases and promote social and economic inclusion. International efforts, such as the "2013 OECD Recommendation of the Council on Gender Equality in Education, Employment and Entrepreneurship", call for the collection, production and development of timely and internationally comparable gender-sensitive data and indicators in the areas of education, employment and entrepreneurship.

[5] At the international level, comparison of data on SME finance is significantly hampered by differences in definitions and methodology.

[6] Strengthening the ability to document differences in SME access to finance across countries can shed light on policy experiences and facilitate the exchange and adaptation of policy good practices.

[7] Credit bureaus or registries or data warehouses with loan-level granularity may be part of the information infrastructures for credit risk assessment.

[8] Credit market information collected and disaggregated by firm size and gender of the business owner can be especially important in addressing information asymmetries that prevent access to finance by underserved business groups.

[9] Open banking involves banks offering the option to their clients to share their financial information with other authorised providers of financial services. Open banking legislation requires banks to allow third party access to consumers' bank data (with their consent) through Application Programming Interfaces (APIs). Many countries have recently encouraged open banking through appropriate legislation in the expectation that this will spur competition in the financial industry, as small business owners and entrepreneurs can share banking data securely and easily within a well-functioning open banking protocol.

[10] This may be of particular importance to attract private investors to early stage investments.

[11] In addition, international exchange of experiences on regulation for new sources of finance can be particularly beneficial.

[12] Informal enterprises are defined on a country specific basis as the set of unincorporated enterprises owned by households which produce at least some products for the market but which either have less than a specified number of employees and/or are not registered under national legislation referring, for example, to tax or social security obligations, or regulatory acts.

[13] A number of national and multilateral initiatives are currently underway among governments and financial institutions to raise awareness of the barriers to SME finance for women entrepreneurs; take actions to strengthen tools, resources and finance for women entrepreneurs; and to improve the evidence base through the collection of disaggregated data.

[14] To promote financial inclusion, the introduction of technological platforms which enable the delivery of a broad variety of financial products and services, drive down the costs of financial access and reach previously untapped markets could be considered.

[15] Governments can support microcredit through appropriate regulation and possibly by offering risk mitigation instruments to microcredit providers (e.g. guarantees), resulting in lower interest rates for small borrowers.

[16] For example, the diffusion of point-of-sale terminals and non-branch outlets of commercial banks has been used to foster financial inclusion.

[17] The OECD Recommendation on Financial Literacy (adopted by OECD Governments and Brazil in 2020, and welcomed by G20 FMCBG in 2021) defines financial literacy as a combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being. The Recommendation is available at: https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0461.

[18] The OECD/INFE (International Network of Financial Education) has developed work on financial education for micro, small and medium enterprises. In particular, the OECD/INFE Core Competencies Framework on Financial Literacy for MSMEs (https://www.oecd.org/finance/financial-education/OECD-INFE-core-competencies-framework-on-financial-literacy-for-MSMEs.pdf) provides a useful framework for designing programmes aimed at improving the financial literacy of MSMEs' owners and managers.

[19] SMEs' awareness about alternative lending options should also be improved, to enable them to obtain the most favourable credit terms and conditions.

[20]The OECD/INFE developed a survey instrument to measure the financial literacy of MSMEs (https://www.oecd.org/financial/education/2020-survey-to-measure-msme-financial-literacy.pdf) that was used by 14 countries in 2021 as part of a coordinated G20 exercise promoted by Italy's G20 Presidency. Initial results are available in the G20/OECD-INFE report "Navigating the Storm: MSMEs' Financial and Digital Competencies in COVID-19 times" (https://www.oecd.org/finance/financial-education/navigating-the-storm-msmes-financial-anddigital-competencies-in-covid-19-times.htm) that highlights the role of financial literacy and digitalisation in helping MSMEs coping with the COVID-19 crisis.

[21] Efforts should be made to improve awareness and understanding by SMEs of the information required by creditors and other investors in order to consider their demand for finance. This should include feedback from financial institutions on how to improve the quality of applications for external financing. Entrepreneurs' financial literacy and skills can be improved either through the education system, as part of a more general effort to teach entrepreneurship skills, or through specific programmes and advocacy, including in cooperation with the private and not-for-profit sector. Approaches such as training, mentoring and coaching can help SMEs understand how different instruments serve different financing needs at specific stages of the life cycle; the advantages and risks implied; the complementarities and possibility to leverage different sources of finance; and how to approach different types of investors and meet their information requirements.

[22] Investment readiness programmes can support start-ups and SMEs in understanding investors' specific needs, gathering information and developing business plans so as to address these needs appropriately. Furthermore,

accompanying support to financing, such as mentoring and coaching, including by investors, can improve the survival and growth of new and small firms.

[23] High-quality, transparent and standardised securitization of SME loans is one means to strengthen banks' balance sheets and foster their lending to SMEs.

[24] More generally, insurance, beyond credit insurance, can also play an important role in enhancing SMEs' access to finance. For example, property insurance can significantly reduce the risk profile of SMEs, thus increasing the likelihood of banks extending credit to SMEs insured with these products.

[25] To gather more accurate information about businesses, banks may also make use of external experts, particularly for technology-based business models. The use of credit scoring models may also serve to facilitate bank lending to MSMEs by reducing costs and increasing service levels.

[26] Relationship lending refers to lending facilitated by the in-depth knowledge of the business by the local branch bank officer. It has proven especially important in easing access to finance for SMEs, particularly during economic downturns when the simple application of credit scoring methodologies may not fully capture the economic viability of a business. Small local banks are generally considered to be well-skilled in relationship lending.

[27] An important choice for policy makers is whether to integrate moveable assets into existing collateral registries or to build new specific registries for moveable assets. Characteristics of well-functioning registries include: immutability, meaning that historical records are never deleted or changed; searchability, ideally online and in a user-friendly fashion; and comprehensiveness, referring to the breadth of information that is covered.

[28] Most lenders are not accustomed to identifying the existence of intangible assets and assessing their value, and specialist external evaluations are expensive. In addition, assessing the "recoverable value" (i.e. the value that can be extracted in case of default of the owner), which is different from the face value of the intangible asset, can prove difficult. The collateralisation of intangibles generally requires strong estimation techniques.

[29] The G20 Action Plan on SME Financing, which the Global Partnership on Financial Inclusion (GPFI) released under the G20 Turkish Presidency in 2015, highlights the importance of a solid financial market infrastructure to support SME access to finance. In particular, it points to the importance of three sets of reforms that are also referred to in this principle: i) improvements of the credit reporting framework for SMEs; ii) those that allow banks and non-banks to lend to SMEs against movable collateral; and iii) reforms of the insolvency framework.

[30] Credit risk assessment has traditionally been based on the use of information internal to the firm, such as balance sheets and the presence of collateral assets. The use of alternative data could enhance credit risk assessment, resulting in stronger credit supply. Alternative data can include the history of firm payments to its suppliers and public utilities, an assessment of the credit reliability of the main partners of the company, as well as broader sector trends. Alternative data may also include online data from social media, although this would require the development of strong algorithms to ensure the quality of the information and the respect of individuals' privacy.

[31] Alternative sources of finance, including those relying on financial technologies, have proven particularly important in enabling access to finance for business segments underserved by traditional sources of financing, including women entrepreneurs.

[32] See also the G20/OECD High level Principles on long term investment financing by institutional investors and their related effective approaches.

[33] Asset based finance includes, for example, asset-based lending, factoring, purchase order finance, warehouse receipts, and leasing.

[34] The Cambridge Centre for Alternative Finance defines alternative finance as all financial instruments and channels that emerge outside the traditional financial system, from crowdfunding to peer-to-peer lending to virtual currency. Alternative forms of debt include corporate bonds, private placements, direct lending by non-bank institutions, peer-to-peer lending and debt-based crowdfunding.

[35] Hybrid instruments include subordinated loans and bonds, silent participations, participating loans, profit participation rights, convertible bonds, bonds with warrants and preferred stocks. The importance of hybrid tools has increased in the wake of the COVID-19 crisis, as this has involved increased levels of debt for many SMEs. Hybrid instruments, including semi-equity tools, can contribute to financing SMEs while reducing their levels of debt and increasing their leverage ratio. The use of guarantees on hybrid instruments has also become more common in recent years.

[36] Equity instruments comprise venture capital, business angel investing, other private equity instruments, specialised platforms for public listing of SMEs and equity-based crowdfunding.

[37] The existence of appropriate channels for exit can help increase the attractiveness of these instruments for investors.

[38] Fintech refers to the use of digital technologies in financial transactions. Fintech institutions (or "Fintechs") refer to institutions or platforms that have such technologies at the centre of their business models. Examples of digital technologies used in the financial sector include blockchain technology, Artificial Intelligence, big data, and robo-advisory, among others.

[39] Alternative data refer to information collected and analysed from non-traditional sources which can help assess the creditworthiness of business owners. This information can be gathered from various sources such as cash flows, invoices, personal transactions and bills, and social media activities, among others.

[40] Especially in emerging economies, large online banks have already tested and tried the use of big data and machine learning models to extend loans to unbanked SMEs, i.e. SMEs which did not have the required internal financial information to access traditional loans. In doing so, Fintech has supported the financial inclusion of underserved SMEs.

[41] For example, this has been the case during the COVID-19 crisis when many banks and other non-bank financial institutions have been able to leverage their digital technologies and data about their customers to disburse targeted loans rapidly.

[42] Fintech institutions can also provide companies with ways to access and manage insurance more easily (Insur-tech).

[43] Many governments have developed regulatory sandboxes which allow for innovation and experimentation in the area of Fintech and which can facilitate the market entry of Fintech start-ups.

[44] The Revised G20/OECD High-Level Principles on Financial Consumer Protection set out the main standards in this area, also covering Fintech-related transactions. For example, they recommend that "financial services providers and intermediaries should provide consumers with key information on the fundamental benefits, risks and terms of the product (…) regardless of the distribution channel". The G20 GPFI "Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection" also offers a palette of policy instruments and principles to encourage digital financial inclusion while ensuring consumer protection.

[45] Sustainable finance takes into consideration environmental, social and/or governance factors into the investment decision. In the area of the environment, it involves the provision of direct financing for sustainability (e.g. green grants, repayable or not, green concessional loans, direct equity, green bonds, green credit lines for on-lending etc.), as wells as crowding in private sustainable finance (green loan guarantees, first-loss capital, etc.).

[46] For example, high upfront costs and limited access to external finance are the main barriers that SMEs face when they invest in greening.

[47] For example, in the area of environmental policies, governments can support eco-adaptation, eco-entrepreneurship and eco-innovation. Eco-adopters implement environmental technologies and sustainable business practices in response to regulatory requirements or consumer demand. Eco-entrepreneurs seek new opportunities – caused by a shift in values or preferences, regulations, or problems – and subsequently develop and commercialize solutions to address the identified opportunities. Eco-innovators implement new or significantly improved products, processes, marketing methods and workplace organization arrangements that reduce their environmental impact.

[48] Investment-readiness is a concept that involves ensuring that SME owners and entrepreneurs are ready for equity investments. This implies, first of all, that they are culturally open to receiving equity finance, even if this dilutes their ownership of the business; that they have the managerial skills needed to grow their business, including full understanding of the industry regulatory framework and market prospects; and that their business is investable, i.e. corporate information is transparent and accessible.

[49] Such endeavours are critical to facilitate and accelerate financial institutions' integration of ESG in risk management and investment decisions and support better alignment of their portfolios with net zero objectives and outcomes.

[50] ESG ratings take into account not only how exposed enterprises are to climate-related risks and opportunities, but also how enterprises address these risks.

[51] SMEs, particularly micro and small enterprises, have relatively fewer human and financial resources to dedicate to the measurement and reporting of their ESG performance relative to large enterprises. This may have to be taken into account when devising disclosure requirements.

[52] For example, in the aftermath of the COVID-19 crisis, many countries simplified access to their SME financing policies, including through the lifting of fees and/or the shortening of approval procedures.

[53] For example, micro-entrepreneurs may not be eligible for traditional SME support measures, such as concessional loans or loan guarantees. Similarly, there is a large diversity within the micro-entrepreneur segment of the business population, which makes it challenging for policy makers to design appropriate policy interventions.

[54] This may involve, for example, tightening eligibility criteria and/or introducing conditionality in the offer of public programmes.

[55] Acceptable late payments are often used as a cash-flow management strategy, as companies may prefer holding back the payment of their suppliers until they have been paid by their buyers, especially in the context of supply chain relationships.

[56] Late payments typically force SMEs to seek external finance in order to cover cash flow gap and/or to cut back investment and hiring plans.

[57] Possible policy actions to encourage timely payments in commercial transactions include the restriction of the contractual freedom to pay invoices, the automatic entitlement to compensation for late payments, the possibility for SMEs to challenge unfair terms and practices, and the simplification of debt recovery procedures, including for transnational transactions.

[58] Financial additionality means that public support reaches viable enterprises which would not otherwise have had access to finance or would have accessed finance at tighter conditions (e.g. higher financing cost, shorter debt maturity). Economic additionality implies that the intervention produces a net positive impact on the economy.

[59] Policy coherence is defined as the systematic promotion of mutually reinforcing policy actions across government departments and agencies creating synergies towards achieving the agreed objectives. Within national governments, policy coherence issues arise between different types of public policies, between different levels of government, and between different stakeholders.

[60] Public policy may be essential to maintain offer of finance to SMEs under certain conditions, such as economic crises, pandemics or natural disasters. Due to information asymmetries, public policy may also be important to kick-start or boost offer of financial products and services to specific types of SMEs and entrepreneurs, which are typically underserved by financial markets, including young and growth-oriented enterprises. Public policy can increase the amount of finance available to SMEs, while still complying with market principles, such as when governments and private investors co-invest in growth-oriented SMEs (for example, through funds-of-funds or co-investment in privately-managed VC funds).

[61] Resilience is the capacity of individuals, communities and systems to resist, adapt, and grow in the face of stress and shocks. Resilience involves being prepared for uncertainty, but also developing the capacity to cope with change and emerge stronger than before.

[62] In this respect, national and international banking sector regulations, such as the Basel III framework, also play a key role. The Basel III framework seeks to address a number of shortcomings in the pre-financial-crisis regulatory framework and provides a foundation for a resilient banking system that aims to avoid the build-up of systemic vulnerabilities. Among others, it specifies a minimum leverage ratio requirement to constrain excess leverage in the banking system and complement the risk-weighted capital requirements.

[63] Mechanisms for the development of effective public-private partnerships in SME financing may include co-investment schemes, private-public equity funds, the delivery of public support through private sector intermediaries and the provision of credit guarantees where risks are shared by the public and private sector.

[64] For example, the World Bank has developed principles for the effective management of public credit guarantee schemes, which also highlight the importance of effective risk sharing between all parties involved in these schemes, i.e. borrowing companies, lending financial institutions and public guarantors.

[65] An ex-ante evaluation can be defined as an initial assessment aimed at identifying whether alternatives to the planned policy intervention can yield greater benefits. An ex-post evaluation typically assesses the impact of the policy intervention; in the case of SME financing policies, ex-post evaluations should preferably assess both the impact on the financial performance of the beneficiary company and the impact on broader economic outcomes (e.g. job creation).

[66] The collection of disaggregated data by the different characteristics of SMEs is important in order to understand the specific needs of different business segments, make informed policy decisions and evaluate the impacts of policy instruments.

[67] New data sources may include administrative data, data collected by banks and firm-level data from commercial databases.

[68] Core metrics to benchmark SME financing programmes could include increased sales, increased employment or higher survival rate.

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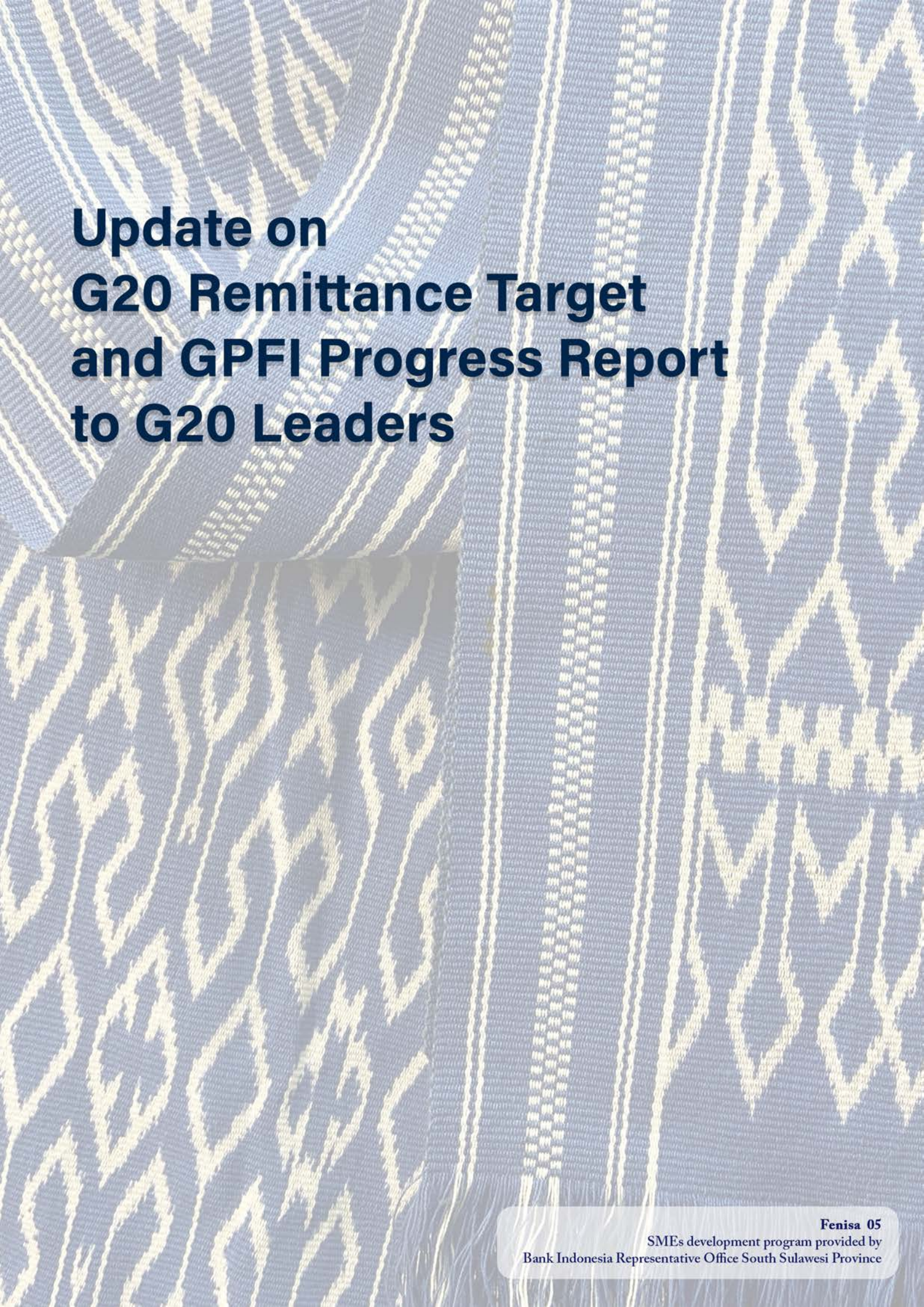
Update on G20 Remittance Target and GPFI Progress Report to G20 Leaders



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2022 Update to Leaders on Progress Towards the G20 Remittance Target

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GPFI Global Partnership for Financial Inclusion

October 2022

2022 Update to Leaders on Progress Towards the G20 Remittance Target

Context

In 2014, the Group of Twenty (G20) announced its G20 Plan to Facilitate Remittance Flows.[1] This plan included an outline for country-led actions to support reducing the cost of sending remittances. In 2015, G20 members announced their National Remittances Plans, and agreed for the GPFI to review progresses annually and to update the plans every two years. The 2015 G20 National Remittances Plans, the successive annual reviews and the 2017 and 2019 updates are on the website of the GPFI. The Update to the Leaders report monitors annual progresses. In 2021, a new template for providing country updates was introduced: starting from this year, several countries have provided updates based on the new format.

The analysis in this report is based on data on remittance flows and costs excerpted from the *Migration and Development Briefs* and *Remittance Prices Worldwide (RPW) Quarterly Reports* by the World Bank.[2] The Annex to this report encloses *in verbatim* the annual updates provided by each jurisdiction to the GPFI.

Background

The G20 recognizes that cross border remittance flows are a major source of income for millions of migrant families and an important driver for economic growth and prosperity in developing countries. When confined to regulated and monitored channels, in both sending and receiving countries, remittance flows can better help to lift people out of poverty, improve economic infrastructure, and encourage more engagement in the regulated financial sector. Among other positive spill-over effects, remittances can be an accelerator for financial inclusion and digital economy.

The G20 supports factors that contribute to reducing transaction costs for remittance services as a vital and necessary condition to achieve the goals of the 2030 Agenda for Sustainable Development. In 2011, the G20 Leaders adopted the 5x5 objective, with which they committed to reducing the global average cost of sending remittances by 5 percentage points (starting from 9.30 percent observed in mid-2011). In 2016, the G20 aligned this objective with the UN's 2030 Agenda, by including the target of remittances' cost reduction to less than 3 percent (set under Sustainable Development Goal 10.c.) and the pledge to eliminate remittance corridors with costs higher than 5 percent by 2030.

[1] https://www.gpfi.org/publications/g20-plan-facilitate-remittance-flows

[2] Please see https://www.knomad.org/publications for the *Migration and Development Briefs* and https://remittanceprices.worldbank.org/resources for the *Remittance Prices Worldwide Quarterly Reports*.

In 2022, remittance flows to low- and middle-income countries (LMICs) are expected to increase by 4.2 percent, to reach $630 billion. This follows the significant growth of 8.6 percent registered during 2021, when remittance flows reached $605 billion. Remittance flows to LMICs excluding China are larger than foreign direct investment and official aid flows. Just as the LMICs were starting to recover from the COVID-19 pandemic, Russia invaded Ukraine, changing the global landscape for migration and remittances. Including refugees from Ukraine, the stock of international migrants and refugees is likely to reach around 286 million in 2022. During the COVID-19 crisis spanning 2020–21, the stock of international migrants declined. The Ukrainian crisis has reversed that trend.[3]

Global Trends in Remittance Costs[4]

The key indicators monitored by the World Bank's RPW database demonstrate that the cost of remittance services continued to decline in 2022. In Q2 2022, the *Global Average Cost* for sending remittances was 6.01 percent, a small decrease from 6.09 in Q1 2022 and a decline of 0.29 percentage points from 6.30 in Q2 2021 a year earlier. The *Global Average* has remained below 7.00 percent since Q1 2019 (see Figure 1 below). Overall, this represents a decline of 3.66 percentage points since Q1 2009, when the figure was recorded at 9.67 percent. In Q2 2022, the global average for *digital* remittances stood at 4.80 percent, with the global average for *non-digital* remittances at 6.60 percent. Of all services collected in the RPW database in Q2 2022, digital services account for 33 percent.[5]

The *Weighted Average Total Cost*, which accounts for the relative size of flows in each remittance corridor, was recorded at 4.80 percent in Q2 2022, a slight increase from 4.54 percent in Q2 2021. Nevertheless, this was the seventh consecutive quarter in which this figure has been recorded below 5.00 percent.

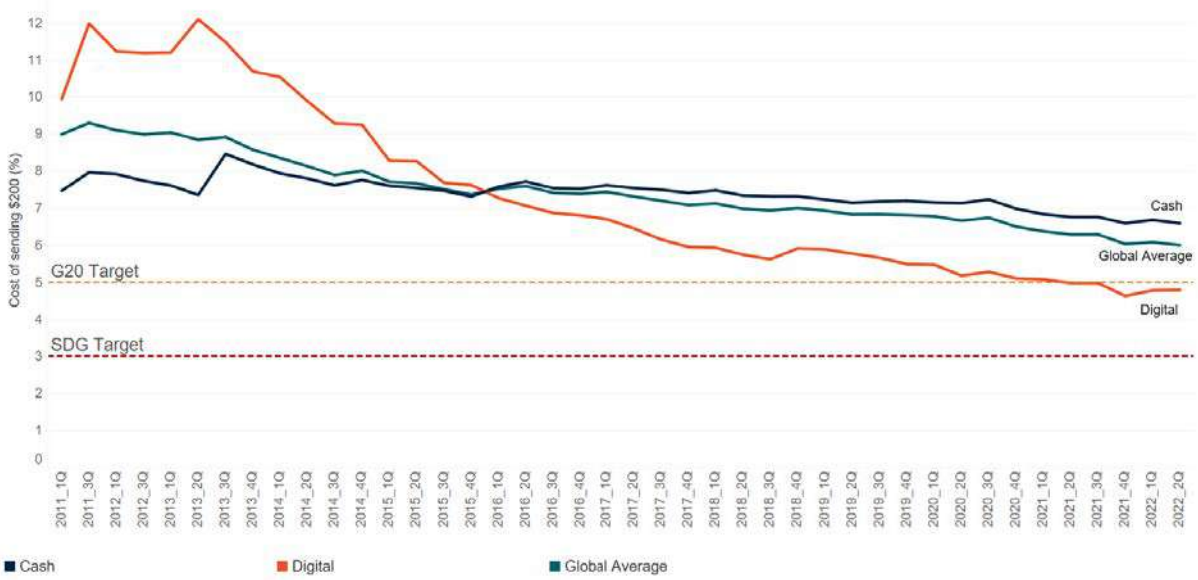
The *SmaRT indicator* was introduced in 2016 and is used to reflect the cost that a savvy consumer with access to sufficiently complete information would pay to send remittances in each corridor. It is also used to measure the corridor level targets in the SDG 10.c.1, i.e., that by 2030, no remittance corridor has an average cost above 5 percent. In Q2 2022, the Global SmaRT Average was recorded at 3.35 percent; at the same time, nevertheless, only 22 percent of the tracked corridors show a SmaRT average above 5 percent.

[3] https://www.knomad.org/publication/migration-and-development-brief-36

[4] Please note that the narrative in this report focuses on the cost of sending $200 as this is the benchmark amount chosen for the G20 Remittances Target and also for SDG 10.c.1 on remittance costs. World Bank's Remittance Prices Worldwide database collects and analyses the trends for the cost of sending $500 as well. Please refer to the data and the quarterly reports on https://remittanceprices.worldbank.org

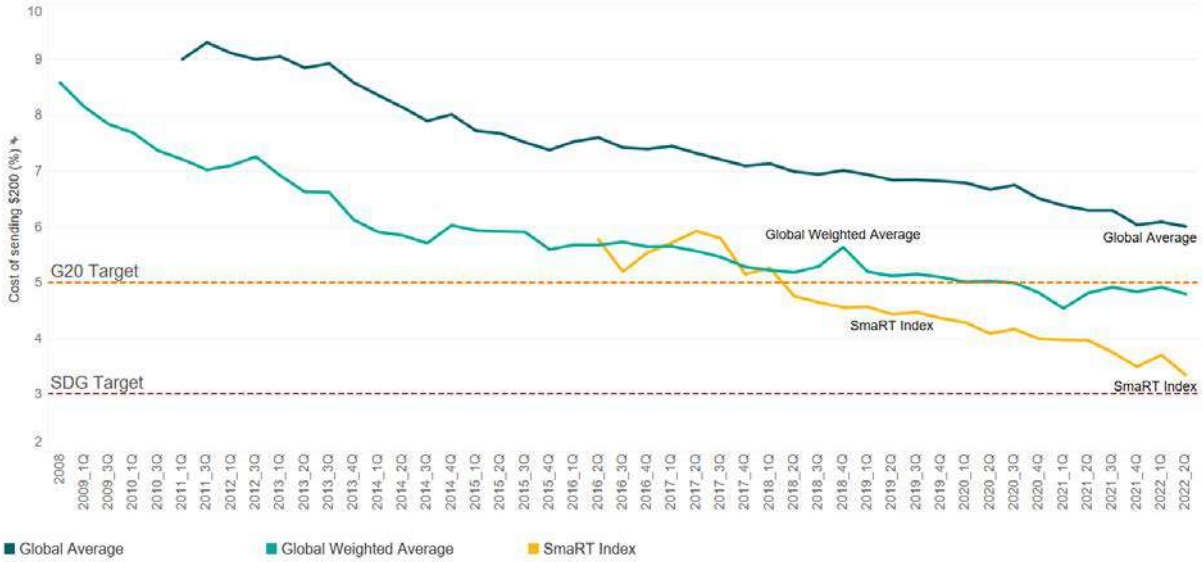
[5] A digital remittance must be sent via a payment instrument online or in a self-assisted manner, and received into a transaction account maintained at a non-bank deposit taking institution (say a post office), or into a mobile money or e-money account.

Figure 1: Trends in the global cost of sending $200 in remittances



Source: Remittance Prices Worldwide, Q2 2022, World Bank

Figure 2: Trends in Global weighted average & SmaRT average

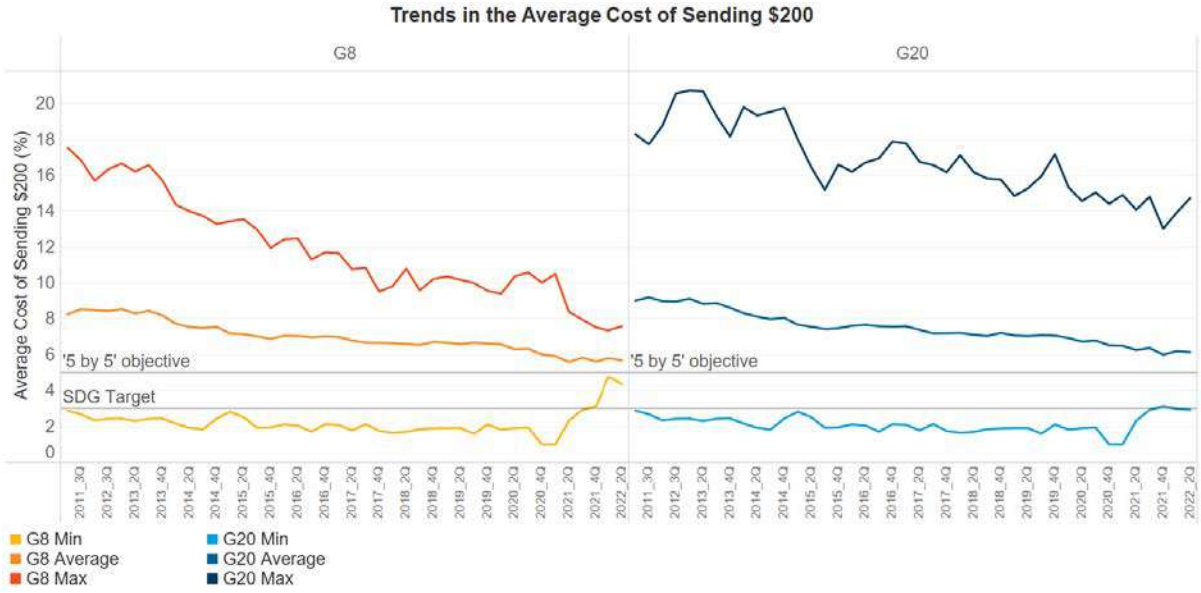


Source: Remittance Prices Worldwide, Q2 2022, World Bank

Trends in Remittance Costs in G20 Members

The cost of remitting from G20 members experienced a moderate decrease to 6.14 percent in Q2 2022, from 6.20 percent in Q1 2022. The average cost of sending money to the G20 countries that are included as receiving markets in the RPW database was recorded at 5.53 percent in Q2 2022. As shown in Figure 3, although there has been a declining trend in the average cost, the cost of sending varies greatly across countries. Figure 3 includes the maximum and minimum cost observed in each quarter. In addition, apart from a few quarters, the average cost of sending money to G20 members has followed the pattern of the Global Average. For the 20th consecutive quarter since Q2 2017, the cost of remitting to G20 members has been recorded below the Global Average.

Figure 3: Trends in the average cost of remitting from G8 and G20 members[6]



Source: Remittance Prices Worldwide, Q2 2022, World Bank

The G20 continues to work with standard setting bodies (SSBs) such as the Bank of International Settlement's Committee for Payments and Market Infrastructure (CPMI), the Financial Stability Board (FSB) and the Financial Action Task Force (FATF) to monitor recommendations on remittances services providers' access to banking services, address the decline of respondents' banking relationships, consider factors affecting de-risking and establish a supportive policy and regulatory environment for competitive remittance markets. Additionally, the G20 has initiated the work on the Roadmap for Cross-Border Payments, which covers remittances alongside retail and wholesale cross-border payments.[7] It identifies the challenges to safe and efficient cross-border payments, while it develops

[6] G20 average cost shows an increase due to the exclusion of Russia in the past 2 quarters (Q1 and Q2, 2022)

[7] For the G20 Roadmap on Enhancing Cross-Border Payments, please see FSB (2020) *Enhancing Cross Border Payments: Stage 1 Report*; CPMI (2020) *Enhancing Cross-Border Payments: Building Blocks of a Global Roadmap – Stage 2 Report*; and FSB (2020) *Enhancing Cross-Border Payments: Stage 3 Roadmap*.

the building blocks to overcome said challenges and constructs an actionable implementation plan. The action plan consists of five focus areas: (A) Committing to a joint public and private sector vision to enhance cross-border payments; (B) Coordinating on regulatory, supervisory and oversight frameworks; (C) Improving existing payment infrastructures and arrangements to support the requirements of the cross-border payments' market; (D) Increasing data quality and straight-through processing by enhancing data and market practices; and (E) Exploring the potential role of new payment infrastructures and arrangements. SSBs and International Financial Institutions (IFIs) have been collaborating on the implementation of the G20 Roadmap for Cross-Border Payments since it was announced in October 2020.

During the Saudi Arabia Presidency of the G20 in 2020, remittances were also recognized as a key action area integral to promoting digital financial inclusion; this led to the adoption of the 2020 G20 Financial Inclusion Action Plan (FIAP). In its action areas identified for the period 2021-23, the G20 2020 FIAP calls for the development of responsible and innovative payment systems to support progresses on reducing the cost of remittances. More specifically, the action plan for Digital Financial Inclusion supports the reduction of both access and usage barriers for the underserved and vulnerable groups by promoting the development of responsible innovative payment systems that provide affordable, secure, interoperable, transparent, and inclusive payment solutions across borders and within G20 and non G20 countries to support progress in reducing the cost of remittances, while maintaining consumer protection and disclosure requirements.

Reforms for Improving the Enabling Environment for Remittance Services

Major remittances' sending countries, including G20 members, are implementing a wide range of reforms and policy measures, appropriate to each members' national circumstances and the different remittance corridors. These include price-comparison websites, consultative forums and events, improvements to financial infrastructure, initiatives to address structural issues in receiving countries, the promotion of access to technologically enabled remittance services and other digital financial services, digital and financial literacy campaigns, studies targeted on specific corridors and new legal frameworks and regulatory reforms.

The Annex summarizes each jurisdiction's progresses and achievements in the implementation of their respective National Remittances Plan during the course of the last 12 months. The World Bank provided all remittances data, unless otherwise specified.

ANNEX: National Remittances Plans Implementation Update[8]

Argentina

Country remittances profile:

In Argentina, the migrant population is around 5% of the total population (2020). In 2021, remittances sent from and received to Argentina represented: (i) 0.1% and 0.2% of the Argentine GDP, respectively; and (ii) 0.2% of the total remittance inflows of low-and middle-income countries (according to KNOMAD/World Bank 2022). Argentina is not a major source of money transfer remittances. Please find below more data about metrics in 2021:

- Migrant remittance inflows (USD million): 912 (*)
- Migrant remittance inflows (as a share of GDP): 0.2% (*)
- Migrant remittance inflows as a share of total migrant remittance inflows of low-and middle-income countries: 0.2% (*)
- Migrant remittance inflows as a share of total migrant remittance inflows in Latin America and the Caribbean: 0,7% (*)
- Migrant remittance outflows (USD million): 589 (*)
- Migrant remittance outflows as a share of GDP: 0.1% (*) (1)
- International migrant stock: 2,281,728 (**) (2020, no habría información posterior)
- International migrant stock as a percentage of the total population: 5% (**)
- Female migrants as percentage of the international migrant stock: 53.4 percent (**)
- Estimated refugee stock (including asylum seekers): 185,268 (2020) (**)

(*) KNOMAD/World Bank, 2022
(**) UN DESA (2020)
(1) IMF World Economic Outlook database

Regulatory environment

In Argentina, the Central Bank is entitled by law to regulate the foreign exchange market, including international remittances. These operations could be made by financial entities and exchange houses with their customers (both individuals and firms). Recipients of remittances can choose to collect these funds in both local and foreign currency. In the case of remittances outflows, residents[9] do not require prior approval from the BCRA to access the foreign exchange market up to an amount of USD 200 per month as long as the transaction is carried out with a debit to the client's account at local

[8] This year's progress report submissions are based on the new data collection template circulated in 2021. While some countries have responded to the questionnaire provided in the template, others have covered relevant sections as a narrative. All submissions are included verbatim with some minor copyediting. In instances where countries responded to the questionnaire, only the relevant questions and the corresponding responses are included (and not the whole questionnaire).

[9] A person is considered "resident" if remains or intends to remain in the country for at least one year.

financial entities. The use of local currency cash is allowed for up to USD 100 per month. On the other hand, remittances sent by non-residents are subject to the prior approval of the BCRA.

In addition, individuals are allowed to transfer funds from their local bank accounts in foreign currency to bank accounts abroad for up to USD 500 per month in order to support Argentine residents who have had to remain abroad under the measures adopted in the framework of the COVID-19 pandemic.

Although the following regulations are not directly associated with remittances, they may have a positive influence on the families who sent and received remittances.

Payment Infrastructure

In February 2022, the Central Bank defined the service of a "digital wallet", also known as "electronic wallet" or "virtual wallet", as that offered by financial institutions (FIs) or payment service providers (PSPs) on a mobile application or web browser to make transactions, such as Payment by Transfers (PCTs) and/or payments through other instruments like debit, credit, purchase or prepaid cards. Every FI or PSP providing digital wallet services must register with the "Registry of Interoperable Digital Wallets".

As per December 2021, more than 16 million individuals had an account on a PSP, which represents 47% of the adult population. More than 90% of that group also had at least a bank account, which highlights the relevance of an interoperable ecosystem between both types of accounts.

From May 2022, electronic wallets may expand the scope of their services, allowing clients to add accounts —bank or non-bank (payment)— held at other financial institutions or payment service providers (PSPs). Therefore, users may carry out payments by transfer or instant transfers through an electronic wallet using funds deposited in other linked accounts.

Access to financial services.

Account ownership

The penetration rate of accounts was 95,3% of the adult population as of December 2021, which means that more than 33 million people had at least one bank and/or payment account. Financial institutions (FIs) and Payment Service Providers continued opening new bank and payment accounts in a context in which the digitalization of financial services was following a rising trend. As of December 2021, the number of natural persons account holders was 1.2 million up against December 2020.

One of the highlights of 2021 was the number of people holding both a bank and a payment account. This figure almost doubled from 7.6 million persons in December 2020 to 14.9 million by the end of 2021. So, 42.6% of the adult population held both bank and payment accounts. This shows the paramount importance of an interoperable financial system that is in line with the measures implemented by the BCRA.

Physical and digital infrastructure

In relation to access infrastructure to the financial system, in Argentina, access points consist of bank branches, ATMs, self-service terminals, mobile branches, and supplementary agencies of financial services or ACSFs (commonly referred to as bank agents). As of December 2021, Argentina had 14.4 access points per 10,000 adults.

As regards coverage through access points, 52.3% of municipalities had at least one access point as of December 2021. Indeed, 92.5% of the adult population was living in a municipality with at least one access point as of December 2021.

Regarding internet connection, as of March 2021, 82.7% of municipalities in Argentina—where 93.5% of the adult population live—recorded at least one fixed and/or mobile Internet connection. Less populated municipalities show that 81% of those with up to 10,000 inhabitants report at least one type of Internet connection. However, by breaking down this group of municipalities in terms of inhabitants, Internet connection availability is reduced as the number of inhabitants drops.

Financial Services Consumer Protection

In February 2022, the Central Bank adopted security measures for digital wallets. In this regard, financial institutions (FIs) and Payments Service Providers (PSP) offering digital wallets should adopt mechanisms to prevent suspicious transactions and to mitigate fraud risk.

Also in February 2022, the Central Bank established some measures related to guarantee a safe usage for digital wallets. FIs and PSPs offering digital wallets should make any necessary channel available to users so that they may be able to: (i) immediately consent that their bank or payment accounts be linked to an electronic wallet; and (ii) set usage parameters for electronic wallet services, such as limits to amounts per period and number of transactions.

Related to the balances in PSPs, in December 2021 the Central Bank established a minimum reserve requirement at 100% for balances in pesos held in deposit accounts of PSPs where their clients' funds are deposited.

In September 2022, the Central Bank extended the regulations on the protection of users of financial services to Payment Service Providers (PSP). In addition, PSP must fulfill the guidelines for people with disabilities.

Financial literacy

In partnership with the various provinces with which it has signed agreements, the Central Bank is developing the "Financial Education in the Classroom" programme. This programme consists of virtual training for secondary school teachers, who carry out educational activities with their students in the classroom, and which also seeks, through actions to socialize knowledge, to extend knowledge and healthy financial behavior to families and communities. The people reached by this training had access to information on how to make a budget, record expenses, use home banking, ATMs and e-wallets, make payments through electronic channels, know the different types of bank accounts, design their own savings and investment strategies, know the types of credits and the management of sustainable

indebtedness, the financial system, the role of the central bank in its regulation and supervision, and the institutions that provide financial services, among many others.

The Central Bank is also deploying the "Finances Nearby" programme in different provinces of the country, which seeks to reach the communities and people who are most vulnerable, due to economic, social, gender and age-related issues, among others. It is envisaged that immigrants can be reached as final beneficiaries of the program. The purpose of this programme is to promote financial education to encourage people's financial inclusion, both in terms of knowledge and use of financial products and services, especially electronic channels and means of payment, and the acquisition of skills and habits to interact in an informed and critical manner with the financial system.

Australia

N/A

Brazil

Note: Brazil's updates were provided as responses to the questions in the new NRP template. Only the questions to which responses were provided are included below.

Summary

According to BCB data, the amount of remittances sent abroad from Brazil, in 2021, was US$1,599 million, 8.7% higher than the value in 2020 (US$1,471 million). The United States and Portugal were the largest recipients of these remittances - approximately 37% of the total volume. Regarding the inflow of resources in Brazil, the volume was US$3,845 million, 16% higher than in 2020 (US$3,312 millions). United States and United Kingdom represented more than 69% of the total resources sent to the country in 2021.

When analyzed the first quarter of 2022, there was a 13% increase in flows to Brazil compared to the same period in 2021. Besides that, in the same period, there was a 73% increase in flows sent from Brazil, mostly explained by the approximate 111% increase in flows to the United States and 106% of flows to Portugal, which together accounted for 41.7% of the total.

It is important to mention that, in 2020, the inflow of remittances received and sent represented, respectively, 0.2% and 0.1% of GDP, according to latest World Bank data presented[10]. The institution also stated in the Remittance Prices Worldwide, Issue 42 – June 2022, that the average cost of remitting USD200 from Brazil in the second quarter of 2022 was 7.71%, in line with the cost for the

[10] https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=BR

second quarter of 2021 (7.74%). On the other hand, in the same period, the average cost of remitting USD200 to Brazil was 6.27%, slightly above that observed in the second quarter of 2021 (6.10%).

The Brazilian foreign exchange legislation (Law 4,131, of September 3, 1962; Resolution 3,568, of May 29, 2008; and Circular 3,691, of December 16, 2013) requires all foreign exchange transactions, including remittances, to be carried out through institutions authorized to operate in the foreign exchange market by Banco Central do Brasil (BCB). Currently, there are 183 institutions authorized to conduct foreign exchange transactions, organized as banks, exchange brokers, brokerage firms and securities dealers. These institutions can contract foreign exchange correspondents to conduct, under their supervision, operations with customers who need to send remittances up to US$ 3,000. In this scenario, there are about 5,066 foreign exchange correspondents.

Finally, on December 29, 2021, was enacted Law No. 14.286, proposing a new legal framework for the Brazilian foreign exchange market that will allow the adoption of requirements proportional to the values of the operations in the foreign exchange market and the risks involved. The Law No. 14.286/2021 is in line with the best international practices and allow the adoption of new business models that increase market efficiency, competition, and financial inclusion, thus facilitating remittances.

Country remittances profile

1. *Please provide remittance outflows and/or inflows (country-level data from the central bank as per the IMF BPM 6 Framework, if possible, please provide the data denominated in USD):*

Year	Inflow (if 1b or 1c) - (US$ mi)	Outflow (if 1a or 1c) - (US$ mi)
2021	3,845	1,599

Source: https://www.bcb.gov.br/estatisticas/tabelasespeciais

2. *Is your country (a) mainly a remittance-sending country, (b) mainly a remittance-receiving country or (c) are both sending and receiving significant?*

   Both sending and receiving are significant.

3. *Please provide the migrant stock as a share of total population*:

Year	Migrants/Population
2021	Not available

4. *Please list main corridors for international remittances sent*.

   United States, Portugal and United Kingdom (2021).

Source: https://www.bcb.gov.br/estatisticas/tabelasespeciais

5. *What is the average cost of sending $200 from your country? Provide available quarterly data for the latest 4-6 quarters.*

2021_1Q	2021_2Q	2021_3Q	2021_4Q	2022_1Q	2022_2Q
7.17	7.74	4.81	4.19	5.93	7.71

Source: https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q222.pdf

6. *Please list main corridors for international remittances received*.

United States, United Kingdom and Portugal (2021).

Source: https://www.bcb.gov.br/estatisticas/tabelasespeciais

7. *What is the average cost of receiving $200 in your country? Provide available quarterly data for the latest 4-6 quarters*.

2021_1Q	2021_2Q	2021_3Q	2021_4Q	2022_1Q	2022_2Q
6.69	6.1	6.43	6.35	6.56	6.27

Source: https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q222.pdf

Competition in the market

8. *Please indicate if there was any change in the types of remittance service providers (RSPs) allowed in your country due to regulatory reforms (column 1) and please fill in the rest of the table to the extent feasible*:

	Allowed to provide remittance services (1)[11]	If "yes"			
	[Yes/No]	Number of providers of each type	Market share for each provider type? (in terms of number of transactions)	Average cost of sending $200 **if 2a or 2c**	Average cost of receiving $200 **if 2b or 2c**
Commercial banks	Yes	104	N/A	N/A	N/A
MTOs	Yes	79	N/A	N/A	N/A
Postal network	Yes	1	N/A	N/A	N/A
Mobile money operators	No				
Fintech platforms	No				
Remittance hubs	No				
Others (please specify): Agents	Yes	5066	N/A	N/A	N/A

9. *If there was no publicly available price comparison tool for remittances (e.g. a national remittances database) in your country when the NRPs were last drafted/updated, has one been developed since then? [Yes/No]*

Since 2013, the BCB publishes a ranking about remittances on its website (http://www.bcb.gov.br/?ENGVET), by institution, which facilitates comparisons and analysis of the costs of these operations. This tool allows for the monitoring of the institutions' performance and costs in previous months.

10. *Have you implemented any incentives to RSPs in your country to promote competition in the past year? (e.g. tax incentives) If yes, please describe.*

[11] The Brazilian foreign exchange legislation (Law 4,131, of September 3, 1962; Resolution 3,568, of May 29, 2008; and Circular 3,691, of December 16, 2013) requires all foreign exchange transactions, including remittances, to be carried out through institutions authorized to operate in the foreign exchange market by Banco Central do Brasil (BCB). In this sense, BCB may grant authorizations to perform operations in the foreign exchange market to multiple banks, commercial banks, saving banks, investment banks, development banks, foreign exchange banks, development agencies, credit, financing and investment societies, securities and stocks brokerage societies, securities and stocks dealers societies and foreign exchange brokerage societies. Effective January 1st, 2023, payment institutions will also be eligible to operate in the foreign exchange market.
The institutions referred above may contract, in the ways foreseen in article 9 of Resolution CMN No. 3,954, of February 24, 2011, agents to conduct, under their supervision, operations with customers who need to send remittances up to US$ 3,000.

On September 9, 2021, Resolution CMN No. 4,942 and Resolution BCB No. 137 was issued, considering the growing digitization of the financial system and new business models. These are important achievements that have improved foreign exchange regulation considering the intensive use of technological solutions in international payments and transfers that contribute to competition, financial inclusion and innovation in remittances market.

More recently, on December 29, 2021, was enacted Law No. 14.286, proposing a new legal framework for the Brazilian foreign exchange market that will allow the adoption of requirements proportional to the values of the operations in the foreign exchange market and the risks involved. The Law No. 14.286/2021 is in line with the best international practices and allow the adoption of new business models that increase market efficiency, competition, and financial inclusion, thus facilitating remittances.

Regulatory environment

11. *Changes in transparency requirements as specified in regulations/circulars/guidance in the past year:*

    If 2a or 2c:

    - *Please discuss any changes to transparency requirements in terms of cost breakdown between foreign exchange margins and fees, additional costs, speed, etc. The following points provide guidance on what reforms can be included for this purpose, if any.*
    - *Requirement for RSPs to provide information on whether there are additional fees for receivers*
    - *Transparency in terms of speed: time it takes for funds to be available to the receiver after the sender initiates payment.*
    - *Requirement for RSPs to provide all the necessary information prior to transaction initiation*
    - *Are there any new additional fees or taxes the receivers must pay? (For example, if remittances are received into an account, is there a fee to cash out?) If so, are these disclosed to the senders/receivers?*

    Seeking to disclosure the total amount of a purchase or sale of foreign currency and to provide a better way to compare, Total Effective Value (VET) concept was designed. It is an obligation to all institutions to provide their customers, including setting forth the exchange contract or receipt. The VET is the total amount of reais paid or received per unit of foreign currency on an exchange transaction (e.g. BRL 5.10 per USD). The VET considers exchange rate, taxes (Tax on Credit, Exchange Transactions, Insurance and Securities - IOF) and fees that may be

charged, allowing customers to compare the prices available in the market for buying and selling foreign currencies.

Besides that, in foreign exchange operations with customers that do not have formalization of the foreign exchange contract, it is mandatory to deliver or to make available to the customer, immediately and at no cost, the voucher of each foreign exchange operation, which must contain at least the parties' identification, the foreign currency, the nature code of the transaction, the foreign exchange rate, the amounts in foreign and domestic currency as well as the VET.

If 2b or 2c:

- *Are there any new additional fees or taxes the receivers must pay? (For example, if remittances are received into an account, is there a fee to cash out?) If so, are these disclosed to the senders/receivers?*

The Circular BCB No. 3,914, dated 20th September 2018, was issued to increase the regular ways to receive remittances in Brazil and thus fostering competition, with possible cost reduction for the public. Such measure allows institutions authorized to operate in the foreign exchange market to receive remittances payment orders in foreign currency from abroad, undertake the conversion to BRL and deliver the resources in BRL to the beneficiaries without the time and cost involved in traditional foreign exchange transactions.

The payment order conditions shall be negotiated abroad, including previous agreement about the value in BRL that must be integrally received by the natural person in Brazil (i.e. there is no any additional fees or taxes). The pre-established value abroad may be credited in a deposit or prepaid account or delivered in cash. Thus, in this new systematic, the beneficiary does not need to negotiate foreign currency in Brazil and, therefore, it will not incur any other expenses or fees.

12. *Please describe any new relevant legislation for remittances that have been passed since the last NRP update, including*:

    - *Are there any simplified CDD measures in place for specific channels and/or below a transaction amount limit?*

    Regarding this aspect, Circular BCB 3978/2020 (Article 10) introduces a greater efficiency and effectiveness to the procedures applied in anti-money laundering and counter terrorist financing (AML/CFT), by increasing the adoption of a risk-based approach—allowing the application of reinforced controls for situations of greater risk and streamlined controls in lower risk situations.

    Moreover, according to Circular BCB No. 3,691, of December 16, 2013, without prejudice to the customer's identification, for operations of foreign currency purchase and sale up to US$

3,000.00 (three thousand United States dollars) or its equivalent amount in other currencies, it is not required to present documentary evidence of the underlying business transaction, observed that, in the case of operations without the participation of companies hired as agents, the storage of a copy of the customer's identification documents is also waived.

- *Are there any government-issued e-ID facilities, and are they used for financial services*?

Yes. On February 23, 2022, came into force Decree No. 10.977, establishing procedures in the preparation of the new Brazilian identity card, which will also be issued in digital format.

Source: https://www.gov.br/pt-br/noticias/noticias/economia-e-gestao-publica/07/nova-carteira-de-identidade-nacional-comeca-a-ser-emitida

- *Are regulatory sandboxes or similar regulatory tools to facilitate emergence of new business models available?*

Yes, the Central Bank of Brazil has implemented its Regulatory Sandbox (BCB Sandbox), which is an environment where the BCB licenses, for a certain period, entities to test an innovative project, while they observe a specific set of regulatory provisions that supports the controlled and delimited execution of their activities.

The BCB Sandbox was implemented through cycles and we are currently ending the first cycle's licensing phase. The licensed entities will begin to test their projects by the end of 2021 or the beginning of 2022.

Further information is available at:
https://www.bcb.gov.br/en/financialstability/regulatorysandbox.

- *AML/CFT regulations for account opening and ongoing customer due diligence*.

The procedures for building the overall customer's profile were enhanced by Circular BCB 3978/2020 (Articles 13 to 20). The customer's identification, qualification and classification procedures must be performed through the collection, verification and validation of information—in line with the client's risk profile, the nature of the business relationship, the supervised entities' AML/CTF policy, and the supervised entities' internal risk assessment. Notably, these procedures must be permanently reassessed according to the evolution of the business relationship and the client's risk profile. Furthermore, Resolução CMN 4753/2019 (Article 2) also reinforces that AML/CFT regulation must be considered for deposit accounts opening. Finally, Resolução BCB 96/2021 (Article 4) reinforces the risk-based approach considering payment accounts.

- *Use of agents by RSPs and agent exclusivity*

Resolution No. 3,954, of 2011, provides for the hiring of agents in the country, aiming at the provision of services of service activities to clients and users of financial institutions and other

institutions authorized to operate by the Central Bank of Brazil. This rule provides that the execution of remittances of up to the equivalent of US$3,000.00 among the services that can be performed through agents.

- *Competition policy*

The Agenda BC# presents the Central Bank of Brazil work agenda focused on tackling structural issues of the National Financial System (SFN) through fostering technological innovation and establishes as a dimension, among others, “Competitiveness”, aiming to promote adequate pricing by favoring competitive access to markets.

- *Consumer protection*

Resolutions CMN No. 4.949 and BCB No. 155, of 2021, provide principles and procedures to be adopted in the relationship with customers and users of products and services by financial institutions, payment institutions and other institutions authorized to operate by the Central Bank of Brazil.

The customer relationship policy should guide the conduct of the institutions' activities in accordance with the principles of ethics, responsibility, transparency, and diligence, providing for the convergence of interests and the consolidation of an institutional image of credibility, security, and competence.

- *Non-bank payment service providers licensed to provide international remittance services including use of digital or mobile wallets.*

Resolutions CMN No. 4,942 and BCB No. 137, of 2021, considering the growing digitization of the financial system and new business models. These are important achievements that have improved foreign exchange regulation considering the intensive use of technological solutions in international transfers, including use of digital that contribute to competition, financial inclusion and innovation in remittances market.

- *Regulatory compliance of products and services offered by fintechs*.

Resolutions CMN No. 4,595, of 2017, and BCB No. 65, of 2021, provide the compliance policy of financial institutions, payment institutions and other institutions authorized to operate by the Central Bank of Brazil.

The institutions must implement and maintain a compliance policy compatible with the institution's nature, size, complexity, structure, risk profile and business model, to ensure the effective management of its compliance risk.

If 2b or 2c:

- *Existence of basic accounts and whether basic accounts can be open in a remote way and receive remittances*

Demand deposit and e-money accounts can be opened in a remote way, according to Resolution CMN 4.753/2019 (Article 3) and Resolution BCB 96/2021 (Article 5), respectively, and they can receive remittances.

In addition, purchases and sales of foreign currency above R$10,000.00 (ten thousand BRL), the receipt or delivery of its equivalent in BRL must be performed through credit or debit to the customer's deposit or payment account maintained at financial institutions and other institutions authorized to operate by the BCB or payment institutions that are part of the Brazilian Payment System (SPB) exclusively by virtue of their adhesion to Pix (the instant payment scheme launched by the BCB last year).

When it does not exceed R$10,000.00 (ten thousand BRL), the receipt or delivery of the equivalent amount in BRL may be made through any payment instrument utilized on financial markets, including cash, noting that the use of postpaid payment account is limited to foreign currency sales transactions.

- *Can basic payment accounts be provided by non-bank RSPs in the form of e-money?*

Yes. According to Resolution BCB 96/2021 (Articles 1 and 2), the payment accounts can be provided by payment institutions in the form of e-money.

Payment infrastructure

13. *Do non-bank RSPs have access to the national payment infrastructures?*

Yes.

14. *Are there interfaces between payment systems in your country and payments systems in other countries? If so, which countries and what type (e.g., ACH, card switch, etc.)?*

Card switches for Visa, Mastercard, Elo/Discover and Amex and Swift. Besides that, there is a Local Payment System (SML) that interconnects the Brazilian payment system to the Argentine, Paraguayan and Uruguayan local system through a messaging system developed by the respective Central Banks.

15. *Have you issued any new legislation on fintech and/or non-bank financial institution that strengthens and advances the payment infrastructure?*

- Resolution BCB No. 1, of 2020: institutes the Pix payment arrangement and approves its Regulation;
- Resolution BCB No. 80, of 2021: disciplines the constitution and operation of payment institutions, establishes the parameters for submitting requests for authorization to

operate by these institutions and provides for the provision of payment services by other institutions authorized to operate by the Brazilian central bank;

- Resolution BCB No. 81, of 2021: regulates the authorization processes related to the operation of payment institutions and the provision of payment services by other institutions authorized to operate by the Central Bank of Brazil;
- Resolutions CMN No. 4,942 and BCB No. 137, of 2021, considering the growing digitization of the financial system and new business models.
- Resolution BCB No. 150, of 2021: consolidates rules on payment arrangements, approves the regulation that governs the provision of payment services within the scope of payment arrangements that are part of the Brazilian Payment System (SPB), establishes the criteria according to which the payment arrangements will not integrate the SPB and make other arrangements.

16. *Are there any Incentives to promote the digitization of payment infrastructures in line with the FSB's work on enhancing cross-border payments (the Stage 3 Roadmap)?*

    Yes. Credit transfers and payments made with Pix (the instant payment scheme launched by the BCB last year) are mandated to be free of charge for natural persons in most transactions in a way to promote digitization of payments. The inclusion of the non-banks on the one hand, stimulates competition thus affecting the capillarity and reach of financial services. On the other hand, the low cost for settlement in the Instant Payment System – SPI - (0,01 BRL for 10 transactions) also acts as an inductor of digitization through a reduction of the overall cost of transaction.

Governance and Risk Management

17. *Have there been any policy reforms in the type of risk management practices are required for RSPs (financial, legal, operational, cyber, fraud, and reputational risks)?*

    Resolution 4,557, of 2017, provides for the implementation of a structure for risk management and a structure for capital management and is applicable to financial institutions and other institutions licensed by the Central Bank of Brazil (BCB), including the ones which act as remittance service providers (RSPs).

    The regulation improved and unified, in a same resolution, requirements formerly addressed by specific resolutions for the management of capital and the management of operational risk – including legal risk –, credit risk, liquidity risk and market risk. Standards established by the Basel Committee on Banking Supervision in the document Core Principles for Effective Banking Supervision, published in 2012, are the foundation of the resolution.

    According to Resolution 4,557, institutions are required to evaluate the relevant risks arising from their business model and strategic goals, and to define and document, in the Risk Appetite Statement (RAS), appetite levels for each type of risk identified. Once the board's

decisions are articulated in the RAS, the structure for continuous risk management must be consistent with the risk levels set out in this document as well as integrated across risks, including the management of adverse effects arising from interactions between them.

This resolution also requires the implementation of a stress test programme, with a clear definition of the roles played by senior management and the board in establishing guidelines. Based on a set of prescribed methodologies, the programme must allow for the use of the stress test results in strategic decisions. It also introduced improvements in the corporate governance of risk management and capital management. The requirements are based on the recent recommendations on the subject, which faced a significant development over the last years in terms of definitions and practices, since shortcomings in corporate governance were considered one of the catalyzers of the financial crisis started in 2007.

The specific requirements for the management of each risk and the detailed governance provisions are available in the English version of Resolution 4,557 at BCB's website.

https://www.bcb.gov.br/content/financialstability/Brazilian_Prudential_Financial_Regulation_Docs/ResolutionCMN4557.pdf

18. *Have there been any changes in the existing AML/CFT regulations/guidelines available for non-bank RSPs for their relations to banks or their customers?*

Circular BCB 3,978/2020 adopts a risk-based approach—allowing the application of reinforced controls for situations of greater risk and streamlined controls in lower risk situations. Each entity is responsible for preparing its own internal risk assessment. The same regulations are applied to banks and non-banks RSPs.

Access to financial services

If 2a or 2c:

19. *Have there been any changes in migrants' access to services provided by regulated RSPs?*

No. Since the last updated, there has been no change concerning migrants' access to services provided by regulated RSPs. Nonetheless, it is important to mention that all documented migrants can access services provided by regulated RSPs.

20. *If you monitor migrant workers' level of financial inclusion in your country, including transaction account ownership, to send remittances in cash and digitally via regulated channels, please provide the latest figures.*

BCB does not monitor migrant workers´ level of financial inclusion.

21. *Have the requirements for migrants to open a transaction account (are they the same as for any other citizen) changed since the latest NRP draft/update including the cost structure of*

these accounts? Do these accounts have a cost? What is the account ownership levels for the migrants (if this information is available)?

The requirements for migrants to open a transaction account are the same as for any other citizen, including name and an identification number, according to Circular BCB 3978/2020 (Article 16). The customer due diligence must be employed in any case. These accounts are managed by the supervised entities (banks or non-banks) and they define the cost of the account.

The norms state that: (i) any identification documents recognized by Brazilian law are eligible documents for account opening; and (ii) it is up to the banks to define the list of documents necessary to open their clients' accounts, since they are required to adopt procedures and control mechanisms necessary to identify and qualify the account holder, including foreign, and their representatives.

Thus, there is no legal or regulatory impediment to banks to identify migrants, refugees or asylum seekers for account opening purposes, based on the following documents:

a) National Migration Registration Card (CRNM, in Portuguese);

b) Provisional Document of National Migratory Registration (DPRNM, in Portuguese);

c) Refugee Claim Protocol.

The migrant, refugee or asylum seeker can also open a payment account, including via mobile phone, at a bank or at a payment institution (IP, in Portuguese). These accounts have simpler opening rules when the maximum deposited amount limit is BRL 5,000.

Source:
https://www.bcb.gov.br/content/cidadaniafinanceira/documentos_cidadania/Cartilha_Migrantes_Refugiados/cartilha%20BC%20-%20Ingl%C3%AAs_vers%C3%A3o%204.0_final.pdf

22. *Have you observed any differences in channels used by undocumented migrants use?*

No. BCB does not monitor channels used by undocumented migrants. Nonetheless, the requirements for migrants to open a transaction account are the same as for any other citizen, including name, address and an identification number, according to Circular BCB 3978/2020 (Article 16). The customer due diligence must be employed in any case. These accounts are managed by the supervised entities (banks or non-banks) and they define the cost of the account.

Consequently, financial institutions must identify their clients prior to entering into business relations. Therefore, undocumented migrants' transactions are presumably continue to be carried out through informal channels.

23. *Have there been any changes in the coverage of RSPs where migrants live*?

BCB does not monitor migrant workers´ level of financial inclusion. However, all 5,570 Brazilian municipalities have at least one physical bank channel (as bank branch, bank branch-like or agents).

24. Do you have information on the financial inclusion rate of remittance sending migrants?

BCB does not monitor migrants´ level of financial inclusion, including rate of remittances.

25. Are you able to measure the switch from in-cash to on-line/transaction methods to send remittances?

Information not available.

26. Are there any incentives for digitalization of remittances, e.g. to promote targeted incentives that encourage the use of digital remittance products? Please note if such policies were used in the last 12 months.

On September 9, 2021, Resolution CMN No. 4,942 and Resolution BCB No. 137 was issued, considering the growing digitization of the financial system and new business models. These are important achievements that have improved foreign exchange regulation considering the intensive use of technological solutions in international payments and transfers that contribute to competition, financial inclusion and innovation in remittances market.

More recently, on December 29, 2021, was enacted Law No. 14.286, proposing a new legal framework for the Brazilian foreign exchange market that will allow the adoption of requirements proportional to the values of the operations in the foreign exchange market and the risks involved. The Law No. 14.286/2021 is in line with the best international practices and allow the adoption of new business models that increase market efficiency, competition, and financial inclusion, thus facilitating remittances.

If 2b or 2c:

27. *Have there been any changes in the coverage of RSPs in rural areas*?

BCB does not monitor migrant workers´ level of financial inclusion level. However, all 5,570 Brazilian municipalities have at least one physical bank channel (as bank branch, bank branch-like or agents).

28. What proportion of adults have access to a transaction account (which can also facilitate the receipt of international remittances)? (For 2021)

Currently, 96.9% of the adult population (from approx. 170 million adults) have at least one bank relationship, and having an account is the most important relationship.

29. *Usage rates of card/mobile payments and usage of online channels (e.g., mobile or internet banking), if available. (For 2021)*

    Information not available.

30. *Please list any changes in, new additions to the solutions that help promote equal access to financial services (including ID, digital ID, e-KYC and/or credit registry platforms by bank and non-bank RSP).*

    On September 26, 2019, was issued Resolution CMN No. 4,753, modernizing and simplifying the process of opening, maintaining, and closing deposit accounts. In line with the evolution of the forms of identification and qualification of customers, financial institutions must define the information and documents necessary for opening an account. The procedures defined by the financial institutions must observe the legislation and regulations in force and AML/CFT mechanisms. Finally, the use of electronic means for opening and closing deposit accounts is allowed.

31. *Are you able to measure the switch from remittances received over-the-counter to transaction account remittances?*

    Information not available.

32. *Are there any incentives for digitalization of remittances, e.g. to promote targeted incentives that encourage the use of digital remittance products that were in effect in the past 12 months?*

    On September 9, 2021, Resolution CMN No. 4,942 and Resolution BCB No. 137 was issued, considering the growing digitization of the financial system and new business models. These are important achievements that have improved foreign exchange regulation considering the intensive use of technological solutions in international payments and transfers that contribute to competition, financial inclusion and innovation in remittances market.

    More recently, on December 29, 2021, was enacted Law No. 14.286, proposing a new legal framework for the Brazilian foreign exchange market that will allow the adoption of requirements proportional to the values of the operations in the foreign exchange market and the risks involved. The Law No. 14.286/2021 is in line with the best international practices and allow the adoption of new business models that increase market efficiency, competition, and financial inclusion, thus facilitating remittances.

Canada

Note: Canada's updates were provided as responses to the questions in the new NRP template. Only the questions to which responses were provided are included below.

1. *Please provide remittance outflows and/or inflows (country-level data from the central bank as per the IMF BPM 6 Framework, if possible, please provide the data denominated in USD):*

Year	Inflow (if 1b or 1c)	Outflow (if 1a or 1c)
2017		$5.2 billion CAD

Data from the Study on International Money Transfers from Canada (Study on International Money Transfers from Canada (statcan.gc.ca))

2. *Is your country (a) mainly a remittance-sending country, (b) mainly a remittance-receiving country or (c) are both sending and receiving significant?*

Canada is mainly a remittance-**sending** country.

If 2a or 2c:

3. *Please provide the migrant stock as a share of total population:*

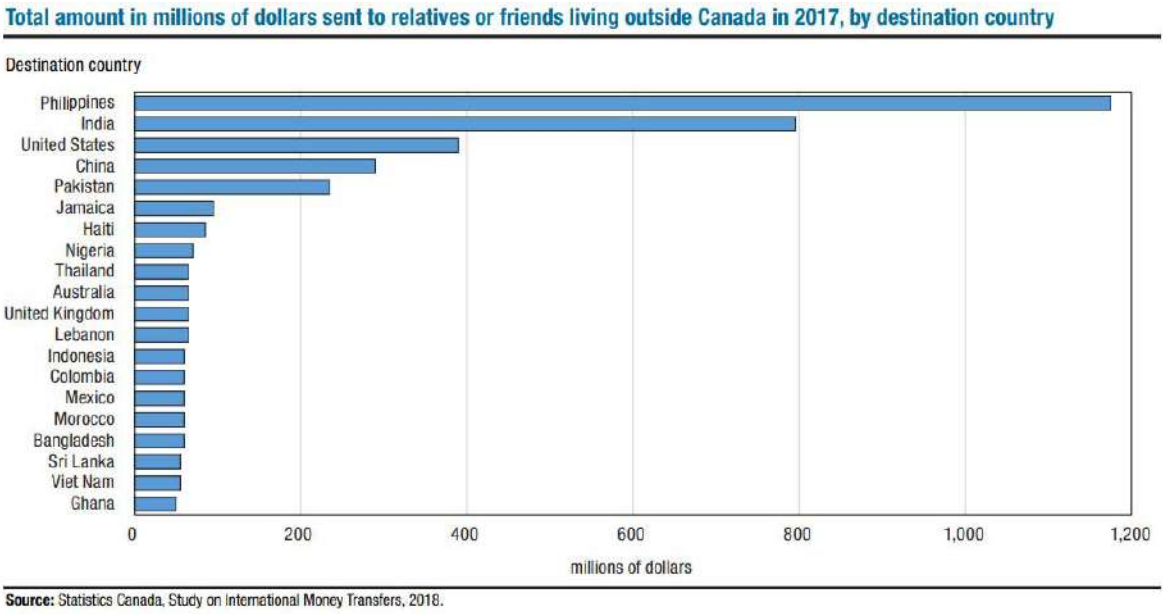
The most recently published Canadian census (conducted in 2016) indicated that Canada's foreign-born population was over 7.5 million, representing 21% of the Canadian population. Asian migrants represented the largest foreign-born community in Canada, followed by European migrants, with a growing portion of African migrants. The origin-country of the largest number of foreign-born Canadians was India, followed by China, the Philippines, the United Kingdom, and the United States.

Note: Canada conducts a Census of Population every five years. New data on Canada's foreign-born population size from the 2021 census will be published on October 26, 2022.

Year	Migrants/Population
2016	7,540,830/35,151,728 (21%)

4. *Please list main corridors for international remittances sent.*

According to the most recent data available (from 2017), the top corridors for international remittances sent from Canada were the Philippines, India, the United States, China and Pakistan.



5. *What is the average cost of sending $200 from your country? Provide available quarterly data for the latest 4-6 quarters.*

Table 1: Mean cost to send 200 Canadian dollars from Canada to select countries (as a percentage of the transaction):

	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
Philippines	4.92	4.69	4.90	4.76	4.59	4.54
India	4.48	5.01	4.97	5.24	5.38	5.27
China	5.48	6.46	6.77	6.97	7.31	6.80
Pakistan	3.77	4.55	4.39	4.79	5.03	4.87
Jamaica	5.98	7.62	6.91	6.30	6.29	6.29
Vietnam	4.74	5.53	5.46	5.42	6.01	6.45
Haiti	5.15	7.19	5.96	7.19	7.24	7.59
Nigeria	4.63	4.28	4.97	4.47	4.40	4.28
Sri Lanka	4.75	3.93	3.64	3.64	5.75	4.96
Lebanon	6.96	8.45	9.94	10.93	12.19	12.09
Ghana	6.01	6.51	8.03	8.60	10.30	10.26
Kenya	5.52	7.34	7.00	7.87	7.39	7.70
Guyana	6.73	8.91	9.12	8.90	8.67	8.85
Zimbabwe	6.42	7.90	9.13	9.55	9.90	10.05
Rwanda	4.85	6.41	8.19	8.38	8.42	7.87
Mean	**5.36**	**6.32**	**6.63**	**6.87**	**7.26**	**7.19**

Data from the World Bank's Remittance Prices Worldwide dataset:
Data download | Remittance Prices Worldwide (worldbank.org)

Note: average costs are not weighted and are not necessarily representative of the actual costs customers pay when sending payments abroad (e.g., certain providers with high fees may drive up the average while the majority of customers end up using a lower-cost provider).

Competition in the market

6. *Please indicate if there was any change in the types of remittance service providers (RSPs) allowed in your country due to regulatory reforms (column 1) and please fill in the rest of the table to the extent feasible:*

	Allowed to provide remittance services (1)	*If "yes"*			
	[Yes/No]	*Number of providers of each type*	*Market share for each provider type? (in terms of number of transactions)*	*Average cost of sending $200* ***if 2a or 2c***	*Average cost of receiving $200* ***if 2b or 2c***
Commercial banks	*Yes*	*10+*			
MTOs	*Yes*	*10+*			
Postal network	*Yes*	*1*			
Mobile money operators	*N/A*				
Fintech platforms	*Yes*	*10+*			
Remittance hubs	*N/A*				
Others (please specify)					

Note: Unclear what the categories of "mobile money operator" and "remittance hub" refer to. Similarly, assume there is considerable overlap between "MTOs" and "fintech platforms".

Examples of commercial banks include: Royal Bank, Scotia Bank, National Bank, Toronto Dominion, Canadian Imperial Bank of Commerce, Bank of Montreal, Laurentian Bank, HSBC Bank, Canadian Western Bank, etc.

Fintech platforms/MTOs include many global firms operating in Canada such as Wise, Xe Money Transfer, OFX, etc.

7. *If there was no publicly available price comparison tool for remittances (e.g. a national remittances database) in your country when the NRPs were last drafted/updated, has one been developed since then? [Yes/No]*

No.

8. *Have you implemented any incentives to RSPs in your country to promote competition in the past year? (e.g. tax incentives) If yes, please describe.*

To increase market competitiveness, Canada is seeking to expand access to core payment system to new participants, including payment service providers. The government plans to launch a public consultation process later in 2022 on expanding membership eligibility in Payments Canada (the operator of Canada's national payments infrastructure) and allowing payment service providers to access Canada's core payment systems.

Regulatory environment

9. *Changes in transparency requirements as specified in regulations/circulars/guidance in the past year:*

If 2a or 2c:

- *Please discuss any changes to transparency requirements in terms of cost breakdown between foreign exchange margins and fees, additional costs, speed, etc. The following points provide guidance on what reforms can be included for this purpose, if any.*

None – N/A.

- *Requirement for RSPs to provide information on whether there are additional fees for receivers*

Although Federally Regulated Financial Institutions are required to disclose all fees related to the domestic/originating end of a transaction, including sending money abroad, this does not include charges in the country where the money is received.

- *Transparency in terms of speed: time it takes for funds to be available to the receiver after the sender initiates payment.*

None – N/A.

- *Requirement for RSPs to provide all the necessary information prior to transaction initiation*

None – N/A.

- *Are there any new additional fees or taxes the receivers must pay? (For example, if remittances are received into an account, is there a fee to cash out?) If so, are these disclosed to the senders/receivers?*

None – N/A.

If 2b or 2c:

- *Are there any new additional fees or taxes the receivers must pay? (For example, if remittances are received into an account, is there a fee to cash out?) If so, are these disclosed to the senders/receivers?*

10. *Please describe any new relevant legislation for remittances that have been passed since the last NRP update, including:*

The Retail Payment Activities Act (RPAA), enacted in June 2021, is the foundational element of the Retail Payment Supervision (RPS) regime. The regime will expand the regulatory perimeter by scoping in payment service providers (PSP), which includes many remittance providers, to promote the safety and integrity of the financial system while ensuring responsible innovation in the payments sector for Canadians. PSPs will be required to register with the Bank of Canada, which in turn will be responsible for supervising PSPs to ensure compliance with the regulations. Once implemented, the regime will ensure that PSPs are supervised, end-user funds are protected, operational risks are mitigated and national security related risks are safeguarded.

Payment infrastructure

Please describe if there have been any changes in the following since the latest drafting/updating of the NRPs:

11. *Do non-bank RSPs have access to the national payment infrastructures?*

Non-bank RSPs do not have direct access to Canada's national payment infrastructure, which is operated by Payments Canada.

To increase market competitiveness, Canada is seeking to expand core payment system access to new participants, including payment service providers. The government plans to launch a public consultation process later in 2022 on expanding membership eligibility in Payments Canada and allowing payment service providers to access Canada's core payment systems.

12. *Are there interfaces between payment systems in your country and payments systems in other countries? If so, which countries and what type (e.g., ACH, card switch, etc.)?*

Payments Canada is working to adopt the ISO 20022 standard and broaden the interoperability of the Canadian payments marketplace with the rest of the world where ISO 20022 is increasingly being adopted. Payments Canada is targeting November 2022 for initial implementation of ISO 20022 with Lynx (Canada's high-value wire payments system). Canada's new real-time payments system, scheduled to launch in 2023, will support ISO 20022 messaging immediately at launch.

13. *Have you issued any new legislation on fintech and/or non-bank financial institution that strengthens and advances the payment infrastructure?*

The government is developing the Retail Payment Activities Regulations that are required to bring into force many of the provisions of the Retail Payment Activities Act, which received Royal Assent in June 2021. The Act and proposed Regulations introduce a new retail payments supervisory framework for payment service providers – including remittance service providers – that are currently unsupervised by domestic statutes. The intent is to ensure that payment services remain reliable and safe for

Canadians, and will help support the payment ecosystem to continue to develop faster, cheaper and more convenient methods of payment.

14. *Are there any Incentives to promote the digitization of payment infrastructures in line with the FSB's work on enhancing cross-border payments (the Stage 3 Roadmap)?*

Canada continues to advance initiatives related to Payments Modernization to improve system infrastructure in line with the FSB's work on enhancing cross-border payments.

Payments Modernization

- To increase market competitiveness, Canada is seeking to expand core payment system access to new participants, including payment service providers. The government plans to launch a public consultation process later in 2022 on expanding membership eligibility in Payments Canada and allowing payment service providers to access Canada's core payment systems.

- Payments Canada is targeting a June 2023 launch for Canada's new Real-Time Rail (RTR) system. The RTR will facilitate the instant exchange, clearing and settlement of transactions, which may help to expedite certain cross-border payments, including remittances. With an ability to handle data-rich payment messages, the RTR will serve as a platform for innovation in Canadian payments and promote digitization and the use of electronic transfers.

Governance and Risk Management

15. *Have there been any policy reforms in the type of risk management practices are required for RSPs (financial, legal, operational, cyber, fraud, and reputational risks)?*

The Retail Payment Activities Act (RPAA), enacted in June 2021, is the foundational element of the Retail Payment Supervision (RPS) regime. The regime will expand the regulatory perimeter by scoping in payment service providers (PSP), which includes many remittance providers, to promote the safety and integrity of the financial system while ensuring responsible innovation for Canadians. PSPs will be required to register with the Bank of Canada, which in turn will be responsible for supervising PSPs to ensure compliance with the regulations. Once implemented, the regime will ensure that PSPs are supervised, end-user funds are protected, operational risks are mitigated and national security related risks are safeguarded.

16. *Have there been any changes in the existing AML/CFT regulations/guidelines available for non-bank RSPs for their relations to banks or their customers?*

On April 5th, 2022, the requirements pertaining to crowdfunding platforms and all payment service providers were made permanent, with businesses in these sectors becoming reporting entities under the Proceed of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA). Consequently, this sector will be required to undertake client identification, record keeping and reporting in line with obligations set forth in the PCMLTFA and its associated regulations. It also subjects the sector to oversight by the Financial Transactions and Reports Analysis Centre of Canada to ensure the effective implementation of those regulatory requirements.

Access to financial services

If 2a or 2c:

17. *Have there been any changes in migrants' access to services provided by regulated RSPs? If you monitor migrant workers' level of financial inclusion in your country, including transaction account ownership, to send remittances in cash and digitally via regulated channels, please provide the latest figures.*

N/A

18. *Have the requirements for migrants to open a transaction account (are they the same as for any other citizen) changed since the latest NRP draft/update including the cost structure of these accounts? Do these accounts have a cost? What is the account ownership levels for the migrants (if this information is available)?*

N/A

19. *Have you observed any differences in channels used by undocumented migrants use?*

N/A

20. *Have there been any changes in the coverage of RSPs where migrants live?*

N/A

21. *Do you have information on the financial inclusion rate of remittance sending migrants?*

N/A

22. *Are you able to measure the switch from in-cash to on-line/transaction methods to send remittances?*

Although Canada has not tracked the switch from cash to electronic payments specifically for remittances, the COVID-19 pandemic has accelerated the rise of digital payments and the decline in cash overall.

Figure 1. Canada – all payment methods – annual totals (Canadian Payment Methods and Trends | Payments Canada)

Volume (in millions of transactions)

Payment method	2011	2015	2019	2020
Cheque and paper	1,187.0	876.0	583.9	432.0
Debit card	4,148.0	5,178.0	6,256.0	5,699.0
ABM	759.0	595.0	466.1	423.1
Prepaid card	148.0	225.0	328.7	301.9
EFT	2,124.0	2,592.0	2,947.0	2,908.0
Credit card	3,424.0	4,642.0	6,859.0	6,124.0
Online transfer	28.7	119.6	540.6	800.7
Cash	8,495.0	6,050.0	4,065.0	3,394.0
Totals	**20,314.0**	**20,277.6**	**22,046.9**	**20,082.5**

Value (in millions of dollars)

Payment method	2011	2015	2019	2020
Cheque and paper	3,648,448.0	3,989,942.9	3,586,221.0	3,056,371.0
Debit card	184,038.0	220,483.4	259,255.0	251,731.0
ABM	85,062.0	72,666.7	67,082.0	44,826.4
Prepaid card	9,930.0	13,489.9	19,237.0	17,900.0
EFT	2,868,755.0	3,972,263.4	5,178,683.0	5,147,089.0
Credit card	391,198.0	450,416.6	615,154.0	569,000.0
Online transfer	9,659.0	45,700.0	178,224.9	249,123.3
Cash	154,274.0	110,589.0	85,649.3	72,003.5
Totals	**7,351,362.0**	**8,875,551.9**	**9,989,506.2**	**9,408,044.2**

23. *Are there any incentives for digitalization of remittances, e.g. to promote targeted incentives that encourage the use of digital remittance products? Please note if such policies were used in the last 12 months.*

N/A

China

Call to Action on remittances

China will continue to search solutions and take practices on the reduction of global remittance costs towards our target, with high priority on financial consumer protection and financial literacy for remittance. More efforts will be made to enable the efficiency, transparency and competitiveness of remittance service through traditional and new digital channels and methods, with consideration of risk management.

Current State of the Market for International Remittances

China is both a large receiving country and a large sending country of remittance. Thousands of banks and several MTOs provide remittance service in China, making the market quite competitive. China has established a comprehensive payment infrastructure that provides 24-hour/7-day inter-bank remittance settlement. Non-bank payment service providers also have access to the national payment infrastructures. The interoperability among banks and MTOs has also been achieved through the cooperation among banks and MTOs. Fintech players also join the market by cooperating with banks or MTOs. Since banks in China do not charge any fee to receivers, the cost for sending remittance to

China mainly depends on RSPs in sending countries where the prices are determined, and consumers are charged. Smart consumers tend to send low-frequency-large-value remittance rather than high-frequency-small-value remittance, in order to avoid repeating the "fixed" cost per transaction, especially for Chinese consumers who have significant savings culture. The amount of USD 200 is usually too small for Chinese consumers.

In China, the physical bank branches have covered almost every town in rural areas. Almost every family owns at least one transaction account which can facilitate the receipt of remittances. Digitalization has become one of the priorities in the national financial inclusion strategies. To enhance remittance environment, China strengthens the regulation on financial consumer protection and highlights the importance of financial and digital literacy and awareness. Some initiatives have been launched regularly to help consumers to use remittance service smartly, especially through digital solutions.

2022-2023 Country Plan for Reducing Remittance Transfer Costs

- Encourage better coordination between government agencies and coordination between regulators and innovator.
- Collect data and analyze it to effectively oversee the remittance sector as well as continue to conduct research and case study on customer behavior of remittance services to improve remittance service provision.
- Explore digital channels and methods of remittance service by leveraging information technology and deepen the digital payment ecosystem.
- Improve the processes for customer due diligence and ensure effective anti-money laundering/counter terrorism financing (AML/CFT) compliance programs that comply with the international standards are applied.
- Encourage both public- and private-sector-led awareness building campaigns to boost financial literacy and capability of remittance consumers.
- Help consumers to understand digital remittance product features and are aware of risks including protection of data, privacy and security.
- Promote awareness of unregulated remittance transfer risks and alternative solutions for consumers in the appropriate language.
- Strengthen financial consumer protection regulation and supervision, provide multiple dispute resolution mechanisms, and improve data and privacy protection.
- Improve the transparency of remittance cost for consumers and enhance consumers' understanding of the terms offered by RSPs operating in the corridor.
- Encourage remittance-related technical assistance and knowledge exchange.

Annual Monitoring for the National Remittance Plans 2022

<u>Progress Monitoring of 2021 National Remittance Plans</u>

The WBG Remittance Prices Database collects the data about sending remittance to China through some main corridors, including those from Australia, Canada, France, Germany, Italy, Japan, New Zealand, Singapore, United Kingdom, United States and other jurisdictions to China. The data shows that, in 2022 Q2, the average cost of sending remittance of USD 200 to China is 6.28%, documenting

a reduction of 1.82 percent from 8.10% in 2020 Q1, despite the impact of the COVID-19 pandemic. The data from 2020 Q2 to 2022 Q1 are 8.23%, 8.43%, 8.07%, 7.71%, 7.14%, 6.78%, 6.35% and 6.52%.

Thousands of banks and several MTOs provide remittance service in China, making the market quite competitive. As of the end of 2021, there were 218,411 physical bank branches in China, covering 98.17% towns in rural areas with an increase from 97.13% of last year. Consumers can send or receive remittance from their accounts or using cash through bank service. All the bank account and cash services are usually free for consumers in China. There are no tax or fee that the remittance receivers must pay, so the cost for sending remittance to China mainly depends on banks or MTOs in sending countries where consumers are charged.

China focuses on enhancing the convenience and lowering the cost of remittances through digital channels and market competition. According to the Global Findex Database 2021, in China, 89% adults (age 15+) own financial institution accounts; 76% adults own debit cards; 86% adults use digital payment. The interoperability among banks and MTOs has also been achieved through the cooperation among banks and MTOs. Fintech players also join the remittance market by cooperating with banks or MTOs. To enhance remittance environment, China strengthens the regulation on financial consumer protection in remittance service and highlights the importance of financial and digital literacy and awareness. Some initiatives have been launched regularly to help consumers to use remittance service smartly, especially through digital solutions.

European Union

N/A

France

N/A

Germany

Country Remittance Profile:

With outflows of 22bn USD in 2020 (0,6% of GDP)[12] as indicated by data from the World Bank, Germany remains the fifth largest sending country worldwide. Also, per World Bank data, estimated remittances flows into Germany remain at 17.9bn USD in 2020, approximately 0.5 percent of Germany's GDP. According to information of RSPs, approx. 20 % of remittances are paid through online channels and 80 % are paid in cash. According to World Bank data, the average cost to send

[12] The data here taken from World Bank Sources. BMZ thus cannot guarantee correctness of the estimates and calculations https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data

USD 200 from Germany experienced a significant decrease over the last year from 7.26% in Q1/2021 to 6.1% in Q1/2022. This is almost in line with the global average (6.09%), but more expensive when compared to the G8 average (5.8%) and SDG 10.c (below 3%) (all data: Q1 2022, The World Bank, Remittance Prices Worldwide)[13]. As per World Bank data, the available quarterly costs (from the previous year 2021 and the current one) in percent of USD 200 remitted are as follows: **2021_Q1**: 7.26; **2021_Q2**: 6.15; **2021_Q3**: 6.37; **2021_Q4**: 6.22; **2022_Q1**: 6.1. The migrant stock 2021 as a share of total population is as follows: (Number of Migrants here equals the number of persons with an own migration experience living in Germany): **year 2021**: approx. 13,964,000/ 83,237,124.

On improving the enabling policy and regulatory environment for international remittances:

Germany will co-fund the 2023 *Global Forum on Remittances, Investment and Development*, which will take place in June as an important platform to build and strengthen partnerships for innovative solutions on cheaper, faster, and safer transfer of remittances with all relevant stakeholders.

Germany continues to increase investment and to strengthen the capacity in the private sector, specifically small businesses in Africa. In this context, the online platform http://www.widu.africa continues to enhance the impact of remittances from the African diaspora in Europe to support investment opportunities, create jobs and build bankable businesses in 6 African countries (Cameroon, Ghana, Kenya, Tunisia, Togo and Ethiopia). Demand is very high, more than 3100 entrepreneurs received financial and coaching support since end of 2019 (ca. 44% women), creating and sustaining about 4.300 jobs (55% for women) and 5.1 Mio EUR in mobilised private investments.

To improve the policy and regulatory environment it is key to better align financial integrity and financial inclusion objectives. With the establishment of the multi-stakeholder "Coordination Group on Inclusive Financial Integrity" (CG IFI) in 2020, Germany continuously supports deepening the understanding of current challenges and solutions in this area, as well as strengthens coordination and cooperation of individual initiatives and organizations. The CG IFI is implemented by the GIZ Global Programme on Combating Illicit Financial Flows and funded by BMZ and the Norwegian Ministry of Foreign Affairs.

On improving financial system infrastructures, supporting innovation and harnessing emerging technologies:

Germany and Jordan continue to partner in the implementation of the project on "Improving Access to Remittances and other Financial Services through Digital Solutions" to improve access of refugees and Jordanian households to remittances and other financial services through digital solutions. The project has been extended until October 2023. Two digital remittance services, one for inbound remittances corridor relevant for Syrian refugees and one outbound remittances corridor to Bangladesh are now available for all users of mobile wallets, and in both cases, through the digitalisation of the service, the costs and transfer time for remitting money are lowered significantly. Currently, the project focuses on the active usage of the now existing services by refugees and women

[13] https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q122_final.pdf

as well as the optimization of the regulatory framework to further improve the provided services to remit money.

Germany supported a virtual RemTech Pilot Accelerator[14] for international remittances start-ups offering innovative technology-based solutions to facilitate better, faster, and cheaper remittances in the partner countries of the *Programme Migration & Diaspora* (PMD). Twelve start-up teams received a week of acceleration and coaching followed by a pitch day with potential investors. The accelerator was also continued in 2022. In addition, 'Make Remittances Work for You', an E Learning course available via the *Atingi* platform, was launched for Ghana, Kosovo, and Jordan with information on how to leverage the power of remittances for long-term development.

On improving transparency, consumer protection, digital and financial literacy for remittance users:

Germany continues to support the Global Knowledge Partnership on Migration and Development (KNOMAD) with its 'Remittances and Diaspora Resources' working group generating recommendations for policy through research, data collection, evaluation of policies and knowledge exchange.

India

Note: India's updates were provided as responses to the questions in the new NRP template. Only the questions to which responses were provided are included below.

Country remittances profile

1. *Please provide remittance outflows and/or inflows (country-level data from the central bank as per the IMF BPM 6 Framework, if possible, please provide the data denominated in USD):*

Year	Inflow (if 1b or 1c)	Outflow (if 1a or 1c)
2021	US$ 86334 Million	US$ 7346 Million

2. *Is your country (a) mainly a remittance-sending country, (b) mainly a remittance-receiving country or (c) are both sending and receiving significant?*

India is mainly a remittance receiving country.

3. *What is the average cost of sending $200 from your country? Provide available quarterly data for the latest 4-6 quarters.*

1.7% - 2.0% (Depending on the mode of transfer, upper band for cash and lower band for direct bank transfer. Source: RBI Remittances Survey, 2021). Quarterly data not available.

[14] https://techquartier.com/remtech-accelerator/

4. *Please list main corridors for international remittances received.*

Main corridors of India's inward remittances as observed in the RBI survey on remittances conducted for the reference period 2020-21 are the United States, United Arab Emirate, United Kingdom, Singapore, Saudi Arabia, Kuwait, Oman, Qatar and Hong Kong SAR, China.

5. *Please indicate if there was any change in the types of remittance service providers (RSPs) allowed in your country due to regulatory reforms (column 1) and please fill in the rest of the table to the extent feasible:*

	Allowed to provide remittance services (1)	If "yes"			
	[Yes/No]	Number of providers of each type	Market share for each provider type? (in terms of number of transactions)	Average cost of sending $200 **if 2a or 2c**	Average cost of receiving $200 **if 2b or 2c**
MTOs*	Yes	9	1,12,65,634	1.7- 2.0 % ^	$ 4.52

*Data covers period between May 2021 and May 2022 only for inward remittance received under Money Transfer Service (MTSS)– cross border in-bound service (customer to customer) scheme. ^ Note: Depending on the mode of transfer, upper band for cash and lower band for direct bank transfer. Source: RBI Remittances Survey, 2021.

Regulatory environment

6. *Are there any new additional fees or taxes the receivers must pay? (For example, if remittances are received into an account, is there a fee to cash out?) If so, are these disclosed to the senders/receivers?*

No charges/transaction costs of remittances have been prescribed under FEMA 1999. As per FEDAI Rules, the member Authorised Dealer (AD) banks are free to determine their own charges for various types of forex transactions, keeping in view the advice of RBI (Master Circular on Customer Service in Banks) that such charges are not to be out of line with the average cost of providing services.

7. *Please describe any new relevant legislation for remittances that have been passed since the last NRP update, including:*

- *Are there any simplified CDD measures in place for specific channels and/or below a transaction amount limit?*
- *Are there any government-issued e-ID facilities, and are they used for financial services?*

- *Are regulatory sandboxes or similar regulatory tools to facilitate emergence of new business models available?*

An Enabling Framework for Regulatory Sandbox was put in place by the Reserve Bank in 2019 which was subsequently updated on October 8, 2021. Under this framework, Reserve Bank had inducted eight entities in the Regulatory Sandbox as part of the second cohort under the theme "Cross Border Payments". Four products have been found to be acceptable and viable within the boundary conditions of the Sandbox, subject to regulatory clearance from the regulator, for wider adoption. One of the products was on cross-border remittance while others were based on cross-border payments in general.

8. *Do non-bank RSPs have access to the national payment infrastructures?*

No

9. *Are there interfaces between payment systems in your country and payments systems in other countries? If so, which countries and what type (e.g., ACH, card switch, etc.)?*

I. Fast Payment Systems

- National Payments Corporation of India (NPCI) is authorised by RBI for operating retail payment systems in India. NPCI International Payments Limited (NIPL, a subsidiary of NPCI) and Network for Electronic Transfers (NETS of Singapore) have interlinked their systems to facilitate QR code-based payments in Singapore. The linkage is facilitated through the Fast Payment System (FPS) viz. Unified Payments Interface (UPI), owned and operated by NPCI.
- RBI and Monetary Authority of Singapore (MAS) have announced the interlinking of two FPS viz. UPI (India) and PayNow (Singapore). The linkage will extensively use APIs and help establish the merit of using UPI for cross-border payments. This will also enable users of the two systems to make instant fund transfers without the need to get onboarded onto the other system and further anchor trade, travel and remittance flows between the two countries. The project aligns with the G20's financial inclusion priority of enabling faster, cheaper and more transparent cross-border payments and can also contribute towards fulfilling United Nation's (UN) Sustainable Development Goals (SDG 10.c) by reducing cost of remittances. Efforts are on to operationalise the linkage in the second half of 2022.
- The Reserve Bank is actively pursuing the outreach of UPI to interface with similar fast payment systems in other jurisdictions to facilitate cross-border transactions. UPI, through QR codes is already used for cross-border payments in Bhutan, Singapore and UAE, the benefits for real time remittances would percolate through interlinkage of fast payment systems of various jurisdictions for which, adaptability of UPI would be a definite advantage.

II. Card Schemes

- RuPay is the dominant card network in India (more than 60% cards issued in India being RuPay Cards) with 100% acceptance at ATMs and PoS terminals within India. RuPay co-branded

international cards are accepted at 195+ countries across the world in tie-ups with international card schemes, arrangements have also been made with Bhutan and Singapore to accept RuPay cards without co-branding with other international card schemes, which can be easily replicated in other territories also.

III. Indo Nepal NEFT facility

- Indo-Nepal Remittance Facility is a cross-border remittance scheme to transfer funds from India to Nepal, enabled under the NEFT Scheme. The scheme was launched to provide a safe and cost-efficient avenue to migrant Nepalese workers in India to remit money back to their families in Nepal. A remitter can transfer funds up to Indian Rupees 2,00,000 (maximum permissible amount) from any of the NEFT-enabled branches in India. The beneficiary would receive funds in Nepalese Rupees.

10. *Have you issued any new legislation on fintech and/or non-bank financial institution that strengthens and advances the payment infrastructure?*

The regulatory instructions issued by Cyber Security and Information Technology Examination (CSITE) Cell of Department of Supervision, Reserve Bank of India, are as under:

- For card issuing Non-Banking Financial Corporations [NBFCs] (along with commercial banks), Master Direction on Digital Payment Security Controls was issued by RBI on February 18, 2021 advising, inter alia, to set up a robust governance structure for such systems and implement common minimum standards of security controls for channels like internet, mobile banking, card payments, among others. While the guidelines are technology and platform agnostic, it aims at creating an enhanced and enabling environment for customers to use digital payment products in more safe and secure manner.
- For fintech/ NBFIs which are associated with banks in the payment infrastructure, the applicable regulations related to Vendor management related to IT/ cyber risk would have to be followed by RBI regulated entities. Some of the instructions include, ensuring RBI access to all vendor's information resources (online/in person) that are consumed by banks, implement escrow arrangement for the vendor's source code of application used by bank, ensuring to obtain certificate from the application developer stating that the application is free of known vulnerabilities, malwares and any covert channels, etc.

11. *Are there any Incentives to promote the digitization of payment infrastructures in line with the FSB's work on enhancing cross-border payments (the Stage 3 Roadmap)?*

Various measures have been implemented in India in line with the cross-border payments roadmap:

- In July 2021, RBI reviewed the access criteria for participation in Centralised Payment Systems (RTGS and NEFT) and permitted certain categories of non-bank payment system operators, viz. card networks, white label ATM operators and e-money issuers to participate as direct members. The access included opening current accounts with the RBI.

- The Reserve Bank operationalised RTGS system on 24x7 basis in December 2020. Further, NEFT system, is also available round the clock since December 2019. Additionally, India has efficient fast payment systems, viz., Immediate Payment Service (IMPS) and Unified Payments Interface (UPI) that are available round the clock. With such round the clock payment system options, India is well oriented for alignment with other jurisdictions to offer cross-border payments.
- Introduction of Legal Entity Identifier (LEI) for cross-border transactions – To harness the benefits of LEI, RBI has mandated inclusion of LEI number by resident entities (non-individuals) while undertaking capital or current account transactions of ₹500 million and above (per transaction). This would be effective from October 1, 2022.
- Efforts are also underway for issuance and acceptance (without a need for co-branding with international card schemes) of RuPay cards (India's domestic card network) in other jurisdictions. RuPay card issuance is already operational in Bhutan and is expected to go live in more jurisdictions in 2022-23.

12. *Have there been any policy reforms in the type of risk management practices are required for RSPs (financial, legal, operational, cyber, fraud, and reputational risks)?*

a) With respect to cyber risks, RBI regulated entities have been advised to put in place appropriate risk management framework.

b) Banks have been advised to put in place a Board approved cyber-security policy elucidating the strategy containing an appropriate approach to combat cyber threats given the level of complexity of business and acceptable levels of risk. Banks have also been advised to review the organizational arrangements so that the security concerns are appreciated, receive adequate attention and get escalated to appropriate levels in the hierarchy to enable quick action.

c) Further, banks have been advised to designate a sufficiently senior level official as Chief Information Security Officer (CISO), responsible for articulating and enforcing the policies that the bank uses to protect its information assets apart from coordinating the cyber security related issues/ implementation within the organization as well as relevant external agencies. The CISO is, inter alia, responsible for bringing to the notice of the Board/ IT subcommittee of the Board about the vulnerabilities and cyber security risks that the bank is exposed to, and also place a separate review of the bank's cyber security arrangements/ preparedness before the Board/ IT subcommittee of the Board on a quarterly basis.

d) In case of digital payment products and services, policy, RBI regulated entities have been advised to formulate a policy which should discuss the parameters of any "new product" including its alignment with the overall business strategy and inherent risk of the product, risk management/ mitigation measures, compliance with regulatory instructions, customer experience, etc., and also explicitly discuss about payment security requirements from Functionality, Security and Performance (FSP) angles. (Ref. Master Direction on Digital Payment Security Controls dated February 18, 2021).

Indonesia

Note: Indonesia's updates were provided as responses to the questions in the new NRP template. Only the questions to which responses were provided are included below.

Country remittances profile

1. *Please provide remittance outflows and/or inflows (country-level data from the central bank as per the IMF BPM 6 Framework, if possible, please provide the data denominated in ~~USD~~ IDR):*

Year	Inflow (if 1b or 1c)*	Outflow (if 1a or 1c)*
2021	**7,950,278 million**	**9,131,218 million**

*non-bank remittance

2. *Is your country (a) mainly a remittance-sending country, (b) mainly a remittance-receiving country or (c) are both sending and receiving significant?*[15]

   Both sending and receiving

If 2a or 2c:

3. *Please provide the migrant stock as a share of total population:*

Year	Migrants/Population
2021	3,254,000 / 272,682,500

Source: Bank Indonesia & Central Bureau of Statistics

4. *Please list main corridors for international remittances sent.*[16]

   Singapore, China, Malaysia, United Kingdom, United States of America, Australia

5. *Please list main corridors for international remittances received.*[17]

   Singapore, Taiwan, Hong Kong SAR, China, Saudi Arabia, Malaysia, United States of America

Competition in the market

[15] Classification of a country as a sending or a receiving country or both is left to the countries themselves. However, please note that, in general, high-income countries are considered sending countries to low- and middle-income countries. There are exceptions. Some middle-income countries have large migrant populations originating from low-income countries and can be classified as both sending and receiving countries.
[16] Main corridors for a sending country include those that are the largest receivers from that country in terms of volume.
[17] Main corridors for a receiving country include those that are the largest senders for that country in terms of volume.

6. *Please indicate if there was any change in the types of remittance service providers (RSPs) allowed in your country due to regulatory reforms (column 1) and please fill in the rest of the table to the extent feasible:*

In principle there is no change in the types of RSPs allowed in Indonesia after the regulatory reforms. The Payment System regulation reform is directed to restructure Payment System industry in an end-to-end manner. The reform prioritizes sound business practice and simplification of regulations, and commenced with the issuance of Bank Indonesia Regulation Number 22/23/PBI/2020 on Payment System. The implementation of such regulatory reform requires the further issuance of implementing regulations, including Bank Indonesia Regulation No 23/6/PBI/2021 on Payment Service Providers, and Bank Indonesia Regulation No 23/7/PBI/2021 on Payment System Infrastructure Provider.

Payment Service Provider (PJP) are Banks or Non-Bank Institutions providing services to facilitate payment transactions to users. PJP operates the following activities: a. provision of Source of Fund information; b. payment initiation and/or acquiring services; c. administration of Source of Fund; and/or d. remittance services. Any party acting as PJP must obtain license from Bank Indonesia based on these categories:

- license category one, which allows the holder to conduct following activities: 1. administration of Source of Fund; 2. provision of Source of Fund information; 3. payment initiation and/or acquiring services; and 4. remittance services;
- license category two, which allows the holder to conduct following activities: 1. provision of Source of Fund information ; and 2. payment initiation and/or acquiring services; and/or
- license category three, which allows the holder to conduct following activities: 1. remittance services; and/or 2. other activities determined by Bank Indonesia.

As such, RSPs are mostly fall under license category three. Parties who already obtained relevant license and conducted remittance activities prior to the regulatory reform may continue to conduct its activities, and in line with the regulations, they will be reclassified as PJP holding license category three. Payment system regulatory reform applies an activity-based approach instead of institutional-based approach when it comes to determining any party allowed to provide payment services, including but not limited to remittance service.

7. *If there was no publicly available price comparison tool for remittances (e.g. a national remittances database) in your country when the NRPs were last drafted/updated, has one been developed since then? [Yes/No]*

No

Regulatory environment

8. *Please describe any new relevant legislation for remittances that have been passed since the last NRP update, including:*
    - *Are there any simplified CDD measures in place for specific channels and/or below a transaction amount limit?*
    - *Are there any government-issued e-ID facilities, and are they used for financial services?*
    - *Are regulatory sandboxes or similar regulatory tools to facilitate emergence of new business models available?*
    - *AML/CFT regulations for account opening and ongoing customer due diligence.*
    - *Use of agents by RSPs and agent exclusivity*
    - *Competition policy*

- Consumer protection: There are several regulations related to consumer protection in payment system (including remittance service) area such as:
    a. Bank Indonesia Regulation No. 22/20/PBI/2020 concerning Bank Indonesia Consumer Protection: This regulation supports the implementation of Bank Indonesia's duties in the monetary, macroprudential, and payment systems, Bank Indonesia has the authority to regulate and supervise Providers whose products and/or services are utilized by Consumers, including the regulation of Consumer Protection. This is done with the consideration that effective and trusted Consumer Protection will have a positive impact on business activities in Indonesia.
    b. Bank Indonesia Regulation No. 22/23/PBI/2020 concerning Payment System: The Regulation as regulatory reform to restructure the payment system industry as well as to regulate the payment system ecosystem to accelerate digital economy and finance. The ultimate goal is to find a balance between optimizing innovation opportunities and maintaining the stability and the integrity of payment system.
    c. Bank Indonesia Regulation No. 23/6/PBI/2021 concerning Payment Service Providers: This regulation responds to the development of payment service provider activities including strengthening regulation of access in industry, operations, termination, processing data and/or information, and supervision.
    d. Regulation of Members of The Board of Governors Number 23/15/PADG/2021 Concerning Payment Service Providers and Payment System Infrastructure Provider: This regulation provides operational guidelines for various payement system regulatory perimeters such as licensing, supervision, self-regulatory organization, payments innovation, and compliance. The goal is to support Bank Indonesia regulations on payment system, payment service providers, and payment system infrastructure providers as part of regulation reform.
    e. Regulation of Members of The Board of Governors Number 23/17/PADG/2021 Concerning Guidelines of Bank Indonesia‘s Consumer Protection: This regulation provides technical provisions for various consumer protection regulatory perimeters such as supervision, dispute resolution, and sanction. It aims to enable service providers comply with BI Regulation on Consumer Protection effectively and consistently.
- Non-bank payment service providers licensed to provide international remittance services including use of digital or mobile wallets.

- Regulatory compliance of products and services offered by fintechs.

Payment infrastructure

Please describe if there have been any changes in the following since the latest drafting/updating of the NRPs:

9. *Do non-bank RSPs have access to the national payment infrastructures?*

   Yes, Board of Governor Regulation No. 23/24/PADG/2021 on Participation in the Implementation of Fund Transfers, Scheduled Clearing, Transactions, Administration of Securities, and Fund Settlement regulates that non-bank RSPs also have access to Bank Indonesia National Clearing Systems.

10. *Are there interfaces between payment systems in your country and payments systems in other countries? If so, which countries and what type (e.g., ACH, card switch, etc.)?*

    Asian Payment Network (APN) scheme and Indonesia's plan on cross-border QR payment are both interfaces between switching companies (payment system infrastructure operator).

11. *Have you issued any new legislation on fintech and/or non-bank financial institution that strengthens and advances the payment infrastructure?*

    Bank Indonesia has strengthened the payment system ecosystem by issuing Bank Indonesia Regulation (PBI) No. 23/6/PBI/2021 concerning Payment Service Providers (PBI PJP) and BankIndonesia Regulation (PBI) No. 23/7/PBI/2021 concerning Payment System Infrastructure Operators (PBI PIP). Both regulations are effective from 1st July 2021, in conjunction with the Bank Indonesia Regulation concerning the Payment System (PBI SP) which serves as the regulatory umbrella for both new regulations.

    In relation to restructuring, the new regulations require not only minimum paid-up capital for payment service providers and payment system infrastructure operators based on the activities undertaken, but also payment system capital requirements, risk management and security standards for information systems requirements based on the respective classification as Systemic Payment System Providers (PSPS), Critical Payment System Providers (PSPK) and General Payment System Providers (PSPU). The scope of the new PBI PJP and PBI PIP complements the provisions in PBI SP, including access policy, payment system activities provision, supervision, exit policy, and payment system data and/or information processing.

12. *Are there any Incentives to promote the digitization of payment infrastructures in line with the FSB's work on enhancing cross-border payments (the Stage 3 Roadmap)?*

    NA

Governance and Risk Management

13. *Have there been any policy reforms in the type of risk management practices are required for RSPs (financial, legal, operational, cyber, fraud, and reputational risks)?*

    BI issued BI Regulation No. 22/23/PBI/2020 on Payment System and BI Regulation No. 23/6/PBI/2021 on Payment Service Providers that requires all payment service providers to apply risk management aspect.

Access to financial services

If 2b or 2c:

14. *What proportion of adults have access to a transaction account (which can also facilitate the receipt of international remittances)? (For 2021)*

    According to data from *Global Findex Survey 2021 (World Bank Group, 2022)*,

No.	Type of Account	Percentage (year 2021)
1.	Financial Institution Account (% Age 15+)	52%
2.	Mobile Money Account (% Age 15+)	9.29%

15. *Usage rates of card/mobile payments and usage of online channels (e.g., mobile or internet banking), if available. (For 2021)*

    According to data from *Global Findex Survey 2021 (World Bank Group, 2022)*,

No.	Type of Activity	Percentage (year 2021)
1.	Used a debit or credit card (% age 15+)	13%
2.	Used a mobile phone or the internet to check account balance(% age 15+)	9%

Short Statement on Advancements and Achievements in NRP Implementation

For reference kindly see the 2021 Update to Leaders on Progress Towards the G20 Remittance Target

Italy

Country remittances profile

In net terms, Italy is a remittance sender: **Table 1** details the country's remittance flows from 2018 to 2021.

Table 1. Remittance flows in Italy (USD million)

Year	Inflow	Outflow
2021	545	9,150
2020	545	7,729
2019	552	6,731
2018	527	6,863

Source: Banca d'Italia

According to the Bank of Italy's official data, from 1999 to 2021 outward remittance flows from Italy increased almost sevenfold (to 9.1 billion USD, from 1.4 in 1999). These developments reflected, to a large extent, the steady growth of the immigrant population in Italy, especially from Eastern Europe, Northern Africa and, lately, Southern Asia. In 2021, the total amount of outward remittances from Italy accounted for slightly more than 0.4% of the country's (nominal) GDP.

Looking at more recent data, outward remittances have shown resilience against the outbreak of the COVID-19 pandemic. Despite the adverse socio-economic conditions, in 2020 and in 2021 they kept growing at an average annual rate of 13.0%. These developments may be the result of different factors, such as the provision of additional support from migrants to their relatives in home countries affected by the pandemic or, especially for shorter corridors, the more frequent use of electronic and official channels in replacement for informal ones (such as transporting cash when returning home).

By end-2021, there were 5.2 million migrants living in Italy (8.7% of resident population). **Table 2** details the country's migrant stock in volume and as a share of the total population from 2018 to 2021, with the largest national communities of migrants coming from Romania, Albania, Morocco, China, and Ukraine.

Table 2. Foreign residents in Italy

Year	Number (thousands)	as a share of resident population
2021	5,172	8.7%
2020	5,039	8.4%
2019	4,996	8.4%
2018	5,144	8.1%

Source: Istituto Nazionale di Statistica

In terms of main corridors, slightly more than half of Italy's outbound remittances flow to seven countries: by end-2021, Bangladesh and Pakistan represented the main destination countries, with a share of total outflows directed to both countries hovering around 19% of the total; the Philippines,

Romania and Morocco followed suit (each representing an average 7.3% share), while Senegal and India closed the lead (6% on average).

According to the World Bank,[18] the average cost of sending remittances from Italy hovered around 4.4% in 2022Q1, well below the global average cost recorded in the same period (6.0%). Moreover, for 9 out of the 19 corridors monitored by the World Bank, this figured was around, or below, the official target cost of 5%. According to the latest available data (July 2022) from the Italian website ***mandasoldiacasa***, the average cost of sending remittances from Italy towards the 18 corridors monitored by the website stood at 4.7%.[19] Only 7 corridors are above the 5% target and three corridors have average costs below 3% (India, Ivory Coast and the Philippines). These averages, nevertheless, hide an ample variability in the economic conditions applied to remittance-senders by different market operators.

The remittance sector remains highly dominated by three leading money transfer operators (MTOs): *Western Union*, *RIA Money Transfer* and *MoneyGram*. Alongside MTOs, traditional cross-border transfer services are also offered by banks and *Poste Italiane* (the Italian postal network operator). Moreover, there is a host of smaller local players – the operations of which are concentrated into a few corridors – and online-only MTOs: these new international operators have recently entered the Italian market and conduct business exclusively via web platforms, therefore favoring competition and forcing traditional operators to innovate. **Table 3** describes the main features of the Italian remittances market in terms of nature, number of operators and relative market share.

[18] Remittance Prices Worldwide – Quarterly, available at https://remittanceprices.worldbank.org/en.

[19] The website is funded by the Bank of Italy and managed by CeSPI – Centro Studi di Politica Internazionale, an Italian independent think tank – and is certified by the World Bank as following its guidelines. Based on a "mystery shopping" methodology, the website compares, on a monthly basis, the prices of remittance services available for 18 corridors (Afghanistan, Albania, Bangladesh, Bolivia, Brazil, China, Colombia, Ecuador, Ghana, India, Ivory Coast, Morocco, Nigeria, Peru, the Philippines, Romania, Senegal, Ukraine), representing 65% of outward flows of remittances from Italy. The website shows the total cost as well as its breakdown (fees and exchange rate margin) for three sample amounts (150€, 300€ and 950€), different products, speed and type of operators (MTOs, commercial banks and postal network).

Table 3. Structure of the Italian market for remittances (by end-2021)

	Number of providers of each type [20]	Market share for each provider type? [21]
MTOs	19	95.5%
Commercial banks	1	0.3%
Postal network	1	4.2%
Total	**21**	**100.0%**

Source: Banca d'Italia, CeSPI.

According to the main market operators interviewed, the spread of the COVID-19 pandemic and the entry of new specialized actors have given a significant push to the development and diffusion of innovative digital channels. All the main operators developed digital platforms and products, which helped reduce sending costs, and launched some promotional initiatives (like zero fees) in order to incentivize the use of the new channels.

According to the latest available data (July 2022) from the *mandasoldiacasa* website it is possible to show in detail different average costs of sending remittance from Italy (**Table 4**), based on sending channels (i.e., through branches or online platforms) or on the receiving method (in cash, on a bank account or on a card-mobile or electronic wallet).

Table 4. Remittance costs – by channel

Sending channel	**Average cost of sending 150€**
Branch	5.2%
Online	4.4%
Receiving channel	
Cash	5.6%
Bank Account	3.3%
Card-Mobile wallet	3.2%

Source: elaboration from www.mandasoldiacasa.it – July 2022.

A first survey about the size of the volume of "digital remittances" is currently being implemented by the Italian Working Group on Remittances. Limitations to a further generalized development of this market component are mainly related to the low level of digital financial education of migrants living

[20] Registered operators that periodically send data about their activities to the Bank of Italy.

[21] In terms of the overall value of the intermediated flows.

in Italy and the different products and services available to their families in destination countries to receive remittances (cash still remains prevalent).

The creation of new partnerships during the year between commercial banks, the postal network and MTOs, as well as the integration between different platforms (such as Automated Teller Machines), represents a further opportunity in terms of market development and potential cost reduction.

The relevant role that remittances may play for Italian operators is further underlined by the recent launch by Poste Italiane of an in-house training program for post-office agents on outward funds transfer services (12,000 post offices involved).

From a cost perspective, it is important to point out the solidarity initiatives offered by all operators following the invasion of Ukraine and relative to the Italy-Ukraine - and neighboring countries - channel (zero fees, cost reduction, commission reimbursements for all foreign banks' euro transfers, support for solidarity initiatives).

Competition in the market

In accordance with transparency legislation, MTOs must declare in advance all the cost components of their services on offer; however, the legislation does not specify the different cost components. On the contrary, they are not required to declare the additional fee charged by agents in foreign countries, which rests outside the contract signed by the consumer in Italy. As a standard practice, MTOs communicate the fees, the exchange rate applied to the individual transaction and the receiving fees, if known. They also communicate the amount that may be withdrawn at destination and the estimated speed of the transaction. At the same time, no information is provided regarding the exchange rate margin, which can nevertheless be inferred from available information, albeit it requires a certain degree of financial knowledge for its computation. Only few operators, as best practice, communicate the maximum percentage of the spread on the exchange rate that is applied for the service.

In the case of commercial banks, the obligation to declare the amount of fees is not matched by an obligation to communicate the applied exchange rate, which often cannot be determined a priori because it depends on the exchange rates applied by the corresponding intermediaries. Banks provide information about the speed only for operations conducted with countries belonging to the Single Euro Payments Area (SEPA, 36 countries), since for this area the European Union (EU) law on maximum execution times applies.

Some other regulatory developments concerning anti-money laundering/countering the financing of terrorism (AML/CFT) and access to accounts maintained with a credit institution are relevant for remittances.

In addition, in line with the EU Payment Services Directive, Italian law grants payment institutions the right to access banks' payment accounts services on an objective, non-discriminatory and proportionate basis. Although banks can refuse to open payment accounts or decide to close them for

reasons of public order or security – or for other justified reasons based on provisions of AML/CFT law – they are obliged to provide the Bank of Italy with duly motivated reasons for any rejection. Any decision on rejections should be taken based on elements related to the specific case and in light of factual information. In this regard, the Bank of Italy ought to be notified within five working days by the intermediary, which should attach all necessary information to retrace the decision-making process and related reasons.

Regulatory environment

Non-bank remittance service providers have no direct access to national settlement infrastructures (intended as payment systems), though they can obtain access indirectly via banks that offer this kind of facility.

No ad-hoc regulations have been issued thus far on fintech and/or non-bank financial institutions with the explicit aim to strengthen and advance the payment infrastructure. However, the Bank of Italy is currently reviewing its oversight provisions on retail payment systems to reinforce security levels and promote the efficiency of the overall domestic payment ecosystem, also for the benefit of fintech and non-bank financial institutions operating in the field of remittances.

Italian authorities strongly support the objectives of the EU Retail payment strategy in the field of remittances and of the Financial Stability Board's Roadmap on cross-border payments, actively contributing to its implementation regarding every single building block. In this context, the Bank of Italy – together with the other actors involved in the Roadmap – is assessing potential areas for improvement of the services provided through both legacy and innovative infrastructures. In the long-term, such improvements could have positive externalities also in the remittances field; however, the ultimate results will depend to a large extent on private business strategies, including risk considerations as well as remittances-targeted public-private cooperation.

In its role as service provider of the Target Instant Payment Settlement (TIPS) platform for the Eurosystem, Bank of Italy is currently investigating different solutions for the settlement of cross-currency instant payments through the interlinkage of existing platforms;[22] moreover, it adhered to the Nexus project coordinated by the Bank for International Settlement Innovation Hub of Singapore for multilateral connections among instant payments platforms.

As of today, for anti-money laundering purposes Italy has introduced the requirement for both national and foreign virtual asset service providers and e-wallet providers ("VASPs") to register with the Italian authority overseeing financial agents and credit mediators (OAM, *Organismo Agenti e Mediatori*), in order to provide their services on the Italian territory. All VASPs and e-wallet providers hereby registered shall comply with a set of reporting obligations. VASPs will have to communicate to the OAM, on a quarterly basis, the relevant identification data of each customer (e.g. surname and

[22] For instance, the 2021 experiment on a bilateral connection between TIPS and Buna, the instant payment platform operated by the Arab Regional Payments Clearing and Settlement Organization.

name, place of residence, tax identification number/Value Added Tax -VAT number). In addition, VASPs will have to transmit the data concerning all services related to their customers' transactions (total balance, number and value of fiat-to-crypto or crypto-to-fiat transactions, number of crypto-to-crypto transactions, crypto and fiat inflows/outflows).

Finally, no new additional fees or taxes have been levied on remittances.

Access to financial services

Italy shows a wide coverage by Remittance Service Providers (RSPs) of both urban and rural area thanks to a spread network consisting of post offices (by law, one in each municipality), tobacconists, bank branches and MTO's agents.

Italian banks continue to support and accompany foreign customers in the process of financial inclusion to reduce any obstacles to understanding and using banking services.

Since 2009, the National Observatory on the Financial Inclusion of Migrants (the National Observatory; managed by CeSPI) monitors migrants' level of financial inclusion through a broad set of indicators. According to the latest available survey data (December 2020), based on information provided by market operators, 89.5% of adult migrants hold a current account with a regulated financial operator; of them, almost 70% hold an internet banking service. At the same time, 69% of migrants account-holders own a financing service, 40% an insurance service and 3% a payment service (debit cards).

A more recent survey carried out by the National Observatory in March 2021 on a sample of 1,200 non-EU and non-OECD migrants resident in Italy showed that the financial inclusion rate (i.e. the percentage of adults holding a current account) of remittance-sending migrants (a subset of the adult migrant population residing in Italy) is almost 90%[23]. According to the survey, remittances represent on average a share of 12% of the personal income received in Italy by migrants, while the average number of sending operations per year is around 5. **Table 5** shows the allocation among different possible sending channels.

[23] The survey involved a sample of 1,200 adult migrants resident in Italy, belonging to 77 non-EU and non-OECD countries, residing in 98 Italian Provinces and with a territorial and gender distribution that reflects that of the foreign population in Italy. The survey was carried out through a 50-question questionnaire that investigated socio-economic variables, the use of different financial products and the financial behavior of migrant citizens, including the remittance ones. The survey analysis is contained in Frigeri D., "I comportamenti finanziari dei migranti: un'indagine campionaria" and is available at www.cespi.it.

Table 5. Distribution by sending channel

Channel	% of respondents (1st choice)
MTOs	40%
Digital	24%
Banks	16%
Post Office	12%
Informal	8%

Source: CeSPI.

Another interesting piece of information coming from the survey is the growth of digital channels not just to *send* but also to *receive* remittances, which increased from a 6% of the survey respondents in 2017 to 18% in 2021; nevertheless, cash remains the main method to receive remittances, accounting for almost 50% of the overall amount sent. A new survey is currently underway in order to update these results to 2022, to take into proper account the impact of the COVID-19 economic crisis.

In terms of policies aimed at facilitating and strengthening migrants' access to remittances services, a specific information campaign has been recently implemented to provide data and education on the use of regulated channels. In addition to the *mandasoldiacasa* website (that includes some educational contents), the Bank of Italy published, in May 2022, a **calculator** on "the cost of the remittances", which is available on the financial education website **Economy for All**. The calculator – also in English – allows migrants to compute, for a given amount of money, how much the beneficiary will receive in their country of origin and, in particular, the overall cost of the transaction.

In June, the Diaspora Forum Project (co-funded by the Italian Development Cooperation Agency and managed by the International Organization for Migration) was officially launched for the empowerment of diasporas, within the framework of development cooperation, including the issue of remittances.

Through the International Fund for Agriculture Development (IFAD)-managed Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa (PRIME) program, co-financed by the EU, IFAD has recently collaborated with key RSPs in a number of African countries and corridors of high relevance for the Italian remittances market, particularly Senegal, Gambia and Ghana. This opens an opportunity to link the different programs to Italian operators in the short- to medium-term.

Japan

Japan is a mainly remittance-sending country, and the Japanese Government has been taking measures regarding remittance from the perspectives of both convenience and protection of users.

As for the latest state of remittance, the outflow in 2021 was 672.80 billion yen according to national statistics ("the Balance of Payments"). This is based on the same definition used for Japan's National Remittance Plan (NLP) 2021; personal remittances are the sum of two main components: "compensation of employees" and "personal transfers." The latest version of "Remittance Prices Worldwide" (June 2022) shows the downward trend of the average cost of sending $200 as below.

2020 4Q	2021 1Q	2021 2Q	2021 3Q	2021 4Q	2022 1Q	2022 2Q
10.02%	10.50%	8.50%	7.95%	7.52%	7.35%	7.58%

In the Japanese regulatory system, "funds transfer service providers" are supervised by the Financial Services Agency (FSA) under the Payment Services Act, and the number of those registered is 85 as of June 2022, an increase of 5 from September 2021. Most of these nonbank operators provide international remittance services along with banks. "Funds transfer service providers" include those operating mobile money services.

Regulations regarding remittance in the Payment Services Act remain the same since the major amendment that took effect in May 2021 (see the NLP 2021), and the FSA continues to take necessary measures, such as monitoring compliance with the ban on receiving or retaining customers' money not intended for immediate transfers. In addition, based on the Payment Services Act and an order related to it, funds transfer service providers have the obligation to give relevant information regarding commission fees to customers. All financial institutions, including both banks and funds transfer service providers, in Japan are required to take AML/CFT/CPF measures in accordance with relevant acts and guidelines.

Strengthening cyber security is also important for remittance user protection. The FSA held the 6th Financial Industry-Wide Cybersecurity Exercise in October 2021. Approximately 150 financial institutions, including funds transfer service providers, took part in the latest practice. In the exercise, funds transfer service providers checked their responses to incidents and cooperation with relevant institutions like the FSA under the scenario of the leakage of customers' assets due to unauthorized access to their systems.

Lastly, regarding the payment infrastructure, relevant public and private institutions finalized the preparation for allowing funds transfer service providers access to the Zengin Data Telecommunication System (the "Zengin System"), which had originally permitted access only from banks, and the Zenginnet (operator of the Zengin System) put the change in place in October 2022. The FSA, as the supervisory authority, took necessary measures to make sure the safety of payment is maintained in the coming expansion. In addition, "Cotra," a project led by the private sector to build a separate payment system for low-cost processing of frequent and small-amount payments is also on-going, and the system was launched on 11 October.

Korea

N/A

Mexico

Note: Mexico's updates were provided as responses to the questions in the new NRP template. Only the questions to which responses were provided are included below.

For the last 12 months, please provide summary data for the key remittance trends in your country and region, such as number and types of providers, main corridors, costs (including how much they have fallen and why), improvements to legislative and regulatory environment. Where possible include the latest available data for the following: remittances sent and/or received as percentage of national GDP, total remittance inflows and/or outflows by region, percentage of total remittances (sent and/or received) for your country as a share of total regional remittance flows, and size of the migrant population within your country. The following questions are intended to provide guidance for this purpose.

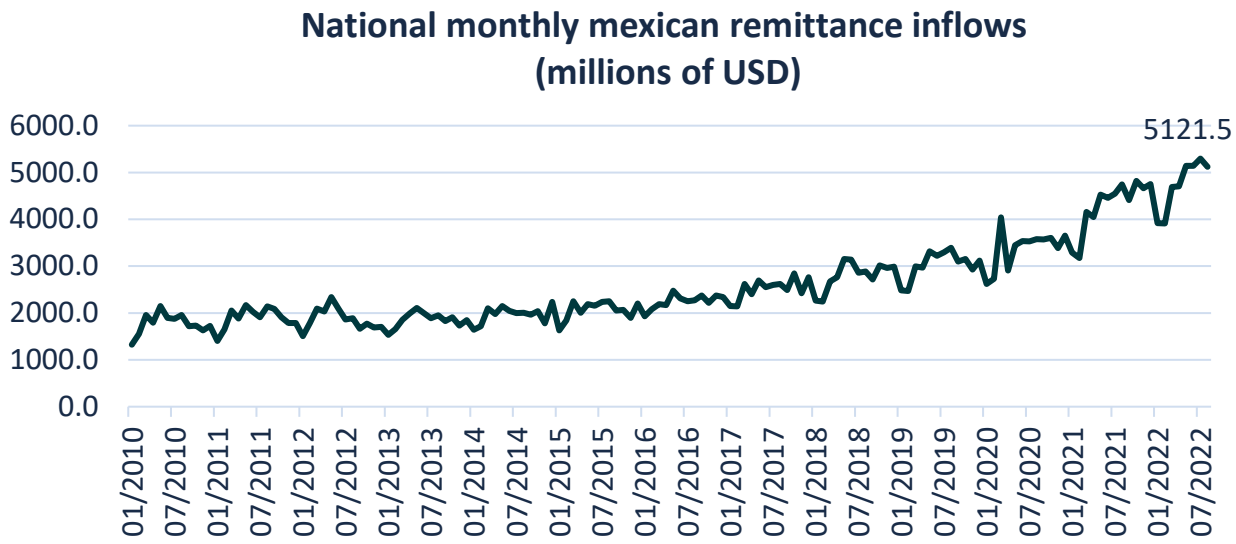
In 2021, Mexico was the third largest recipient of remittances in the whole world. In comparison to 2020, the total amount of remittance inflow increased by 27.1%, growing from 40.6 billion of dollars (USD) to 51.6 billion of dollars (USD). The following bullets point out some key points regarding 2021 Mexican remittances:

- The United States of America was the principal sender with 94.9% of the total remittances received.
- Remittances accounted for 4.0% of Mexico's GDP.
- 20.88 % of the Mexican migrant population both documented and undocumented living in the United States are employed in the construction sector, 12.79% are employed in the professional and administrative sector and 12.59% in manufacturing sector.
- 32% of remittances were sent by women.
- The Mexican migrant population, both documented and undocumented living in the United States, grew to 11.9 million in 2021, 400 thousand more than in 2020.

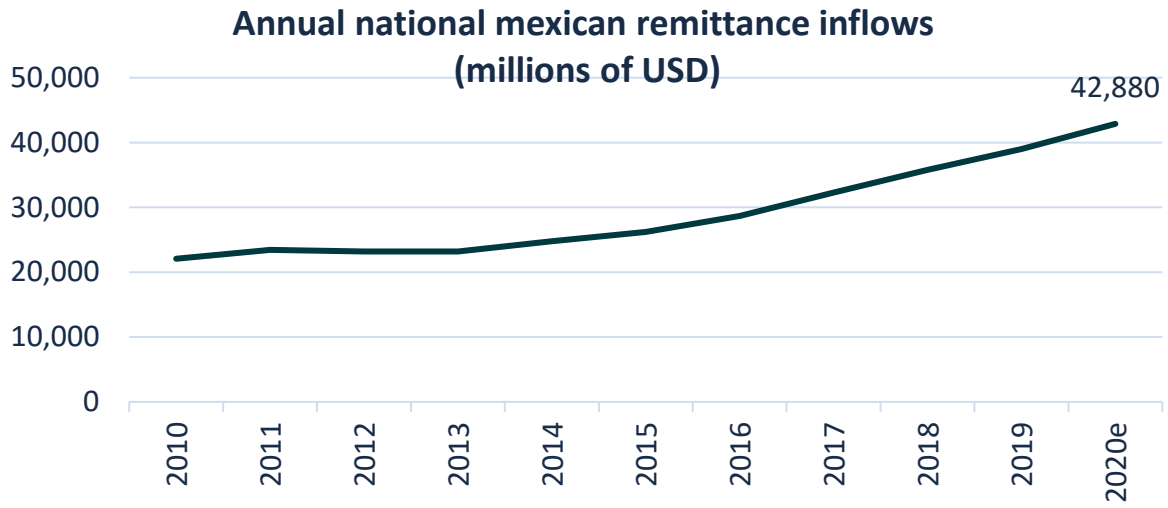
In the next set of graphics, we can see that:

- Total amount of remittance inflow has an increasing trend, for example, in July 2022 monthly remittances grew 13.2% compared to July of 2021.
- Remittance outflow remained at similar levels compared to those of the previous three years. Total remittance outflow represents only 2% of remittance inflow.
- Mexico is the largest recipient of remittances between the Latin American and Caribbean countries. In 2020, Mexican remittance inflow accounted for 42% of total remittances received in this region.
- In 2021, remittances accounted for 4.0% of the Mexico's GDP. For comparison, this percentage is 2.4% for the Latin American and Caribbean region.

- The Institute for Mexicans Abroad reports that there are 11,913,989 Mexicans living abroad, 97.79% of these Mexicans live in the United States.[24]

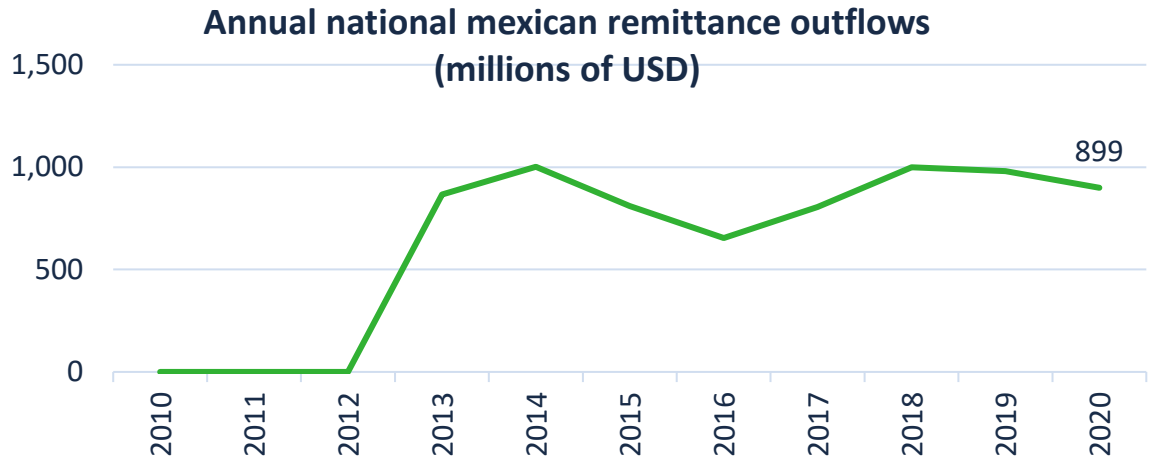


Source: Bank of Mexico, Economic Information System, Income from remittances (August, 2022).

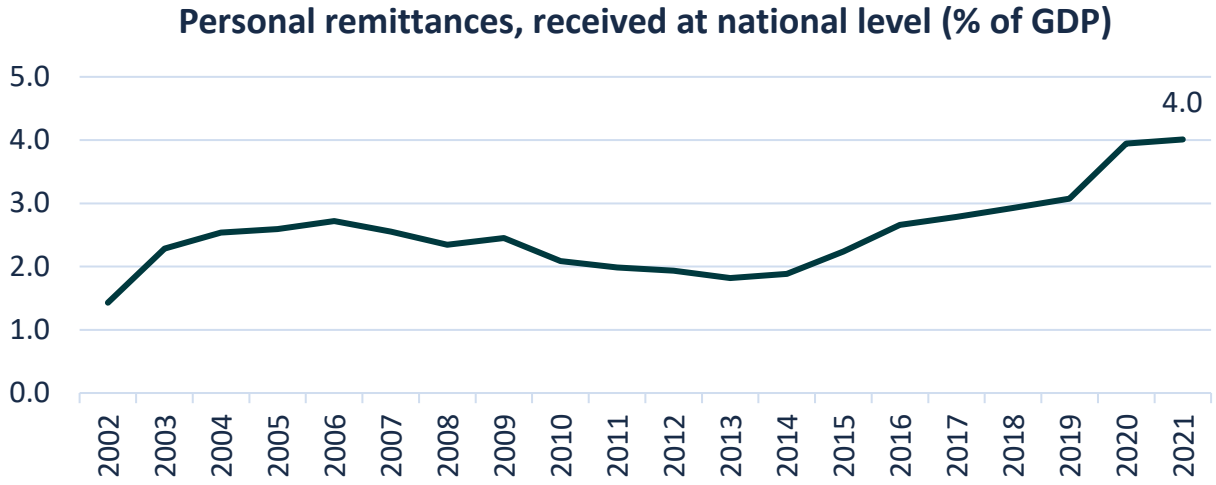


Source: Outflow is GDP data from World Bank remittances data and only for Inflow 2020 is a World Bank staff calculation based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks. (updated as of May, 2021).

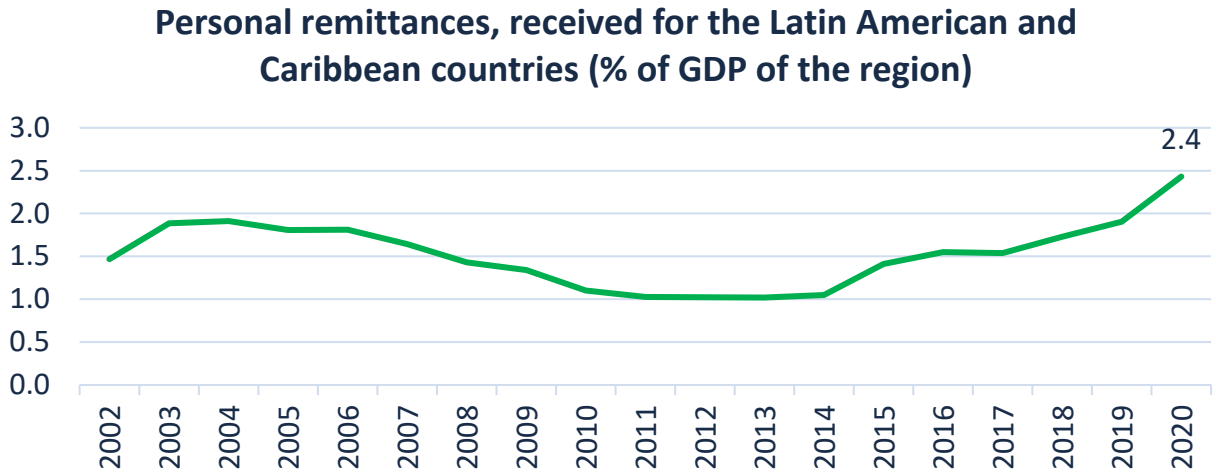
[24] Source, Institute for Mexican Abroad: Do you know how many Mexicans live abroad? | Secretaría de Relaciones Exteriores | Gobierno | gob.mx (www.gob.mx)



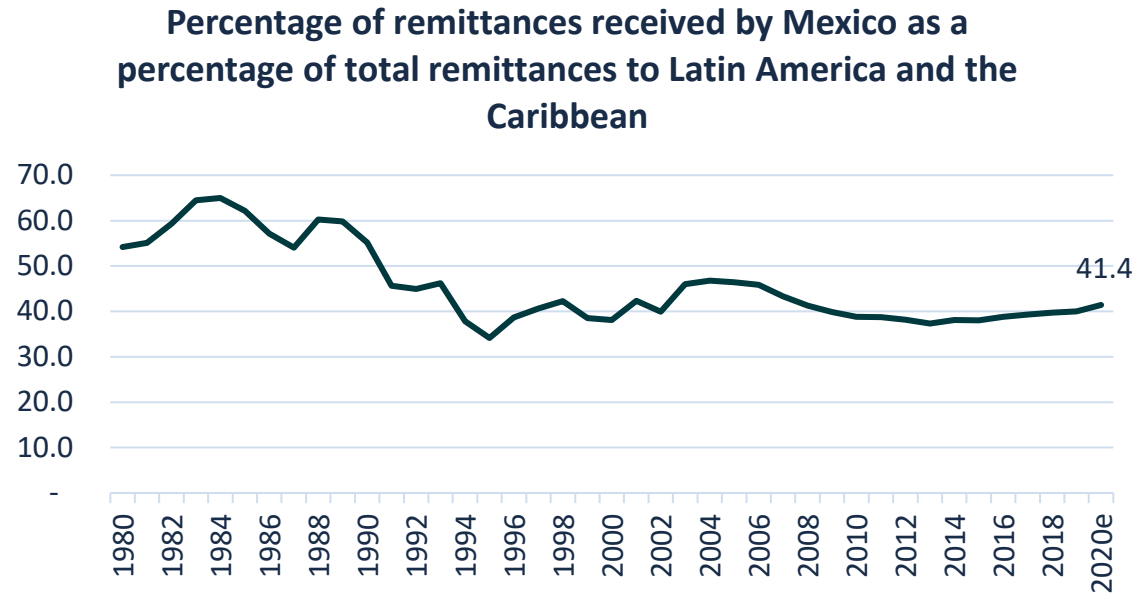
Source: Outflow is GDP data from World Bank remittances data and only for Inflow 2020 is a World Bank staff calculation based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks. (updated as of May, 2021).



Source: World Bank remittances data. World Bank staff estimates based on IMF balance of payments data, and World Bank and OECD GDP estimates. 2021 percentage was a calculation based on IMF balance of payments data, Bank of Mexico remittance inflows and World Bank national GDP data.



Source: World Bank remittances data. World Bank staff estimates based on IMF balance of payments data, and World Bank and OECD GDP estimates.



Source: World Bank remittances data, Inflow 2020 is a World Bank staff calculation based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks. (Updated as of May, 2021).

Country remittances profile

1. *Please provide remittance outflows and/or inflows (country-level data from the central bank as per the IMF BPM 6 Framework, if possible, please provide the data denominated in USD):*

Year	Inflow[25] (if 1b or 1c)	Outflow[26] (if 1a or 1c)
2021	51,585.9 MM USD	1,057.1 MM USD

2. *Is your country (a) mainly a remittance-sending country, (b) mainly a remittance-receiving country or (c) are both sending and receiving significant?*[27]

(b) Mexico is mainly a remittance-receiving country.

As can be seen in the answer of question 1, in 2021, total Mexican remittance outflow is merely equivalent to 2% of total inflow.

If 2b or 2c:

3. *Please list main corridors for international remittances received.*[28]

USA-Mexico corridor:
This is the main corridor for international remittances received in Mexico. In 2021, the total amount of remittances Mexico received from the USA was 48,958.8 MM USD[29], this is equivalent to 94.9% of the total remittances Mexico received of said year (51,585.9 MM USD).

4. *What is the average cost of receiving $200 in your country? Provide available quarterly data for the latest 4-6 quarters.*

Total average cost to send money to Mexico (%)[30]					
Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022

[25] Banco de México (2022), data from the Economic Information System (SIE, CE100). Remittances that are being considered are those that were sent via Money Orders, Personal Checks, Electronic Transfers and remittances in Cash and Kind.
https://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?accion=consultarCuadro&idCuadro=CE100&locale=es

[26] Banco de México (2022), data from the Economic Information System (SIE, CE165),
https://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?accion=consultarCuadro&idCuadro=CE165&locale=es

[27] Classification of a country as a sending or a receiving country or both is left to the countries themselves. However, please note that, in general, high-income countries are considered sending countries to low- and middle-income countries. There are exceptions. Some middle-income countries have large migrant populations originating from low-income countries and can be classified as both sending and receiving countries.

[28] Main corridors for a receiving country include those that are the largest senders for that country in terms of volume.

[29] Banco de México (2022), data from the Economic Information System (SIE, CE168),
https://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?sector=1&accion=consultarCuadro&idCuadro=CE168&locale=es

[30] Source: An analysis of trends in cost of remittance services, Remittance Prices Worldwide Q2 2022,
https://remittanceprices.worldbank.org/sites/default/files/rpw_main_report_and_annex_q222.pdf . Reported total average cost of sending $200 to Mexico, charged by each single remittance service provider (RSP) included in the Remittance Prices Worldwide (RPW).

3.65	4.59	4.39	4.28	4.81	4.53

Competition in the market

5. *Please indicate if there was any change in the types of remittance service providers (RSPs) allowed in your country due to regulatory reforms (column 1) and please fill in the rest of the table to the extent feasible:*

There is no changes due to any regulation in this period.

	Allowed to provide remittance services (1)	If "yes"			
	[Yes/No]	Number of providers of each type	Market share for each provider type? (in terms of number of transactions)	~~Average cost of sending $200~~ **~~if 2a or 2c~~**	Average cost of receiving $200 **if 2b or 2c**
Commercial banks	Yes				
MTOs	Yes				
Postal network	Yes				
Mobile money operators	Yes				
Fintech platforms	Yes				
Remittance hubs	No				
Others (please specify)	Yes				

6. *If there was no publicly available price comparison tool for remittances (e.g. a national remittances database) in your country when the NRPs were last drafted/updated, has one been developed since then? [Yes/No]*

As of today, PROFECO provides a tool for the comparisson of remittance sending fees named "Quién es quien en el envío de dinero".[31] This tool was published Before the Mexico's National Remittence Plan was published, and has since been updated and modified. Aditionally, on every Monday of each week, PROFECO publishes a set of comparative tables that includes, for example, the fees charged for sending remittances ($300 USD) from different cities in USA and for Directo a Mexico .

7. *Have you implemented any incentives to RSPs in your country to promote competition in the past year? (e.g. tax incentives) If yes, please describe.*

[31] The tool is available at the following link: Quién es Quién en el Envío de Dinero (profeco.gob.mx)

Yes, in Circular 1/2022 which is a modification of Circular 14/2017 (SPEI system amplification, indirect participation in SPEI and miscellaneous topics) with the objective of regulating indirect participants of the payment system.

Regulatory environment

8. *Changes in transparency requirements as specified in regulations/circulars/guidance in the past year:*

If 2b or 2c:

- *Are there any new additional fees or taxes the receivers must pay? (For example, if remittances are received into an account, is there a fee to cash out?) If so, are these disclosed to the senders/receivers?*

  There is no tax or extra cost for receiving remittances other than that charged by the institutions, even in Directo a México the only cost is the commission of 0.67 USD regardless of the amount sent, and once the money is sent it is charged in full. Information is available here.

9. *Please describe any new relevant legislation for remittances that have been passed since the last NRP update, including:*
   - *Are there any simplified CDD measures in place for specific channels and/or below a transaction amount limit?*

     To open an account of level 2 Mexicans living abroad can comply with CDD using the passport and consular matricula.[32]

   - *Are there any government-issued e-ID facilities, and are they used for financial services?*

     No, but nevertheless, Bank of Mexico is currently developing the identity authentication and verification system (SAVI), which is a centralized platform to strengthen customer identification and knowledge mechanisms in order to facilitate access and use of payment and financial services in Mexico. Among the main objectives are:

     - Contribute to combating identity theft and fraud by strengthening the identification mechanisms of financial institution customers.
     - Safeguard personal and documentary information used to verify the identity of individuals.
     - Facilitate and provide greater security to users of the financial system to avoid identity theft.
     - Make it easier for users of the financial system to contract products or services.

   - *AML/CFT regulations for account opening and ongoing customer due diligence.*

[32] Circular 2/2021, published on May 12th, 2021.

In Circular 1/2022 published by Bank of Mexico, addressed to participants in the Interbank Electronic Payments System and others interested in acting in that capacity, regarding amendments to Circular 14/2017 (SPEI expanded, indirect participation in SPEI and miscellaneous issues), Bank of Mexico monitors compliance with the cybersecurity levels stipulated in its cybersecurity strategy.

If 2b or 2c:

- *Existence of basic accounts and whether basic accounts can be open in a remote way and receive remittances*

  A new deposit account was created for Mexican migrants. Bank of Mexico, through the issuance of provisions [33], established the creation of a deposit product that can be contracted by presenting their consular registration or a Mexican passport issued abroad. The accounts that may be opened are of levels 2, 3 and 4, and must be denominated in local currency. They can be opened through the channels provided by the institution, including remote access for level 2 accounts.

  The Banco del Bienestar (government bank) offers a product for adults to open a bank account (transactional) directly from his web page to received remittances: www.bancodelbienestar.com.mx .

- *Can basic payment accounts be provided by non-bank RSPs in the form of e-money?*

  Yes, to be a candidate company to send money from the United States using the Directo a México system it is sufficient to be registered in compliance with the corresponding regulations. Directo a México is a payment system integrated by banks and non-banking FinTech companies. On the remittance receiving side, to be eligible to receive the remittance as an account user, it is necessary to be registered in SPEI. This electronic payment system has a set of institutions composed of some non-bank institutions. The institutions registered in Directo a México can be consulted here, while the institutions in SPEI can be consulted here.

Payment infrastructure

Please describe if there have been any changes in the following since the latest drafting/updating of the NRPs:

10. Do non-bank RSPs have access to the national payment infrastructures?

According to the rules of SPEI, the RTGS operated by the central bank, financial institutions under regulation and supervision of a financial authority in México may access as a participant to the system. From that perspective a RSP subject to the regulation or supervision of a Mexican financial authority would be able to access this RTGS. Circular 1/2022, published by Banco de México and addressed to participants in the interbank electronic payment system and other interested parties, regulated indirect participation in the payment system. Among

[33] Circular 2/2021, published on May 12th, 2021.

some of the main objectives of this regulation was to continue promoting the strengthening of remittance processing.

11. *Are there interfaces between payment systems in your country and payments systems in other countries? If so, which countries and what type (e.g., ACH, card switch, etc.)?*

    Directo a México, the service that interlinks the RTGS from Bank of Mexico and the Federal Reserve Bank of the United States, allows to send money from an account in a financial institution subscribed to the service in the United States to any bank account in Mexico. In addition, card operations can be processed cross-border through the links between local and foreign card payment clearinghouses.

12. *Have you issued any new legislation on fintech and/or non-bank financial institution that strengthens and advances the payment infrastructure?*

    In March 2018, the Mexican Congress issued the Financial Technology Law (FinTech Law). Mexican FinTech Law recognizes two types of FinTech institutions (crowdfunding and e-money issuers) which are authorized and supervised by the financial authorities, including the Central Bank. This law also considers sandbox schemes for different FinTech activities.
    CIRCULAR 3/2022, addressed to Credit Institutions and other companies that professionally provide funds transfer services, regarding Amendments to Circular 13/2017 (Indirect Participation and Miscellaneous Issues). General provisions applicable to credit institutions and other companies that professionally provide funds transfer services, as well as to participants in payment systems administered by Bank of Mexico and other parties interested in acting as participants in such systems.

13. *Are there any Incentives to promote the digitization of payment infrastructures in line with the FSB's work on enhancing cross-border payments (the Stage 3 Roadmap)?*

    Bank of Mexico is carrying out a series of regulatory initiatives to make the payment system more inclusive and universal, among these initiatives are the following:
    The regulatory modifications related to the implementation of the Expanded SPEI, which aim to establish the standards, service levels and current operation of the system for the new payment schemes and the current ones; as well as to establish the elements to be complied with by the Participants to access the new functionalities and benefits in terms of operational continuity of SPEI, so that the users of the system maintain the certainty and security of being able to perform transactions through SPEI, at any time, by having a system of continuous operation (24/7).

    Bank of Mexico is working on the study and development of a platform for the implementation of a digital currency, based on the characteristics that SPEI's clearing and settlement infrastructure already has today.

Governance and Risk Management

14. *Have there been any policy reforms in the type of risk management practices are required for RSPs (financial, legal, operational, cyber, fraud, and reputational risks)?*

    N/A

15. *Have there been any changes in the existing AML/CFT regulations/guidelines available for non-bank RSPs for their relations to banks or their customers?*

    At least, for the last months, a new regulation has not been published in regard to AML/CFT topics.

    There are three regulations published in the last three years for the FinTech sector: one relative to the Clearing Houses and Credit Information Societies (DOF March 10, 2020), one for data and interfaces (DOF June 4, 2020) and the last one is related to third services providers (DOF January 28, 2021).

Access to financial services

If 2b or 2c:

16. *Have there been any changes in the coverage of RSPs in rural areas?*[34]

    The providers of remittance services in rural areas is limited in coverage and still offer expensive costs. Acording to the 2021 Anual Financial Inclusion Perspective Report by CNBV, within rural municipalities, only 7% had a comercial bank or savings and credit institution branch and only 12% had an ATM.[35]

17. *What proportion of adults have access to a transaction account (which can also facilitate the receipt of international remittances)? (For 2021)*

    In 2021, 49.1% of adults (ages 18-70) reported having an (deposit) account, equal to 41.1 million people according to the National Survey of Financial Inclusion (ENIF).[36]

18. *Usage rates of card/mobile payments and usage of online channels (e.g., mobile or internet banking), if available. (For 2021)*

[34] Sufficient coverage in this context can be explained as "a remittance transaction can be delivered to recipient nationwide or at least in all relevant areas of the receiving country." Please see World Bank's (2016) *SmaRT Methodology*. Also please see footnote 12 on measuring access to remittance services in terms of physical locations and/or access to technology.
[35] Source: CNBV (2021). With data as of December 2020. The report can be found in https://www.cnbv.gob.mx/Inclusi%C3%B3n/Anexos%20Inclusin%20Financiera/Panorama_IF_2021.pdf
[36] Source: INEGI, CNBV (2021). The report can be found in https://www.inegi.org.mx/contenidos/programas/enif/2021/doc/enif_2021_resultados.pdf

According to the National Survey of Financial Inclusion (ENIF), in 2021, of adults (ages 18-70), 12.6% used debit cards, 3.5% used credit cards, 2.8% used electronic transfers as a method of payment for payments over 500 MXN reported.[37]

19. *Please list any changes in, new additions to the solutions that help promote equal access to financial services (including ID, digital ID, e-KYC and/or credit registry platforms by bank and non-bank RSP).*

The use of remote opening accounts facilitates access to banking financial services.
The furtherance of agreements or legal instruments with Banking and other financial Institutions to promote the acceptance of official documents issued by the Mexican representations abroad such as the consular registration, the consular passport issued by the Ministry of Foreign Relations, or the national credential to vote from abroad (called INE), to facilitate the Mexican community access to financial services and instruments.
On May 7, 2021, an amendment to the General Provisions referred to in Article 115 of the Law of Credit Institutions was published in the Official Gazette of the Federation (DOF) for the purpose, among others, of:

- Expand the list of municipalities where credit institutions and their correspondents (commission agents) are authorized to receive dollars in cash for purchase transactions, receipt of deposits, receipt of payments for goods or services and transfers or situation of funds, in addition to increasing the maximum amount that may be received.

20. *Are you able to measure the switch from remittances received over-the-counter to transaction account remittances?*

The information that the Bank of Mexico requests from the institutions participating in the process of sending-receiving remittances does not include in detail those transfers made physically, except for Money Order, this is in accordance with the "rules to which credit institutions and companies that provide the service of transfers of funds in a professional manner must be subject", which you can consult here. Under these rules, the Bank of Mexico cannot measure the change in the way remittances are sent.

21. *Are there any incentives for digitalization of remittances, e.g. to promote targeted incentives that encourage the use of digital remittance products that were in effect in the past 12 months?*

The modality for receiving remittances most used in Mexico on August 2022 was electronic transfers, with 99.0% of the total (Bank of Mexico data).
Also, the Institute of Mexicans Abroad, through the Financial Advisory Windows (VAF), promotes the digitization of such remittances in collaboration with Mexican FinTech

[37] Source: INEGI, CNBV (2021). The report can be found in https://www.cnbv.gob.mx/Inclusi%C3%B3n/Anexos%20Inclusin%20Financiera/Reporte_Resultados_ENIF_2021.pdf

companies that will make these services known to the migrant community, mainly in the United States.

Russian Federation

IMPROVE FINANCIAL SYSTEM INFRASTRUCTURE AND PURSUE POLICIES CONDUCIVE TO HARNESSING TECHNOLOGIES.

The Bank of Russia actively develops and improves the national payment infrastructure to ensure provision of convenient and affordable payment services to households, business, and the government. To this end, the Bank of Russia is implementing a number of projects aimed at ensuring smooth operation of payment systems, promoting competition and supporting innovations in the national payment system.

As of the end of 2021, the total of cross-border transfers[38] of individuals was 43,931 million of US dollars from the Russian Federation.[39]

In 2021, the total amount of cross-border remittances performed via payment systems to the Russian Federation was 3,236.8 million of US dollars and from the Russian Federation – 86,618 million of US dollars,[40] the turnover summed up to 118,986 million of US dollars.

IMPROVE TRANSPARENCY AND CONSUMER PROTECTION OF REMITTANCE TRANSFERS.

Most merchants (with some exceptions depending on annual turnover) must accept cashless payments as well as cash, and the price for the customers may not be changed depending on means of payment.

All payment service providers, including remittance service providers, obliged by law to provide defined information to their clients before initiation of transactions, including information:

- on PSP fees;
- on currency exchange rate (if applicable);
- on rules for disputes resolution (including contact info for complaints)

The Bank of Russia publishes special recommendations on information disclosure on financial products, including payment cards, aimed to promote transparency and consumer protection.

In line with the Roadmap of the Strategy for the Improvement of Financial Literacy for 2017-2023 approved by the Government of the Russian Federation, a number of measures are being implemented as to improve the level of financial literacy, develop the system of financial education and raising awareness of financial consumer protection mechanisms.

[38] Statistical information on cross-border transfers is only available as of the end of 2021.
[39] http://www.cbr.ru/statistics/macro_itm/svs/
[40] http://www.cbr.ru/statistics/macro_itm/svs/

Particularly, the framework of the financial literacy competences has been developed and approved. The framework includes skills that have become necessary due to the digitalization of financial services (including payments and remittances). In addition, the Ministry of Finance and Bank of Russia are developing targeted educational materials on financial literacy and integrating them into different digital education platforms, such as “My school”.

The integration of financial literacy into the national educational standards allows to implement financial education at all levels of the educational system in Russia and to reach audiences including migrants’ families. Additionally, to the development of the modern financial education programmes and materials, the improving of teaching methods and educators’ qualification is ongoing process.

To raise financial literacy level and peoples’ awareness on financial issues for both citizens and migrants, the Bank of Russia supports and promotes its educational website Fincult.info and Ministry of Finance its webportal Moifinancy.ru. In an easy-to-understand way, the digital platforms explain how to use modern financial instruments and products, give recommendations on how they can help consumers in certain life situations, avoid fraud and protect their financial consumers’ rights.

ENCOURAGE BETTER COORDINATION.

There is an ongoing coordination process of implementation of the national financial literacy strategy and developing of targeted financial education materials and programmes as well as coordination of financial inclusion measures.

ENCOURAGE REMITTANCE-RELATED TECHNICAL ASSISTANCE AND KNOWLEDGE EXCHANGE

The international conference on financial literacy and the best practices for financial education within Commonwealth of Independent States (CIS) was held on as part of the knowledge exchange and the technical assistance in financial education materials for interested CIS countries was provided in 2022.

IMPROVEMENT OF THE IDENTIFICATION PROCEDURE

On 30.12.2021 Federal law No. 483-FZ amending Article 7 of Federal law No. 115-FZ of 09.08.2001 “On Countering the Legalization (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism” was adopted. Federal law No. 483-FZ has improved information collection and confirmation processes relating to client identification that are provided in accordance with Federal law No. 115-FZ of 09.08.2001 “On Countering the Legalization (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism”.

Saudi Arabia

Remittance outflows and/or inflows for the last 3 years:

Year	Inflow (if 1b or 1c)	Outflow (if 1a or 1c)		
			Total Outbound Remittances US $ Million	Total Inbound Remittances US $ Million
2021 (if available)		32970	501,239	336,615
2020		30286	354,382	201,189
2019		34338	355,705	237,624
2018		39813	361,158	220,582

In 2020, Saudi Arabia was one of the top three source countries for remittances outflows. Expatriates and migrant workers in Saudi Arabia benefit from a lower cost of remittances than the global average, and the lowest in the region.

As an important part of the banking sector, remittance services were available but for limited access during partial lockdown. Digital channels were also available and increased its services to customers during 2020. Many private firms introduced remote account opening during 2020 for consumers to ease access to remittance services.

Some measures were indirectly benefitting the remittance market, such as the exemption from the expat levy, which was issued in March 2020, extending for 3 months without charge. This helped SME's and companies retain their expat labor and they continued sending funds abroad. Also, to alleviate economic stress, SMEs that has 9 employees or less were exempted from paying expat levy for a period of 3 years for 2-4 expatriates. In addition, the Saudi Central Bank has been in continuous dialogue with local commercial banks to support certain sectors, and one of the measures taken that helped support the RSP was a waiver of all fees and other charges resulting from the use of digital banking for a period of up to six months.

SAMA published monthly reports which includes remittances under Personal Transfers with a categorization for Saudi and Non-Saudi transfers: https://www.sama.gov.sa/en-US/EconomicReports/MonthlyStatistics/Monthly_Bulletin_082022.pdf

The Saudi Central Bank (SAMA) has in place, a number of actions to address issues related to remittances that incorporate factors other than cost, such as transparency, competitiveness and consumer protection.

The Banking Consumer Protection Principles (BCPP) was implemented on 1 September 2013 and emphasizes customers' rights to have high-quality services, while providing the basis for disclosure, transparency and competitiveness in prices and commissions. SAMA has permitted commercial banks to establish independent centers for remittance services in cooperation with global financial transfer firms.

SAMA continues to hold meetings with commercial banks working on remittance services to monitor prices and service quality, as well as to ensure fulfilment of all domestic and international requirements. SAMA is encouraging commercial banks to expand electronic services through their websites. It is also continually reviewing and monitoring prices of remittances and relevant exchange fees to ensure fees reasonably balance costs to customers and profit margins to banks.

Spain

Spain is a remittance-sending country. The volume of workers' remittances sent from Spain in 2021 was EUR 9,150 million[41],12% more than the previous year, recovering the upward tendence since 2014, only disrupted in 2020 when the outflows dropped. Among the top 10 recipient countries (that account for the 70% of the total volume) nine showed an increase of remittances received in 2021, while Romania remained flat. By region, 59% of the total volume flowed to America (mainly to Colombia, Ecuador, Dominican Republic, Honduras, Bolivia and Paraguay) and 22% went to Africa (mainly Morocco and Senegal).

In 2021, **population in Spain was 47.4 million and migrants accounted for 11.6%**, slightly higher than the previous year (11.3%). The biggest groups being from two countries: Morocco and Romania. Main migrant Latin American communities are from Colombia, Venezuela, Honduras, Peru and Ecuador[42].

The **cost of remittance outflows from Spain is close to the 5% SDG 10.c target**. Costs have experienced a downward trend over the latest years on the back of a growing base of service providers and competition in the sector as well as social and economic digitalisation: in 2021, 95.9% of households had access to broadband Internet access, which represents an increase with respect to 2020 (95.3%); besides, almost all households (99.5%) have mobile phones[43]. The average cost of sending a USD 200 remittance from Spain showed a decreasing trend along the past years (5.6% in 2018, 5.3% in 2019 and 5.0% in 2020 as well as in 2021). Costs show an increase from the Q3 2021 (4.7% in Q1 and Q2, 5.2% in Q3 and 5.4% in Q4 2021). In 2022 costs are 5.7% in Q1 and 5.5% in Q2, according to the World Bank. In the thirteen main corridors from Spain monitored by the World Bank[44], the average cost ranks from 3.1% (Nigeria) to 8.1% (Honduras) in Q2 2022.

Remittance market in Spain: our regulation fosters competitiveness, transparency and compliance. Allowed remittance service providers (RSP) are commercial banks (112), money transfer operators (69), mobile money operators (10) and currency exchange bureaus (16). Non-banking entities need to

[41] Balance of payments, 2021 Secondary income. Workers' remittances. Debits. Main countries. Annual (table 17.6a of the Statistic Bulletin), updated March 2022, Bank of Spain
[42] Population figures 1 January 2022 and Migration statistics. Year 2021, INE-National Statistics Institute
[43] Survey on Equipment and Use of Information and Communication Technologies (ICT) in Households. Year 2021, INE-National Statistics Institute
[44] Remittance prices Worldwide- Country corridors, World Bank.

be licensed to provide international remittance services. RSP should comply with the financial sector regulation on transparency requirements and disclosure of service conditions (i.e., obligation to inform on fees and exchange rates prior to start the transaction). **Digitalization facilitates access and integration within the EU:** remote on-boarding and identification through qualified digital signature are allowed within the EU regulation framework**.** Payment infrastructures in Spain are highly digitalized, allowing faster, safer, cheaper and more accessible international payments, including remittances (in line with the Financial Stability Board work on enhancing cross-border payments). Central banks of the Eurosystem work to increase the level of integration within the EU by fostering the adoption and implementation of harmonised standards, rules, and processes, as well as by exploring Fintech innovation that has the potential to bring greater efficiency to the field of payment services. Regarding **governance and risk management:** RSP are subject to the same risk management practices and AML/CFT regulations applicable to other finance service providers.

Main novelties worth to mention: the Bank of Spain has put in place a Registry of VASP (virtual asset services providers) and the required authorization procedure to operate in Spain. In terms of governance and risk management, the new EU AML regulation (scheduled for 2023) is currently under discussion with the member states, which will involve the creation of a new European authority for the prevention of money laundering (AMLA). Besides, the Ministry of Finance is currently working on an interpretive guide on "de-risking" with the aim of clarifying certain aspects of the relationship among banks and other RSP.

The Spanish authorities also work on other multiyear and multipronged lines that will have a positive impact on remittances, such as sharing of knowledge and best practices with partners and stakeholders both at international and national level; providing international cooperation; enhancing financial literacy and awareness of citizens or fostering financial consumer protection. An example of this is that in 2022 the banking industry and the public authorities (Ministry of Finance and Bank of Spain) reached an agreement to promote financial inclusion and access to basic financial services.

Switzerland

N/A

Türkiye

Starting from 2021, the fees and commission for banking products and services have been published on the

https://ddei5-0-ctp.trendmicro.com:443/wis/clicktime/v1/query?url=https%3a%2f%2fwww.bankacilikurunvehizmetucretleri.org.tr%2f&umid=6C3DF8E2-EAC0-6F05-8F56-

778BED8C8B95&auth=8d617b9edea5a433c8820ae0ca08b99259993ada-8caaa84236d160010e5e7f41075ba5c09ffb6301 website under the supervision of the Banks Association of Türkiye.

The survey, which was conducted with banks and planned to be finished by the end of 2021 was completed and the following results were reached. Firstly, in terms of the volume of remittance transactions transferred from abroad to our country during the Covid-19 period, a decline was observed in only a few banks. In addition to this situation, according to responses taken from the banks, it was expressed that there was no rise in the cost of transferring of remittance transactions apart from a few banks. Also, while making a remittance transaction, it might be the case that the correspondent bank delays the transaction (requesting additional information or research) or stops the transaction due to various reasons and even does not accept it. Finally, it has been concluded that the banks closely follow technological developments in order to accelerate the transfer of remittance transactions.

United Arab Emirates

UAE's progress in enhancing the remittances ecosystem:

The UAE is a globally leading country in remittance flows and has been aligned with the G20 objectives to enhance remittance flows and reduce remittance transfer costs.

In 2021, Remittance Service Providers in the UAE amplified their efforts to provide innovative digital services to their customers with an aim to create a countrywide user-friendly ecosystem. This helped enhance access to remittance services and provide timely accurate information concerning applicable fees, and execution time, among other services. The digitization of remittance services were actively elevated since 2020, led by the effects of the COVID-19 pandemic, and have come to be reflected in the annual business enhancement plans of most service providers.

The UAE regulators are supporting the monitoring process of remittance flows and the reduction of transfer costs. This is being facilitated by the comprehensive guidance provided to remittance service providers, the continuous enhancement of the regulatory framework, as well as the facilitation of access through targeted initiatives to implement digital financial services.

In 2021, expats' remittances from the UAE reached USD 1,335 billion (AED 4,901 billion). The portion attributed to family support equaled USD 47.68 billion (AED 175 billion). Further, the total inward remittances reached USD 1,167 billion (AED 4,283 billion). India remains the top receiving country for earnings made by expats, followed by Pakistan, and Philippines.

United Kingdom

N/A

United States

Summary Statement on U.S. Progress and Achievements in the Implementation of its National Remittance Plan, 2022

Overview

As the world's largest remittance-sending country,[45] the United States is committed to upholding a regulatory and supervisory environment that enables the flow of remittances via legitimate, regulated channels, while actively working to address any undue barriers to access and usage.

The United States continues to promote a risk-based approach to anti-money laundering and countering the financing of terrorism and proliferation financing (AML/CFT/CPF). Federal banking authorities[46] continue to work with financial institutions under their respective jurisdictions, as relevant, on ways to offer low-cost remittance transfers, no-cost or low-cost basic consumer accounts, and agency services to remittance transfer providers while still operating responsibly.

U.S. Department of the Treasury

The U.S. Department of the Treasury remains engaged in work related to remittances through such multilateral fora as the Financial Action Task Force (FATF) and the Financial Stability Board (FSB).

Treasury also continues to work with partner countries who receive remittances as they work towards stronger AML/CFT/CPF regimes, which will help them to maintain banking relationships that keep remittances flowing. Treasury continues to work to facilitate regulated and transparent channels for customers who want to send remittances for legitimate purposes.

Treasury's Office of Technical Assistance (OTA) continues to provide technical support to jurisdictions that are seeking to ensure that innovative forms of digital payments can be adopted in a responsible manner, including by promoting interoperability across providers and establishing regulatory sandboxes.

[45] https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data

[46] Federal banking authorities include the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency (collectively, the federal banking agencies), and the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN).

The U.S. Congress enacted the AML Act of 2020 (AMLA), which included several updates and reviews of the anti-money laundering and countering the financing of terrorism laws in the United States. AMLA, Section 6215 requires the U.S. Department of the Treasury to complete a review of financial institutions' reporting requirements under the Bank Secrecy Act to understand the effects and the adverse consequences of correspondent banking de-risking and develop a strategy to reduce de-risking. Treasury's Office of Terrorist Financing and Financial Crimes and the Financial Crimes Enforcement Network are co-leading the review and response to Congress. The assessment required under AMLA Section 6215 included a review of correspondent banking relationships with remittance transfer providers.

U.S. Agency for International Development (USAID)

USAID makes global and market-level investments focused on expanding inclusive digital finance ecosystems through improved infrastructure, policy, and regulation, including the use of digital technologies to lower costs, improve prospects for integration with regulated financial services, and build cross-border digital economies. In addition to making remittance transactions faster and cheaper, these investments can potentially harness remittance flows to deepen financial inclusion in both sending and receiving communities.

2022 GPFI PROGRESS REPORT TO G20 LEADERS

G20 Summit, Bali, 15-16 November 2022

Halaman ini sengaja dikosongkan

Outline

This Report summarizes the Global Partnership for Financial Inclusion (GPFI) key deliverables and activities from December 2021 to October 2022. It presents the main achievements attained under Indonesia G20 Presidency, in compliance with the provisions of the GPFI 2020 Financial Inclusion Action Plan (G20 2020 FIAP) and the GPFI Terms of Reference (ToR), as approved in October 2020 under the Saudi G20 Presidency.

The Report is structured as follows:

- Background
- The G20 2020 FIAP: prioritized topics, action areas and deliverables in 2022
    - Digital financial inclusion
    - SME finance
- List of GPFI documents produced in 2022

Background

In 2022, the GPFI implemented a work-plan coherent with the provisions contained in the G20 2020 FIAP, which was able to advance the Financial Inclusion Agenda.

The global geopolitical tensions – connected with the Russian invasion of Ukraine – and supply chain shocks have been making the recovery from the upheavals of the Covid-19 pandemic more difficult for all countries. The consequences of these events have been heavier for the financially vulnerable and underserved groups, especially women, youth and micro-, small- and medium-sized enterprises (MSMEs), which are less equipped than others to deal with the occurrence of sudden adverse shocks and increase in uncertainty. Against this backdrop, the actions and objectives of the GPFI have turned out to be more relevant than ever.

The overarching theme of the Indonesia G20 Presidency has been "Recover Together, Recover Stronger", built upon three main pillars: (i) promoting productivity; (ii) increasing resilience and stability; and (iii) ensuring sustainable and inclusive growth. Hence, the GPFI – in coherence with the G20 2020 FIAP and pillars (i) and (iii) of the Indonesia G20 Presidency – has explored possible ways to harness the process of digitalization to increase productivity and bring about a more sustainable and inclusive economy. The focus has been on both demand- and supply-side policies, with the aim to promote financial inclusion for specific target groups.

Four deliverables have been accomplished by the GPFI in 2022. They are aimed to offer (i) a practical implementation guide for the High Level Principles (HLPs) on Digital Financial Inclusion – originally compiled under the Chinese G20 Presidency in 2016 –; (ii) a preliminary hands-on tool that can guide domestic regulators in the setting up of the most appropriate regulatory framework for the development of digital financial services (DFSs) (iii) a set of good practices and examples from countries on innovative financial instruments available to SMEs beyond credit; (iv) a summary of available cross-country data on SME finance and existing initiatives to collect more disaggregated data and suggestions for future advancements on SME finance data harmonization.

Informed by the main results stemming from these deliverables, the GPFI under the Indonesia G20 Presidency has delivered the **G20 Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth and MSMEs** – so called the "**G20 Yogyakarta Financial Inclusion Framework**" – which has been endorsed by G20 Finance Ministers and Central Bank Governors in October 2022. The Framework is meant to serve as a coherence guidance for country regulators in their efforts to maximize the benefits of responsible digitalization to promote the economic potential of the most underserved groups – particularly social benefit recipients, women, youth and MSMEs – and favor the shift towards an economy that is more productive and sustainable.

The Partnership held three Plenary Meetings during the year, in February, May and October. The first day of each event was dedicated to side event namely an international seminar in February and May as well as a high-level symposium in October aimed at exploring in depth effective policies to support digital financial inclusion of Women, Youth and MSMEs by engaging a wider audience composed of market participants, academia, international organizations and policymakers. In particular, the Partnership organized, on the 2nd of February, an International Seminar on Digital Financial Inclusion; on the 11th of May, an International Seminar on Digital Transformation for Financial Inclusion of Women, Youth and MSMEs to Promote Inclusive Growth; and on the 4th of October a High-level Symposium on Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth, and MSMEs.

The engagement with all stakeholders and standard setting bodies to further promote the integration of financial inclusion in their policies has proceeded smoothly.

The G20 2020 FIAP: prioritized topics, action areas and deliverables in 2022

Digital Financial Inclusion: Action Area 1

In this Action Area, the deliverable envisaged by the G20 2020 FIAP for 2021 is to:

"*Develop an Implementation Framework for the HLPs, which is to be interpreted as a mechanism for assessment and guidance, building on the specific guidelines and/or policy options provided in the HLPGs and other G20 GPFI publications and reflecting the identified policy options and actions produced from deliverable (i),*[1] *with a primary focus on underserved and vulnerable groups and MSMEs".*

To fulfil this commitment, the following deliverable was produced:

Implementation Guide for the G20 High-Level Principles for Digital Financial Inclusion (by the World Bank, in collaboration with BTCA, CGAP and the OECD). Conducted as a coordinated work among different IPs, the aim of this deliverable is to offer a very practical implementation guide, useful for both G20 and non-G20 countries. After a summary describing all the HLPs, a self-containing chapter has been developed for each of HLPs from 1 to 6,[2] leveraging on the work accomplished and the standards developed within the GPFI community in recent years. Each chapter presents good practices and examples that could guide policymakers in their decisions. A rich bibliography is included at the end of each chapter to provide further useful insights and analyses for all interested stakeholders. The appendix offers a self-assessment tool with a specific checklist for each HLP, organized in two levels: the first presents the minimum standards that should be put in place in any jurisdiction where financial services and products are being offered; the second contains additional levers that can be employed to address newly emerging risks more efficiently and effectively.

Digital Financial Inclusion: Action Area 2

In this Action Area, devoted to remittances, the G20 2020 FIAP does not foresee new deliverables for 2022. Countries have produced their updated National Remittances Plans (NRPs) and the GPFI – in collaboration with the World Bank and IFAD – has prepared the *2022 Update to Leaders on Progress towards the G20 Remittance Target* by evaluating the steps taken in the direction indicated by their 2021 NRPs.

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[1] Deliverable (i), completed in 2021 under Italian G20 Presidency, states the goal to: "*Analyze the COVID-19 implications on individuals' financial inclusion and financial resilience, particularly for women and other underserved and vulnerable groups, and the roles of financial inclusion to mitigate the COVID-19 impact in the society. Against this backdrop, identify policy options, in particular through the use of responsible digital financial services as well as recommendations on how to respond to DFI challenges and risks through financial consumer protection (taking account of the work of the G20/OECD Task Force on Financial Consumer Protection)".*

[2] The six HLPs reviewed in the guide are: 1) Promote a digital approach to financial inclusion; 2) Balance innovation and risks to achieve digital financial inclusion; 3) Provide an enabling and proportionate legal and regulatory framework for digital financial inclusion; 4) Expand the digital financial services infrastructure ecosystem; 5) Establish responsible digital financial practices to protect consumers; 6) Strengthen digital and financial literacy and awareness.

SME Finance: Action Area 1

In this Action Area, the deliverable envisaged by the G20 2020 FIAP for 2022 is to:

"Develop a stocktaking report on the financial products and services for SME beyond credit products (such as insurance and other risk-management products), with a particular focus on digital and innovative approaches with the aim to decrease possible financial fragility of SMEs and stimulating job creation, investment, innovation and inclusive economic growth globally".

To fulfil this commitment, a multiplicity of initiatives has been carried out.

A **one-day workshop** in February to discuss non-credit financial products and services for MSMEs, with a special focus on the financial needs of specific target groups, namely: a) women as MSMEs Entrepreneurs; b) youth as MSMEs Entrepreneurs; and c) social finance recipients.

The creation of the **G20 living database on digital financial products and services for MSMEs beyond credit**, developed and maintained by the IFC-SMEFF to store case studies of beyond-credit financial products and services for MSMEs. Having being activated in June and globally launched in October, the database is now live and available **here**, featuring about 60 initiatives related to quite different financial products (like savings, cash management and payments, credit guarantees, factoring, and insurance). This database has huge potential to showcase meaningful examples of impactful innovations that would benefit the global community. Hence, it appears paramount that both G20 and non-G20 countries – continue to send and incorporate new cases.

A synthetic **Report**, entitled **Database on digital and innovative financial products and services for MSMEs beyond credit** again under the responsibility of the IFC-SMEFF, in collaboration with BTCA, IFAD, IsDB and WWB, with the aim to explain the main learnings drawn from the good practice cases received in the stocktaking activity and the main characteristics of the database.

SME Finance: Action Area 2

In this Action Area, the deliverables envisaged by the G20 2020 FIAP for 2022 (with the latter spanning into 2023) are to:

"Progress SMEs data harmonization, including National and International Financial Institutions/Development Finance Institutions' approaches; and improve the availability of disaggregated data for SMEs led by women, youth and other vulnerable groups based on the follow-up from the Stocktaking Report on data enhancement and coordination in SME finance of the existing and planned multilateral initiatives" (2022).

"Develop an SME DFS Regulatory Diagnostic Toolkit that could be used to determine how the national/domestic environment (including the private sector and SSBs engagement) can promote SMEs access to innovative digital financial services" (2022-23).

To fulfil these commitments the following deliverables have been produced:

"**Progressing the agenda on MSMEs data harmonization framework**". A dedicated Report – coordinated by the IFC-SMEFF and the GPFI Co-Chair – concluded that the collection of harmonized and comparable data on MSMEs financial inclusion at the international level is of the utmost importance. While several international surveys provide useful indicators of adults' financial inclusion, similar information for MSMEs is very limited; at the same time, both gender and other disaggregated data are almost non-existent. Higher quality and comparable data would allow policymakers to understand the actual features needed to support MSMEs financial access and use, and thoroughly analyze the relative impact on productivity and growth. The Report sets the stage by describing the available data sets that

contain information on MSMEs access to finance and reports the results obtained in specific countries, such as the UK, to gather sex-disaggregated data on small finance businesses led by women: the **Women Entrepreneurs Finance Initiative** (**We-Fi**), in fact, has been the object of a dedicated Workshop held in July 2022.[3]

G20/AFI Preliminary Regulatory Toolkit for MSME Access to Digital Financial Services (by AFI) aims at providing an overview of the financing gaps and possible regulatory solutions for fostering access to finance for small enterprises, especially the most vulnerable ones. Partly based on the results of a useful survey conducted among GPFI member countries about the main features of their national regulatory and infrastructural frameworks, it builds upon four pillars that appear to be key to foster greater financial inclusion: (i) MSMEs access to digital financial services; (ii) digitalized credit infrastructure; (iii) market efficiency; and (iv) special considerations for underserved populations. Further refinements, regarding both the structure of the document and the organization of its chapters, will be addressed next year in view of finalizing a ready-to-use *diagnostic* toolkit in compliance with the current G20 2020 FIAP.

Cross-cutting issues in the G20 2020 FIAP

The cross-cutting issues underlying all action areas and deliverables throughout the duration of the 2020 G20 FIAP are the following.

a. *Promote the expansion of financial services among the hard-to-reach segments of the population, particularly targeting underserved and vulnerable groups, as well as the advancement of women's economic empowerment.*

   This issue has been addressed through most of the deliverables accomplished in 2022; specifically, women's economic empowerment has been integrated into the MSME data harmonization project.

b. *Promote financial consumer protection and financial literacy by means of collaboration and coordination with multilateral organizations, including the G20/OECD Task Force for Financial Consumer Protection and the International Network on Financial Education.*

   Due to the current rapid digitalization pace and in the spirit of balancing innovation and risk mitigation, the **G20/OECD High-Level Principles on Financial Consumer Protection** – originally developed in 2012 in light of the adverse impact of the global financial crisis – have been reviewed to take into account new developments in the financial landscape with the aim to continue depicting global good practices.

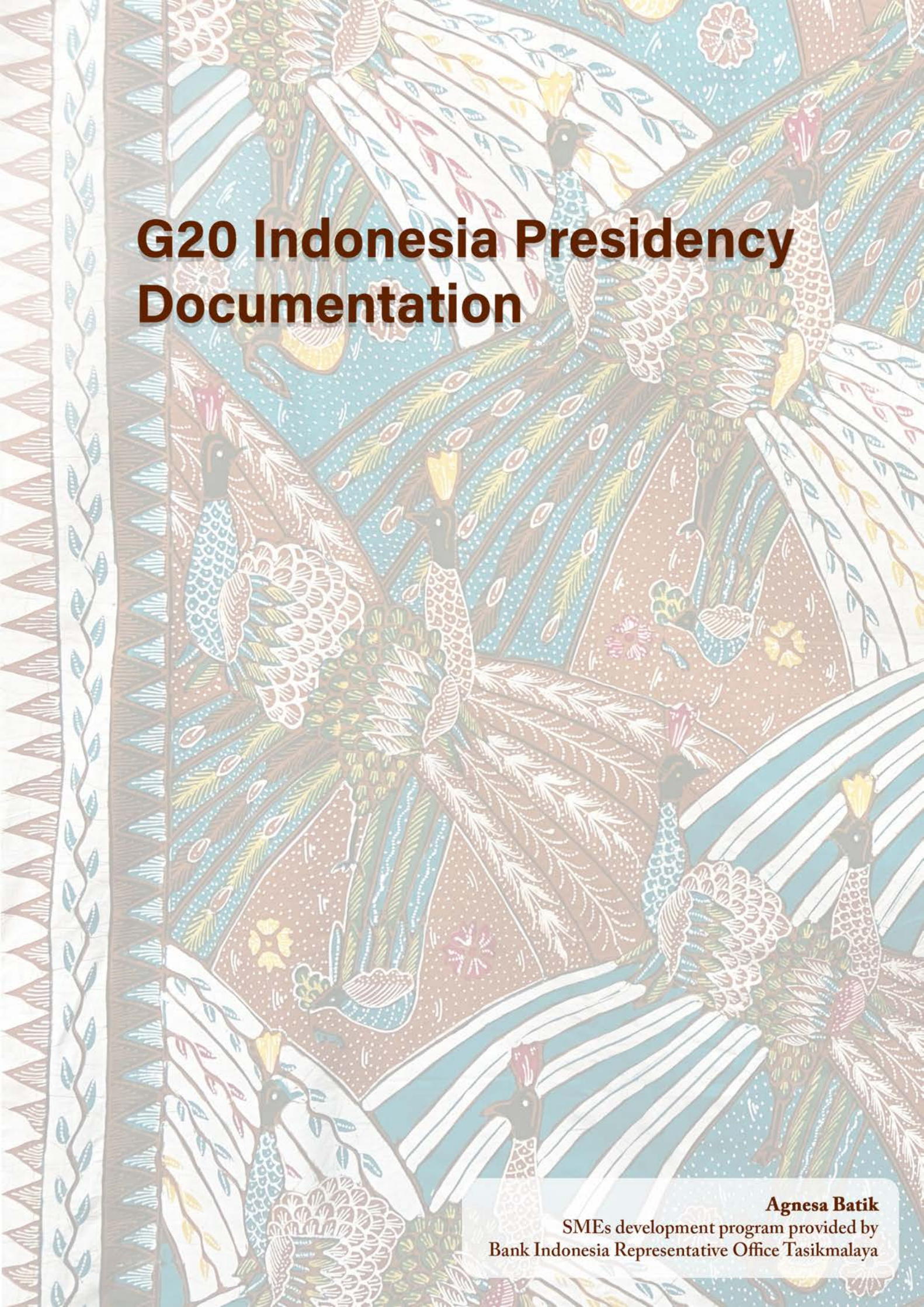
In 2022, GPFI members have been also consulted on the update of the **G20/OECD High-Level Principles on SME Financing**. Although not directly included in the G20 2020 FIAP, these HLPs appear to be complementary to the GPFI's work on identifying good practices for SME finance. The Principles are voluntary and non-binding, and focus on the need to strengthen the conditions for access to both bank and non-bank finance. The current revision takes the following new aspects into account: leveraging the increasing role and potential of Fintech; advancing the availability and uptake of sustainable finance for MSMEs; strengthening SMEs resilience in times of crisis.

[3] This initiative is a worldwide call to action addressed to the financial sector to participate in a data-driven systematic effort to tackle the financing gap of women entrepreneurs and support them by scaling up their access to financial products. It aims to enable a critical mass of financial institutions around the world that serve MSMEs to report on a sex-disaggregated basis and thus increase financing to women.

ANNEX: REPORTS AND DOCUMENTS PRODUCED

- G20 Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth and MSMEs or "G20 Yogyakarta Financial Inclusion Framework"
- Implementation Guide for the G20 High-Level Principles for Digital Financial Inclusion
- Database on Digital and Innovative Financial Products and Services for MSMEs Beyond Credit
- G20/AFI Preliminary Regulatory Toolkit for MSME Access to Digital Financial Services
- Progressing the Agenda on MSMEs Data Harmonization Framework
- 2022 Update to Leaders on Progress Towards the G20 Remittance Target
- 2022 G20/OECD High-Level Principles on Financial Consumer Protection
- 2022 Updated G20/OECD High-Level Principles on SME Financing
- 2022 GPFI Progress Report to G20 Leaders

G20 Indonesia Presidency Documentation



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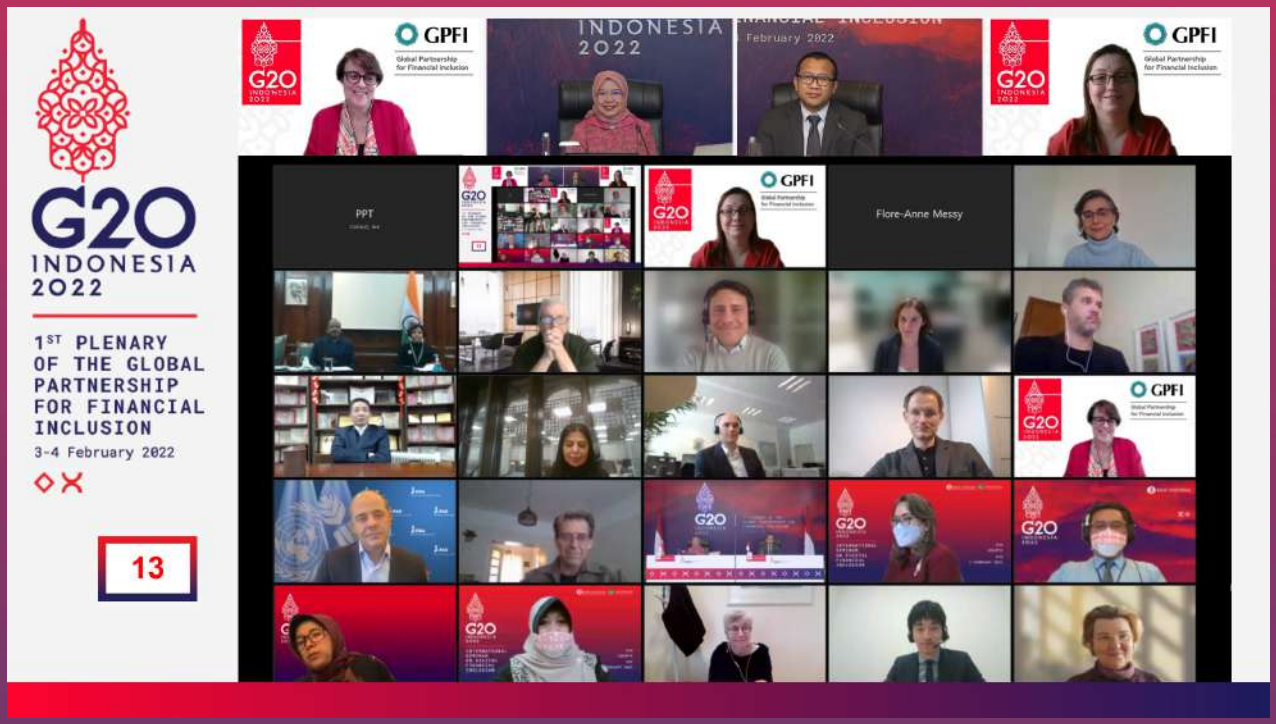
INTERNATIONAL SEMINAR ON DIGITAL FINANCIAL INCLUSION

2 FEBRUARY 2022

1ST PLENARY OF THE GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION

3-4 FEBRUARY 2022



INTERNATIONAL SEMINAR ON DIGITAL TRANSFORMATION FOR FINANCIAL INCLUSION OF WOMEN, YOUTH, AND MSMEs TO PROMOTE INCLUSIVE GROWTH

11 MAY 2022

2nd GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION PLENARY MEETING

12-13 MAY 2022

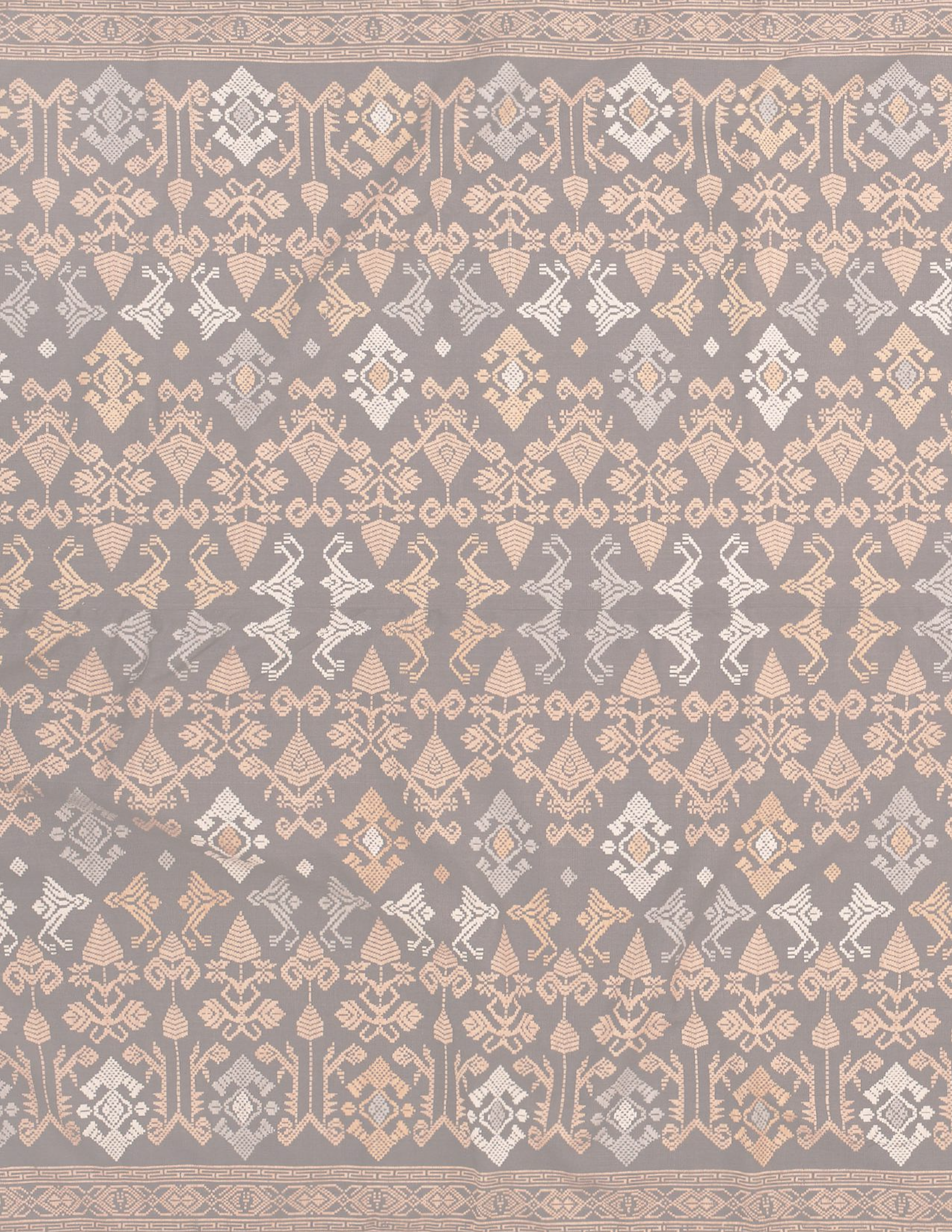
HARNESSING DIGITALIZATION TO INCREASE PRODUCTIVITY, SUSTAINABLE AND INCLUSIVE ECONOMY OF WOMEN, YOUTH, AND MSMES

4 OCTOBER 2022

3rd GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION PLENARY MEETING

5 OCTOBER 2022

3RD GLOBAL PARTNERSHIP FOR FINANCIAL
INCLUSION PLENARY MEETING



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Yogyakarta Financial Inclusion Framework

G20 Financial Inclusion Framework in Harnessing Digitalization to Increase Productivity, Sustainable and Inclusive Economy of Women, Youth and MSMEs

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