



2020 Asia-Pacific Financial Inclusion Forum

Recommendations for policymakers and regulators

Enabling shared prosperity through inclusive finance:
leaving no one behind in an age of disruption





Executive summary

The Asia-Pacific Financial Inclusion Forum (APFIF) was established in 2010 as a policy initiative of the APEC Finance Ministers' Process. The main objective of the initiative, which is led by the Foundation for Development Cooperation (FDC), is to identify concrete actions that financial policymakers can take to expand the reach of financial services to the underserved.

The Covid-19 pandemic has increased the urgency for governments and practitioners to accelerate the use of technology for financial services. This is creating new opportunities to advance financial inclusion, but a major factor of success will be the ability of stakeholders to cooperate and collaborate effectively. In response, FDC and the partners of APFIF have developed a series of recommendations for policymakers and regulators to support their financial inclusion efforts during this extraordinary time. Nine recommendations, framed within three topics aligned with the priorities of Asia-Pacific Economic Cooperation (APEC), have been developed, including examples of specific actions which governments can take to achieve success and case studies that provide practical insights into how some governments are addressing these issues.

The role of microfinance in enhancing opportunity and resilience in response to Covid-19

The economic and financial effects flowing from lockdowns to curb the spread of Covid-19 have been severe in most economies of the Asia-Pacific, with substantial declines in the incomes of people at the base of the economy, many of whom rely on microfinance to manage the cash flows of their household or microenterprise.

Like everyone else, people and enterprises at the base of the economy rely on financial products and services for basic needs such as savings deposits, receiving and sending payments, loans etc. However, in developing and emerging economies such services are often only available from microfinance providers such as microfinance institutions, cooperatives, non-government organisation (NGOs), savings associations and self-help groups. In many economies the ability of these institutions to continue providing financial services has been disrupted by the pandemic, putting the poor and the financial service providers they rely on in a precarious position.

Even though the crisis is still evolving across the region, emerging lessons from the experiences of many economies can provide important guidance for governments in preparing for future extraordinary events by building the resilience of microfinance providers and their clients. The Covid-19 crisis also gives governments an opportunity to consider how, as part of the recovery process, microfinance providers can become more effective in supporting financial inclusion at the base of the economy and broader economic development.

➤ **Recommendation 1. Enable microfinance providers to keep providing services that support the resilience of clients during times of crisis by:**

- Recognising microfinance providers as frontline suppliers of essential services so they can stay open and keep serving clients.
- Increasing access to liquidity for microfinance providers, including collaboration with specialist finance and development agencies to provide blended finance facilities.
- Enacting concessions or moratoriums proportionately and consistently throughout the financial system to ensure stability.

➤ **Recommendation 2. Enact reforms that accelerate recovery and lead to more sustainable and effective microfinance providers serving the base of the economy by:**

- Facilitating digital transformation by advancing digital financial infrastructure, open banking and digital identification, and by promoting digital literacy as a core skill.
- Ensuring reforms targeting microfinance providers recognise the value of “high-touch” operating models critical for client relationships, building financial literacy and capacity and establishing trust in the financial system.
- Prioritising digital identity initiatives that enable governments to provide direct fiscal assistance and microfinance providers to serve their clients more effectively and at lower cost.

- Giving microfinance providers incentives and assistance to invest in digital transformation, and in programs of education and awareness that build trust and demand for digital services among their customers.
- Ensuring that appropriate client protection measures are standardised and adopted by microfinance providers, followed by pragmatic supervision.
- Promoting partnerships between communities, healthcare systems, local governments and frontline finance providers that support communities at the base of the economy to build resilience for the future.
- Maintaining stability, including for microfinance providers facing insolvency, by enabling recapitalisations, mergers and other collaborative restructuring and temporary regulatory forbearance, based on asset quality standards.

Making digital financial services work for the base of the economy

The digital revolution and its potential to transform access to and use of financial products and services by the unserved and underserved is currently a focus for financial markets, the development sector and governments. A multitude of fintech (financial technology) companies continues to emerge, all actively developing a wide range of technology-driven financial products and services in the retail finance sector. Much of this activity is being driven by significant recent advances in technology, including the rapid growth in mobile phone ownership and internet connections, which provide new channels through which to reach the underbanked.

However, while an increasing number of fintechs enter the market and the availability of digital financial services (DFS) continues to grow, the expansion and adoption of DFS among those at the base of the economy remain slow, raising important questions about the viability of DFS providers servicing the poor and about recognition by the unbanked of DFS as a service that could meet their needs.

For DFS to be more successful in driving financial inclusion at the base of the economy, stakeholders must communicate the utility of DFS to the poor, convey the value proposition or business case to providers, and plan the necessary enabling public infrastructure and supervision.

➤ Recommendation 3. Support the development of a DFS ecosystem that offers greater utility to the unbanked and the base of the economy by:

- De-risking digital finance products and platforms extended to the poor through stakeholder coordination and developing strategies in areas such as privacy and data security, fraud, digital know your customer (KYC) etc., emphasising protection of the poor and vulnerable.
- Enhancing literacy, including functional numeracy and financial and digital literacy, as well as general awareness of the benefits of digital financial products and services, especially for women and young people.

- Promoting interoperability and encouraging financial service providers to share data and connect their platforms, enabling providers to design appropriate products and services that meet the unique needs of those at the base of the economy.
- Modernising Government-to-person payment systems, beyond digitising transfers, to let recipients choose where they open their accounts and enable competition between DFS service providers.
- Encouraging effective partnerships by incentivising DFS providers to work with non-bank financial institutions (NBFIs), which often have more experience and more direct relationships with the poor.

➤ Recommendation 4. Support the business case of DFS providers that target and serve the base of the economy by:

- Supporting increased levels of interoperability in the DFS payments infrastructure to foster greater economies of scale and scope, and competition between providers.
- Providing financial incentives such as concessional loans, subsidies, guarantees or pricing guidelines to support the improvement of agent profitability for DFS providers.
- Supporting the development of digital identification schemes to let customers who lack formal identification satisfy KYC requirements more efficiently and access digitally enabled financial products and services.
- Collaborating with the private sector and donor institutions to crowd in and test viable DFS solutions via regulatory sandboxes, innovation hubs or accelerators.

➤ Recommendation 5. Prioritise the development of public infrastructure and supervision frameworks to enhance DFS benefits to the base of the economy by:

- Evaluating current infrastructure and prioritising investments in core information and communication technology (ICT) systems including the internet, and in rural and remote communities.
- Providing clear guidance on which institutions and government agencies are responsible for protecting the poor from digital risk.
- Ensuring that local policies, strategies and regulations for the development of the digital economy recognise relevant gender issues, and pursuing reforms that reduce gender bias or inequality.
- Establishing guidelines or requirements and incentives for DFS providers to establish cash-in cash-out services in rural areas, including regulations to encourage the expansion of agent networks, e.g. minimum rural coverage requirements.
- Supporting interoperability by developing clear rules and governance structures for operators and ensuring that these systems are not only technologically functional, but also safe and reliable, with appropriate regulation and supervision.

Enabling financial inclusion through e-commerce

E-commerce is a growing feature of local retail goods and services ecosystems throughout the Asia-Pacific region. Supported by new, convenient and affordable transaction options enabled by internet-based platforms and mobile money, e-commerce is a significant driver of the use of digital financial products and services.

While e-commerce across the region continues to develop, its success in generating demand for digital financial products and services for microenterprises and those at the base of the economy has not been great. There is an opportunity for policymakers and regulators to create an enabling environment for innovative e-commerce solutions that promote access to and use of DFS among the poor and in e-commerce markets.

Promoting the use of DFS for the base of the economy through e-commerce could lead to significant gains for financial inclusion. Providing compelling reasons and opportunities to use digital wallets and payment mechanisms will introduce new opportunities for the poor to access other digitally enabled services appropriate for their needs, such as credit, savings, insurance and pensions.

➤ **Recommendation 6. Support the establishment and development of e-commerce models that align with the needs of microenterprises at the base of the economy by:**

- Improving connectivity by extending physical digital communication infrastructure beyond urban centres into rural and remote areas. Government can lead in building this infrastructure, including private-sector partners to enhance sustainability.
- Ensuring that adequate regulations for e-commerce are in place (potentially as an extension of trade practices legislation) that specifically recognise the needs of the poor and offer appropriate protections, including redress or penalties for fraud.
- Encouraging local government in rural areas to facilitate and coordinate the growth of e-commerce, including development of key infrastructure (e.g. internet connectivity, logistics networks etc.) and concessions, and reduced administration.
- Leveraging existing public and private infrastructure in regional and remote areas, such as bank branches, post office branches, consumer service centres, market trader stores, and cooperatives, to facilitate e-commerce transactions and logistics.
- Prioritising development of or access to sources of finance to support e-commerce platforms or models designed to reach poor and rural populations and help microentrepreneurs reach economies of scale.
- Establishing programs to promote consumer protections that cover the poor, including financial and digital literacy.
- Developing economy-wide e-commerce strategies to close gaps in digital access, adoption and use, including measures to enhance affordability and increase online safety, as well as targets for extending networks and digital access to rural and remote areas.

- Commissioning an update of the 2017 APEC Internet and Digital Economy Roadmap, specifically focusing on point 10, “Enhancing inclusiveness of Internet and Digital Economy,” to include consumers and microenterprises in poor and vulnerable communities.

➔ **Recommendation 7. Support the transition from cash towards digital mechanisms for e-commerce platforms by:**

- Working with the private sector to explore and develop opportunities to support the digitisation of microenterprise value chains.
- Raising awareness of the risks of fraud and developing mitigation strategies for microenterprises, especially for the poor and most vulnerable, to build confidence in the digital financial system.

➔ **Recommendation 8. Drive demand and support the onboarding of micro-merchants onto formal e-commerce platforms by:**

- Studying the various types of e-commerce used locally, including formal and informal models, to better understand how it contributes to the economy, livelihoods, financial inclusion and gender equality.
- Working with e-commerce market players to promote technology solutions that cater to the poor and enable online business opportunities, through technology incubators and accelerators, training and development of start-up tools.
- Establishing pragmatic regulatory requirements to provide suitable pathways, including appropriate incentives (e.g. simple registration, lower tax thresholds), for microentrepreneurs engaged in e-commerce to formalise their businesses.
- Working towards creating a trustworthy environment for e-commerce, including the establishment of a framework for complaints and dispute resolution to discourage fraud, support better customer service and improve online sales.

➔ **Recommendation 9. Support the empowerment of women through e-commerce by:**

- Ensuring that women can enjoy a safe internet experience by advancing policies that provide and enforce women’s digital rights, including enhanced information security and protection of intellectual property.
- Increasing opportunities for women’s digital connectivity by prioritising investments and providing incentives that lead to greater access to smartphones and internet connectivity for women entrepreneurs in rural areas, and mechanisms for offline transactions.
- Providing digital and business skills training programs that are tailored to strengthen women’s agency, capabilities and understanding and use of technology in an enterprise context.

Published by
The Foundation for Development Cooperation Ltd
(ABN: 48 906 071 306)
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First Published 2020
ISBN - 978-0-9802870-4-2

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Acknowledgements

We would like to thank the primary partners of the Asia-Pacific Financial Inclusion Forum initiative, including the Asian Development Bank Institute, the Bank of Papua New Guinea and the APEC Business Advisory Council, for their support and contributions.

Additional support for this initiative has been provided by its strategic partners, including the Consultative Group to Assist the Poor, the Banking with the Poor Network, the United Nations Capital Development Fund, the World Bank, MicroSave Consulting and the Asian Development Bank.

Support for the development of case studies contained in this report was provided by Andi Ikhwan (Mercy Corps Indonesia), Yos Kimsawatde (The Thai Bankers' Association), Syed Mohsin Ahmed (The Pakistan Microfinance Network), Joep Roest (The Consultative Group to Assist the Poor), Tony Willenberg (Neocapita Security), Steve Pocock (Abt Associates), Xubei Luo (The World Bank Group), Phan Cu Nhan (The Vietnam Bank for Social Policies), Grace Retnowati and Raunak Kapoor (MicroSave Consulting), Dato Ng Wan Peng (The Malaysia Digital Economy Corporation) and Ananya Raihan (iSocial).

Special thanks to Jeff Liew (The Foundation for Development Cooperation), Peter Morgan (The Asian Development Bank Institute), Peter Rosenkranz and Cyn-Young Park (Asian Development Bank), Joep Roest (The Consultative Group to Assist the Poor) and Manoj Sharma (MicroSave) for their subject matter contributions to this report.