FinTech Partnerships Playbook

How donors can pursue private sector engagement to strengthen digital finance ecosystems

April 2019

USAID
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CONTENTS

ACKNOWLEDGEMENTS

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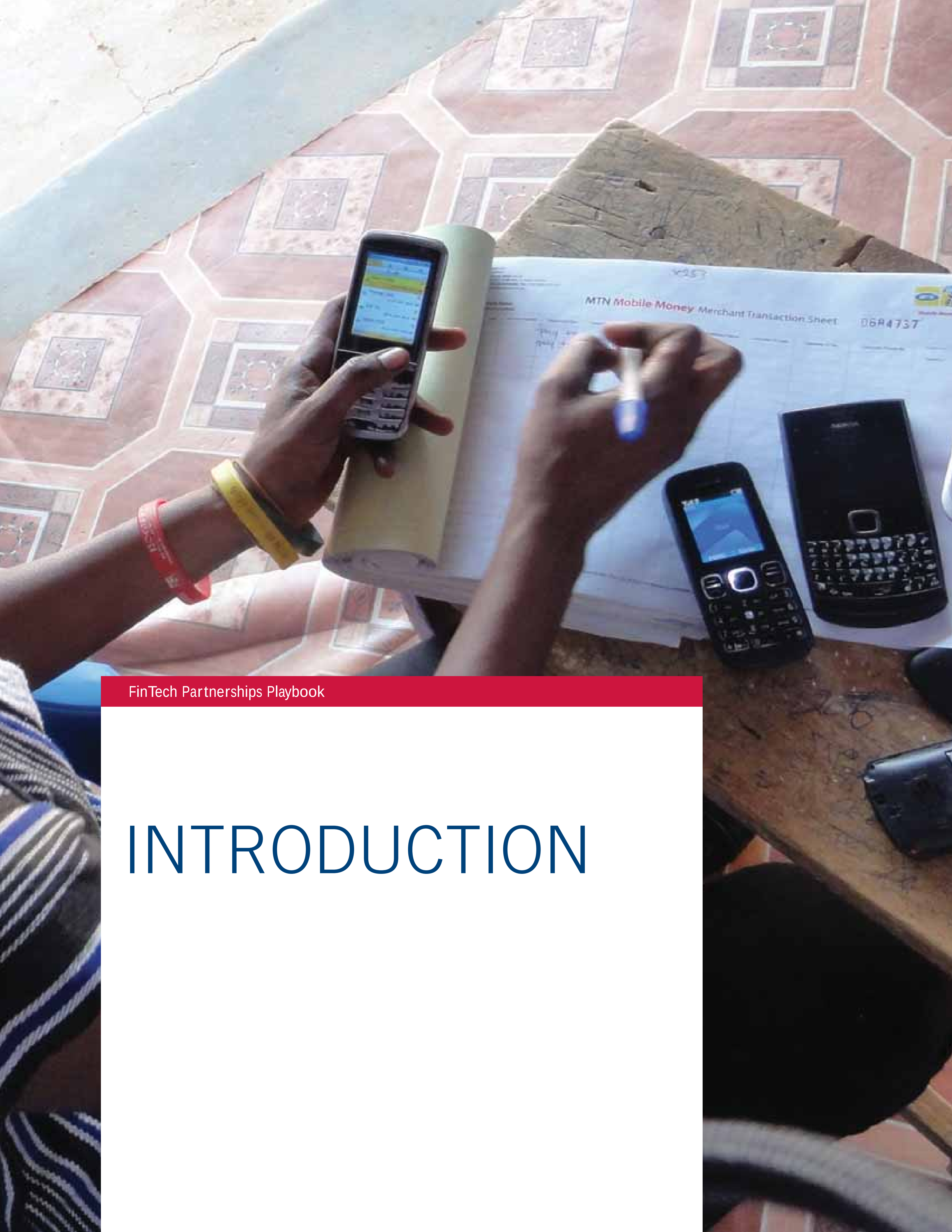
My thanks first go to members of the Digital Finance team at USAID, led by Fernando Maldonado, for being superb sounding boards, sharp reviewers, and helpful sources of ideas. Kwasi Donkor has offered particularly valuable insights, as well as Leah Pedersen, Ankunda Kariisa, Abby Manz, and Alison Harrell. Notable contributions and substantive reviews were also enormously helpful from other colleagues at USAID, including Liz Chacko (engagement models), Susan Wilder (ensuring alignment with private sector engagement policy at USAID), Autumn Gorman (partnership examples throughout), Kristin O'Planick (market dynamics and systems changes), Lawrence Camp (partnership examples from Ghana and Haiti), Shirin Jamshidi, Sashi Jayatileke, Mukesh Sadana, Jesse Corradi, Eleanor Keppelman, German Sanz, Harsha Kodali, Tess Espenilla, Philip Rihm, Marie-Renee Vertus, and Paul Pleva. I'm grateful also for support from our Knowledge and Insights colleagues: John O'Bryan, Meghan Lefeber, and Megan Cagle. The Office of Private Capital and Micro-enterprise and the Center for Transformational Partnerships at USAID were particularly helpful, not just for suggestions provided by individual team members but also for contributing the content under "Where do I start?" for *Section C: Select the Engagement Model That Best Aligns Donor-Private Sector Interests*.

Beyond USAID, a long list of stakeholders across many organizations deserve thanks for lending time and expertise to ensure examples included in the playbook accurately reflect what was attempted and achieved. Thanks go to the following individuals in particular for their in-depth reviews and helpful suggested revisions: Estelle Lahaye, Barbara Scola, Isabelle Barres, and Colleen Green. Additional reviews and suggestions were provided by Sonja Kelly, Dustin Shay, Melissa Cook, Ahmed Dermish, Till Bruett, Simone di Castri, Jane del Ser, John Jepsen, Esselina Macome, Alison Boess, Herman Smit, CK Japheth, Peter Kawumi, Lois Aryee, Mukta Joshi, Shalu Umapathy, Josh Woodard, Jake Kendall, Tom Schumacher, Shelley Spencer, Marcella Willis, Hamilton McNutt, Graham Wright, Alexandra Rizzi, and Xavier Faz. My apologies to others I have forgotten to acknowledge.

This publication was made possible through support provided by the United States Agency for International Development (USAID). The opinions expressed herein are the author's and do not necessarily reflect the views of USAID.



INTRODUCTION

ENGAGEMENT BETWEEN DONORS AND THE PRIVATE SECTOR CAN FOSTER INCLUSIVE DIGITAL ECONOMIES.

This playbook aims to assist you—USAID staff, development practitioners, and donor stakeholders—to brainstorm and develop projects that take a purpose-driven approach to private sector engagement in digital finance that supports countries along their journey to self-reliance.

With the right enabling environment and ecosystem of market actors, digital finance — or more broadly, "FinTech" — can foster greater efficiency and transparency, resilience, and empowerment across a variety of contexts, whether in agriculture, health, education, energy, or governance. The impact of these gains can be felt by many communities as they progress on their journey to self-reliance: women, youth, micro, small, and medium-sized enterprises (MSMEs), rural communities, and others.

And yet, these gains cannot be assumed as foregone conclusions. Experience shows that donors have a clear role in helping account for both the opportunities and risks of a digital economy to ensure it is truly inclusive. Moreover, donor resources are insignificant relative to the mammoth amounts of capital and expertise that the private sector can bring to bear on some of the most difficult development challenges.

USAID and other donors can increase the probability that these gains will be realized if the private sector's strengths are effectively harnessed — whether those strengths are capital, ideas, technology, relationships, or expertise. This is in line with USAID's new Private Sector Engagement Policy, which is uniquely relevant for fostering inclusive digital economies, given how consequential a market-driven approach has been to the digital transformation worldwide of the last two decades. This playbook seeks to better equip donors and development practitioners to work with the private sector to identify collaboration, co-investment, and coordination opportunities to improve development outcomes in this digital-powered environment.

By collaborating with an emphasis on local market actors and systems, further engagement with the private sector can foster the growth of vibrant ecosystems for digital finance and financial inclusion — and ultimately, inclusive digital economies that create opportunities for all.

Engagements are grouped by objective: what the donor might want to *accomplish* and how to identify the most appropriate respective roles of the public and private sectors in achieving the objective.

Digital Finance/ FinTech: financial services enabled by or delivered through digital technology (e.g., mobile phones, cards, the Internet). These services (e.g., payments, credit, insurance, savings, advisory) can be offered by a range of providers, from banks to a host of non-bank financial institutions, such as microfinance institutions, digital credit providers, payment providers, technology vendors, and electronic money issuers

Financial Inclusion: when any individual or business can improve their economic empowerment and financial well-being by having access to and being able to effectively use a full suite of financial services (accounts, payments, savings, credit, insurance, etc.) that are affordable, accessible, and secure

For each objective, this playbook offers illustrative engagement "plays" that a donor like USAID could implement or incorporate into programming. Each play is then demonstrated by a couple of real-world examples. Each play is different, but a common thread links each of them, consistent with the Private Sector Engagement Policy of USAID: at all stages, whether program design, implementation, or evaluation, it is important to identify and address market gaps with an eye toward the private sector's potential role in the solution.

This playbook does not discuss each play or real-world example in detail. Nor does this playbook attempt to be a comprehensive or definitive list of all possible engagement models or the most successful real-world examples. Rather, it simply aims to be indicative and illustrative of opportunities to engage productively. It aims to trigger ideas and prompt further inquiry. Each example presents a concrete instance in which a donor and its partner(s) both saw clear value in working together, with the nature of engagement taking a variety of forms. A couple examples in the playbook were not focused specifically on Fintech but are nevertheless included as relevant for a FinTech-focused context. As more lessons and examples emerge, this playbook may be updated accordingly.

In practice, many engagements might often be done in combination with other activities to amplify impact and deliver value to both donors and partners. This partly reflects the fact that market systems are complex and ever-evolving, and that, to overcome certain development challenges, a partnership focused on a single FinTech partner or on a single issue might not be sufficient to change broader market-system dynamics. While certain models for private sector engagement are rather transactional in nature, it is often more impactful, resources permitting, to nest any given private sector engagement within a marketsystems development mindset (and even better, a market-systems development program). Such a mindset or programmatic linkage can increase the likelihood that you not only facilitate change with your direct partner(s), but also change across the local marketplace. This is critical for making progress on a country's journey to self-reliance.

How does this playbook use the terms "digital finance" and "FinTech? The term "FinTech" is used similarly to "digital finance" to refer broadly to the use of digital technology for enabling or delivering financial services, but with a specific focus on reaching traditionally underserved or hard-to-reach communities. Of particular interest to USAID are services oriented toward building inclusion and economic empowerment among underserved communities (e.g., women, youth, MSMEs, rural areas). The term "FinTech" is commonly used to describe a type of company or a reliance on technology.

- A company that uses digital technology to enable or deliver financial services. The term FinTech is often used loosely as a label for start-ups in the financial sector or for companies that offer technology-based services to other financial institutions. This usage can lead to some odd implications: would a start-up that matures into a large firm no longer be considered a FinTech company? Would a bank or established firm that only serves customers through digital banking not be a FinTech company simply because it is a bank? Informally, this usage is common among investors (i.e., "We invest in FinTech companies that target banks as customers"), but for purposes of this playbook, we take a more flexible view of what a FinTech firm can be.
- Use of digital technology to enable or deliver financial services. Using the term in this way means that the service could be delivered by any type of firm, start-up or incumbent, retail-facing or back-end. The critical ingredient, of course, is digital technology. This definition covers services or underlying infrastructure as diverse as mobile banking, digital credit, digital payments, and data analytics. The FinTech application in question might, for example, be developed "in-house" by a bank or an MFI or accessed through a vendor relationship with a third-party, among other ways.

In this playbook, less importance is placed on what type of entity a firm is than on what a firm does, such as whether it uses data analytics to understand clients, chatbots to handle complaints, or mobile phones to facilitate remote payments. Each of these functions can be done by a range of firms — banks and non-banks alike. In identifying prospective partners, this suggests you should be open to engagement with more than just a single type of firm.

This playbook can help you define the *purpose* of a partnership based on common market gaps and help identify the types of partners you might approach. It also can help you consider how common donor "tools" can be applied in different ways, whether the tool is a grant, loan, guarantee, informal collaboration, or something else. In addition to the new Private Sector Engagement Policy for USAID, a companion resource to this playbook is the FinTech Partnerships Checklist, which can help you decide whom to partner with among FinTech companies, financial institutions, and their investors.

FIVE CATEGORIES OF ILLUSTRATIVE ENGAGEMENTS DISCUSSED IN THIS PLAYBOOK.

1

LEARN CUSTOMER NEEDS

Identify key pain points and apply insights to design better financial services

2

IMPROVE ENABLING ENVIRONMENT

Inform policy-making and strengthen market support functions for financial inclusion and tech-driven innovation

3

JUMPSTART MARKET ENTRY

Facilitate access to capital or mitigate risk for tech-enabled financial services providers

4

FACILITATE EASE OF ADOPTION

Overcome barriers to adoption of FinTech and formal financial services

5

EXTEND TO "LAST MILE"

Reach new or underserved communities and businesses

FORMING A PARTNERSHIP? KEEP THESE POINTS IN MIND.

1 **ENGAGE WITH AND WORK THROUGH LOCAL SYSTEMS:** Strive to reinforce or seed local expertise on FinTech or innovation. Avoid relying solely on non-local partners. Consider who in the market should be prompting the desired change, and identify ways to catalyze them to act, if possible. When using non-local partners, include a component for building local capacity by, for example, equipping local innovation hubs or advisory services firms with tools for taking the lead. Yet, consider the importance of introducing new ideas or expertise to the local market, given lessons in FinTech from elsewhere.

2 **MOBILIZE, DON'T DISPLACE, PRIVATE SECTOR INVESTMENT:** Apply resources to catalyze the use of capital or expertise to *sustainably* serve underserved communities with inclusive digital-enabled financial services. Avoid supplanting or subsidizing investments indefinitely. When working with specific providers, for example, rely on open applications where feasible and pay attention to competitive dynamics to minimize the risk of undue market distortion. Similarly, use pilots and public-good research to de-risk (or equip) similar efforts by other local stakeholders. This can stimulate new forms of collaboration, innovation, and problem-solving. In selecting a partner, consider their influence on other market actors, their capacity, and their relationships, as this will influence the likelihood that an engagement with them will foster change in others.

3 **BE PREPARED TO TAKE A MULTI-PRONGED APPROACH TO MARKET GAPS:** Most marketplaces do not have a single, discrete issue that impairs the growth of inclusive, competitive digital finance ecosystems. In fact, the reality is quite the opposite. As such, while the illustrative "plays" in this playbook are described one-by-one, they are often most effective if executed within a portfolio of other plays or in the context of a larger initiative that can be responsive to a host of different market needs or dynamics. Although most plays below do not focus on policy issues, it is also worth revisiting, over time, the influence of the policy environment on how digital financial services can or cannot serve the market.

4 **KEEP AN EYE ON END-USER/CLIENT OUTCOMES, EVEN IF YOUR IMMEDIATE FOCUS IS ON PROVIDERS OR POLICIES:** Account for how private sector engagement efforts are likely to influence outcomes for individuals (e.g., smallholders, women), businesses, and government. Avoid focusing solely on how much investment is unlocked or how many firms enter the marketplace. Such incremental change is important, but recall that as a donor, the focus is achieving wide-reaching, durable change in the market system. This is particularly important in the credit context: digital lending products can address financing needs more efficiently, but such innovations also require attention to the risk of predatory behavior, over-indebtedness, and limitations in financial capability. Similarly, when facilitating policy dialogue, the focus should not simply be to foster more innovation and competition, but to facilitate space for enhanced innovation and competition that *spurs responsible entry into underserved communities*.

For more insight on contributing to market-system change, see: The Art of Market Facilitation (FSD Africa, 2016), A Market Systems Approach to Financial Inclusion: Guidelines for Funders (CGAP, 2015), Evaluating Systems and Systemic Change for Inclusive Market Development (USAID, 2014), Partnership Insights - a Set of Tools and Resources for Practitioners (USAID), and Market Facilitation - Practitioner Job Support Tools (SEEP Network).

5 OBJECTIVES AND 10 ILLUSTRATIVE PLAYS

Strengthening Digital Finance Ecosystems

OBJECTIVE 1: LEARN CUSTOMER NEEDS

Partner to identify key pain points and insights that enable the design of better, inclusive financial services

Financial service providers (whether banks or non-bank financial institutions, like start-ups, MFIs, or mobile money providers) frequently lack in-depth understanding of the barriers and incentives that certain client segments face when accessing, using, or deriving utility from formal financial services. This lack of understanding is often an issue for providers of *digital* financial services, too. Depending on the context, this may be due to a fundamental lack of information about communities, a lack of resources for conducting basic market research, or a lack of experience in applying effective methods to inform product strategy or product design. This may also simply reflect the perception or reality that it is more lucrative and easy to target affluent, urban, or easier to reach client segments.

Symptoms of this type of knowledge gap can appear at various levels — being manifest as, for example: (a) market-wide inattention to broad swaths of the population (e.g., women, youth, elderly, smallholder households); (b) entrenched reliance on informal financial behaviors; (c) a lack of products tailored to specific client segments, apart from educated, affluent customers or large, formal businesses; and (d) lack of improvement in financial health outcomes among those who use formal financial services.

Tools and methodologies now exist for systematically improving the understanding that market actors (not just financial service providers) have regarding un- and underserved market segments. Certain tools, like the FinScope surveys, provide insight into a population's financial choices in spending, borrowing, investing, and saving. Other tools, like financial diaries, provide insight into the day-to-day decision-making of an individual, household, or MSME. The Customer-Centricity Guide created by the Consultative Group to Assist the Poor (CGAP) offers a suite of practical tools for providers to better understand and serve clients, and it is premised on the fact that such an approach make good business sense. Each methodology serves distinct, complementary purposes. The insights generated from these types of methodologies can better inform actors engaged in every level of the ecosystem, from policy-making to better product design. For financial service providers, the insights can also prompt a shift from a product-centric to a customer-centric mentality.

Donors can help reduce knowledge and insight gaps that result in mismatches between product features and customer needs, or that create unnecessary obstacles between potential customers and adoption. But donors can do more than just provide resources to conduct fact-finding. Whereas financial service providers offer a network of customers or partners with whom research can be conducted, donors offer similar networks of partners in communities being served, access to expertise on particular needs or research methods, and convening power for discussing and synthesizing results. If having better information on overlooked client segments still does not (or might not) result in the desired change in the behavior of providers, this is an indication that other root causes may favor the status quo, which might warrant donor attention.

OBJECTIVE 1: LEARN CUSTOMER NEEDS

PLAY NO. 1 FILL KNOWLEDGE GAPS ABOUT MARKET SEGMENTS TO JUSTIFY, INFORM, AND DE-RISK MARKET INVESTMENT

Help providers identify and better understand viable market segments among underserved communities

ILLUSTRATIVE DONOR ROLES

- Collaborate with financial service providers to formulate tailored research plans that first identify and tap into internal sources of knowledge that can ensure relevance of research findings
- Convene market stakeholders to discuss findings of market-level research and determine implications arising from it and, for public-good research, define a plan for stakeholders to take ownership of its implementation going forward
- Facilitate a peer-to-peer exchange or study tour for market stakeholders (such as financial service providers or policymakers) to better understand how a given research method has been applied effectively in other market contexts (and thus help clarify which methods are effective for addressing specific knowledge gaps)
- Collaborate (via cost-share of research or provision of either technical expertise or community outreach) with financial service providers on:
  * Market-segmentation research to define customer profiles that could align with financial service provider strategic priorities
  * Ethnographic or in-depth financial diary research to identify the formal and informal financial behaviors as well as financial needs of targeted market segments
  * Market-sizing research to quantify the business case and strategic opportunities for targeting priority market segments
  * Nationally representative survey on how priority market segments access and use formal financial services
  * Research on the barriers and incentives faced by priority market segments with respect to accessing, adopting, and deriving utility from financial services
  * Research to determine the nature and degree of digital literacy and numeracy of priority market segments that could be reached via digital financial services

WHAT MARKET DYNAMICS MAY CHANGE?

- Degree of strategic interest in un- or underserved market segments demonstrated by financial services providers
- Degree of policymaker attention paid to specific obstacles to financial well-being faced by un- or underserved market segments

WHAT METRICS MIGHT INDICATE PROGRESS?

- Change in number or diversity of firms that actively investigate the needs and behaviors of un- or underserved market segments
- Change in the number or diversity of firms that demonstrate improved understanding of un- and underserved market segments

OBJECTIVE 1: LEARN CUSTOMER NEEDS

PLAY NO. 2 APPLY MARKET INSIGHTS TO PRODUCT DESIGN

Help providers use insights and in-depth research about underserved market segments to design better products

ILLUSTRATIVE DONOR ROLES

- Provide technical assistance on a cost-share basis to demonstrate or jointly apply customer-centric design principles and market insights to product design, including through new methods (e.g., A/B testing, lean start-up)
- Co-sponsor with industry associations, universities, or other training centers development of capacity-building programs and materials that focus on applying customer-centric principles and human-centered design
- Launch challenge fund to de-risk provider tests of solutions that overcome specific barriers (e.g., gender-related or informality) uncovered by demand-side research
- Co-sponsor development of sustainability and resource-planning strategy for industry associations to offer capacity-building services to providers long term

WHAT MARKET DYNAMICS MAY CHANGE?

- Degree to which financial service providers orient strategy and product development methods around customer-centric principles
- Degree to which dormancy rates in formal financial accounts decline or recurrent use increases

WHAT METRICS MIGHT INDICATE PROGRESS?

- Change in the number or diversity of firms applying human-centered design principles in the product design process
- Change in the number or diversity of financial services prototyped, piloted, launched, or replicated that reflect human-centered design principles

OBJECTIVE 2: IMPROVE ENABLING ENVIRONMENT

Partner to inform policy-making and strengthen market support functions that enable responsible, technology-driven innovation and financial inclusion

Policy makers and regulators frequently struggle to maintain an adequate understanding of the implications of evolving business models and the rise of technology in the financial sector in the face of enduring priorities of financial stability, integrity, and consumer protection. Where those implications are not readily apparent or considered manageable, policy makers — often already struggling with resource and capacity gaps — may resort to regulatory frameworks that are overly restrictive, are ill-suited for technology-driven innovation, or exacerbate pre-existing market gaps that hinder financial inclusion.

Market-level stakeholders — whether financial service providers, technology companies, or industry bodies — face a similarly accelerating landscape of technological change. As this occurs, the value of market-wide resources for navigating that change increases dramatically. Many of these "market support functions" are subjects of long-standing support from donors. Industry associations that are vehicles for policy advocacy or that provide capacity-building support (such as through training or certification of financial professionals) can build out expertise in technology-driven implications or in emergent standards of good practice. In a similar vein, the capabilities of credit reference bureaus, entrepreneurship initiatives, and a vibrant payment ecosystem take on greater importance in a world where data and interoperability are key cogs in the wheel for digital financial inclusion.

Donors can play a role in bringing regulators and industry together to identify opportunities for regulatory change, overcome oversight and compliance pain points, develop new tools for addressing them, and support integration of those tools by the marketplace.

Such engagement can yield effective industry-level action on norms and practices that also contribute to objectives of competition, innovation, and consumer protection. This can be both to improve awareness of already known resources developed elsewhere (such as the G20 High-Level Principles for Digital Financial Inclusion or the Payments Aspects of Financial Inclusion Framework) or to chart a policy path based simply on more productive exchanges among local stakeholders. Substantive areas of particular relevance to digital finance are anti-money laundering and countering terrorist finance (AML/CFT) regulations dictating how providers approach customer due diligence; data privacy and data security; market entry of non-bank financial institutions; the use of agents for offering financial services from both banks and non-banks; and the provision of credit on the basis of alternative data sources indicative of creditworthiness.

Of relevance to digital-oriented issues is awareness and understanding of industry-level good practices of various forms. In certain markets, policy makers may have an uneven or inaccurate understanding of standards that inform how industry operates, such as the existence of industry-adopted codes of conduct or technical standards that facilitate interoperability of financial services (e.g., ISO 20022). By facilitating exchanges between policy makers and industry stakeholders focused on these topics, policy makers can avoid crafting regulatory interventions that are unnecessary, mis-applied, or out of alignment with widely adopted standards. Just as important, the process of developing regulations or policies can be made more transparent, consultative, and ultimately better-informed by market data, which is critical for ensuring the regulatory framework keeps up with a fast-evolving sector driven by technological change.

One innovation — the development and use of application programming interfaces ("APIs") — has shown enormous potential for both incumbents and start-ups. Through APIs, which enable digital applications to seamlessly interact with each other, a bank can link to a technology vendor's platform to conduct data analytics on prospective borrowers, conduct know-your-customer analyses, or disburse funds into accounts across different institutions. Similarly, through APIs, a start-up can reach customers at multiple banks or across multiple mobile network operators (MNOs). As powerful as APIs are for fostering innovation and competition, policy-makers and providers may need assistance to foster an environment conducive to an API-powered ecosystem. Opportunity exists in many countries to foster the use of "open APIs," which further reduce barriers to entry.

Policy-focused discussions or interactions might occur on an ad-hoc basis or extend into formalized structures that enable new dynamics between innovators, startups, and financial authorities, taking the most ambitious form in so-called "sandboxes." While sandboxes employ many models and are oriented toward a variety of aims, they broadly intend to reduce obstacles to responsible innovation and enhanced competition.

As technology-driven innovations become the subject of more investment and more use by consumers and businesses, regulators face significant challenges in ensuring effective oversight and consumer protection. After all, regulators and market supervisors already struggle with capacity issues, whether due to having few staff, inadequate expertise in FinTech, or lack of funds for modernizing their core suite of supervisory tools and techniques. Digital tools can, however, present opportunities for both regulators and industry. So-called "RegTech" or "SupTech" (i.e., regulatory technology and supervisory technology) solutions could facilitate more accurate market monitoring, more timely and streamlined regulatory reporting, or even stronger compliance mechanisms within industry.

PLAY NO. 3 FOSTER ENABLING POLICIES

Shape policy or regulatory frameworks to create openings for innovation or attention to market gaps with appropriate oversight mechanisms, such as by creating structured forums for regulators to engage productively with the private sector

ILLUSTRATIVE DONOR ROLES

- Facilitate the establishment of a standing body, with plans for local support over time, for gov't-industry exchange
- Convene market stakeholders on ad-hoc basis to examine policy issues regarding specific topics, jumpstart support for gov't initiatives, or highlight potential innovations for reaching underserved market segments
- Co-sponsor industry-informed studies of policy topics and corresponding implications for early-stage FinTech marketplaces
- Provide targeted technical assistance to equip industry associations (e.g., FinTech, microfinance, or banking associations) or consumer-advocacy groups with the skills and coordinative capacity to engage in policy dialogue while representing a broad cross-section of the marketplace

WHAT MARKET DYNAMICS MAY CHANGE?

- Degree of engagement by private sector in policy decisions that implicate inclusive financial services
- Degree of ease for market entry by start-ups or new types of financial services
- Degree of investor interest in launching new FinTech companies or services focused on underserved market segments

WHAT METRICS MIGHT INDICATE PROGRESS?

- Change in the number or diversity of firms, industries, and perspectives consistently informing the policy-making process
- Change in the breadth or depth of interest or expertise among government stakeholders in digital technology, innovation, or new business models in financial services
- Change in laws, policies, regulations, or other rules that shape the enabling environment for innovation, financial inclusion, and digital technology

PLAY NO. 4 BUILD MECHANISMS FOR EFFECTIVE OVERSIGHT AND INCLUSIVE MARKET CONDUCT

Streamline or improve (a) market supervision or (b) market conduct of an inclusive financial sector by bringing regulators and private sector innovators together

ILLUSTRATIVE DONOR ROLES

- Collaborate with authorities (e.g., financial, telecommunications, consumer protection) via provision of technical assistance or analytical framework to identify pain points and gaps with respect to the tools and techniques employed for market oversight, supervision, compliance, and consumer protection
- Provide technical assistance to financial authorities to design, test, and institutionalize new methods for market oversight and consumer protection, particularly via the use of RegTech applications
- Launch a challenge fund to de-risk tests of RegTech applications or novel supervisory methods proposed by innovators and private sector
- Co-sponsor a portion of the costs of locally procured technical assistance for innovators or private sector actors to de-risk testing or demonstrating new tools for regulatory compliance and consumer protection
- Convene industry stakeholders to identify or further disseminate norms, best practices, or industry-led standards related to responsible innovation

WHAT MARKET DYNAMICS MAY CHANGE?

- Degree to which consumers and businesses trust financial service providers
- Degree of perceived responsiveness of the regulator to consumer protection risks
- Degree of trust and constructive engagement between regulators and regulated firms
- Degree of alignment by industry with relevant market-driven norms or standards related to technology-enabled financial services

WHAT METRICS MIGHT INDICATE PROGRESS?

- Change in the number or type of tools (e.g., RegTech applications) and techniques used to conduct market oversight, monitoring, supervision, and enforcement
- Change in how the regulator budgets and organizes itself for oversight purposes
- Change in the number of firms using digital tools (e.g., RegTech applications) to collect, analyze, or submit data for compliance purposes
- Change in the number of firms contributing to the development of or adopting market-driven norms or standards related to technology-enabled financial services

OBJECTIVE 3: JUMPSTART MARKET ENTRY

Partner to facilitate the flow of expertise or capital to technology-enabled financial services providers

Entrepreneurs and start-ups depend on a variety of capital sources at the early stages of market entry. Difficulty in obtaining capital — at an affordable rate — is often due to an array of factors, including: (a) lack of management track record; (b) new or untested innovation; (c) difficult or unstable operating environment, including policy restrictions on ownership, repatriation of capital, or ForEx; or (d) legal or political barriers to market entry.

Similarly, while a lack of funds can prevent the entry of a viable product in the market, a lack of expertise or integration with potential partners, can prevent effectively serving customers or charting a path to scale. An array of organizations have studied factors that can increase the likelihood of start-ups surviving beyond developing a minimum viable product or breaking even. This has led to the launch of accelerators, mentorship-focused boot camps, early-stage funds, among others, all focused specifically on start-ups developing inclusive financial services. These catalyst initiatives have produced useful insights and public-good ideas for achieving scale and sustainability responsibly, whether by charting a path across the so-called "pioneer gap," strengthening local innovation ecosystems and tech communities, generating ideas for models to overcome barriers to scale inclusive start-ups, or identifying and equipping promising entrepreneurs.

Fostering responsible innovation and more competition means more than just spurring market entry of new providers. It also extends to eliciting change within incumbent providers, whether by empowering "digital champions" at established banks or microfinance institutions or recognizing the initiative taken by such providers to introduce new products in the market.

Donors can play a role in facilitating access to capital so that the most promising start-ups (or entrepreneurs) can demonstrate viability of an idea or business model in the marketplace. Similarly, donors can play a role in de-risking the provision of capital (whether at the pre-seed, seed, or growth stages) as a way to foster greater investment flows into the sector from impact investors and commercial financiers.

PLAY NO. 5 SUPPLY CAPITAL OR EXPERTISE TO ENABLE ENTRY INTO THE MARKET

Help entrepreneurs and financial institutions develop ideas, test them, and become "investment ready" for additional private sector capital

ILLUSTRATIVE DONOR ROLES

- Provide milestone grant or contract to promising innovators through local accelerators or incubators, so as to (a) build its team, (b) develop its business model, (c) design and test a proof-of-concept, (d) adapt a product to new segments, or (e) help secure its first partnerships
- Facilitate networking and mentorship opportunities between market-leading FinTech firms and local start-ups
- Co-sponsor a portion of the costs of locally procured technical assistance or access to mentorship through local accelerators or incubators to help promising innovators become investment-ready or refine the business model, products, and strategy
- Provide milestone grant or contract to industry associations (e.g., FinTech, microfinance, or banking associations) to build local talent pools via a training curriculum and resources that members can use to better assess and integrate digital tools into operations, product design, and service delivery

WHAT MARKET DYNAMICS MAY CHANGE?

- Degree of investor interest on inclusive FinTech companies or services (whether corporates, foundations, family offices, private equity funds, venture capital funds, angels)
- Degree of entrepreneurial activity and FinTech innovation occurring locally
- Degree to which digital tools or channels are embedded in the operational or channel strategy of incumbent and established financial service providers

WHAT METRICS MIGHT INDICATE PROGRESS?

- Change in number or diversity of firms entering (or taking steps to enter) the marketplace for inclusive technology-enabled financial services
- Change in number or diversity of financial services launched (e.g., payments, credit, savings, insurance) or focused on underserved market segments
- Change in the number of FinTech start-ups securing seed capital from investors
- Change in the number of incumbent firms launching or scaling digital-enabled financial services

PLAY NO. 6 DE-RISK APPROPRIATE SOURCES OF CAPITAL FOR FINANCING START-UPS

Help technology-enabled financial service providers unlock access to capital, particularly in contexts where financing is difficult to secure (e.g., local currency debt, pre-seed stage, growth stage)

ILLUSTRATIVE DONOR ROLES

- Establish a guarantee to unlock financing directly provided to start-ups through wholesale lending or capital market structures through local and/or international investor(s)
- Provide catalyst grant to investment fund as mechanism to function as a sort of "first loss" or to cover initial management expenses and unlock further investor funds
- Facilitate match-making between private investors or other sources of capital (e.g., OPIC and IFC) and promising technology-enabled financial service providers
- Establish a guarantee to unlock financing for a specific vertical of financial services (e.g., a facility for financing growth of PAYGO companies or adoption of relevant industry standards)

WHAT MARKET DYNAMICS MAY CHANGE?

- Degree of access to local sources of capital for technology-enabled financial service providers
- Easier path to scale for (a) new market entrants or (b) integration of technology by local financial institutions

WHAT METRICS MIGHT INDICATE PROGRESS?

- Change in number or diversity of firms obtaining growth capital (equity, debt, convertible debt, etc.)
- Change in value of capital invested in technology-enabled financial service providers
- Change in number of market-level partnerships formed

OBJECTIVE 4: FACILITATE EASE OF ADOPTION

Partner to overcome obstacles in extending reach to new customers and in testing and adopting new products

Financial service providers often struggle to nudge new or potential clients along the customer adoption path: aware, understand, adopt, test, habitually use, and refer to others. In some cases, this might be due to a lack of familiarity on the customers' part with the product in question. In other cases, it might be due to the provider's lack of a track record in the community, or the customers' lack of trust with formal financial institutions or technology. Additional factors contribute to low or uneven adoption.

A lack of customer-centricity specifically related to how services are introduced to new customers and the quality of customer care is a persistent issue among financial service providers of all sizes and types. In some markets, the issue is a lack of strategic interest in customer-centricity, but in others, it is a lack of familiarity with solutions to the problem. This relates to the need for foundational insights into the financial needs and behaviors of target client segments. For example, for providers that are new to an agent-based distribution model, it can be unclear what needs to be done to equip those agents with the right information, incentives, and resources to respond appropriate to customer needs, from initial on-boarding, when there is a distinct lack of trust, to trialing of the service, to resolving problems as they occur. Similarly, the design of materials used to describe the service or even the user-interface of the service if it is accessed via a mobile phone is often overlooked by providers or not intuitive, simple, or ease to use by the intended client segment. In such cases, providers risk losing prospective clients who might otherwise be open to becoming loyal customers.

A lack of growth capital — key for reaching a critical mass of users and forming strategic partnerships — is an obstacle for many start-ups, particularly when sourced in local currency. As with any young company, start-ups tend to lack a lengthy track record in the market (whether for the type of product being offered or for the company's management team). This can present undue risk for potential sources of capital, particularly commercial lenders that are unfamiliar with FinTech products. And because technology start-ups tend to have few physical assets by design, a lack of viable collateral can dissuade otherwise willing lenders. The inability of a financial service provider to secure growth capital can also be a symptom of other gaps that it may struggle with, including ongoing challenges in building staff capacity to manage new technology-driven products that depart significantly from traditional methods (e.g., the use of data science, machine-learning, or mobile interfaces).

For FinTech firms that intend to serve end-users directly (such as certain digital credit providers that are neither banks nor MFIs), the inability to secure growth capital can prompt a change in strategy. One option is to seek partnership with local established financial institutions (e.g., banks or MFIs), whether as a technology vender for the partner institution's products or as a joint-venture partner, where the products might have co-branding. Whatever model is pursued, the aim is to facilitate access to new customers and ensure access to sufficient capital for serving them. For the FinTech vendor's partner, the primary aim is to facilitate customer acquisition, generate new revenue sources, reduce costs, or facilitate better risk management. Just as the FinTech vendor may struggle to secure more institutional clients (like banks or MFIs), the institutional clients may struggle to easily integrate with new vendors or to systematically understand how to identify and manage risks posed by new technology for financial services delivery.

PLAY NO. 7 ADDRESS GAPS THAT IMPAIR ADOPTION OF FINANCIAL SERVICES BY CONSUMERS AND MSMEs

Work with providers and other stakeholders to improve the ease by which customers can test, adopt, and develop trust in digital-enabled financial services

ILLUSTRATIVE DONOR ROLES

- Co-sponsor research (e.g., surveys, focus groups) to demonstrate how providers can understand how customers interact with specific financial service providers' products, identify barriers and disincentives that impair sustained uptake, and identify steps to address gaps
- Co-sponsor technical assistance for financial service providers to improve customer service practices, distribution channel management, and liquidity
- Provide grant to financial service providers to catalyze the development, refinement, and integration of behavioral design-informed messaging techniques with clients
- Facilitate exchanges, such as through periodic workshops or forums, between start-ups or tech vendors and prospective financial institution clients
- Co-sponsor technical assistance for financial service providers to enable alignment with or certification in industry-level good practices, particularly for credit products (e.g., Client Protection Principles of the Smart Campaign or the Guidelines for Investing in Responsible Digital Financial Services)

WHAT MARKET DYNAMICS MAY CHANGE?

- Degree to which consumers and businesses consider technology-enabled financial services relevant to their financial needs
- Degree to which consumers and businesses trust providers of technology-enabled financial services

WHAT METRICS MIGHT INDICATE PROGRESS?

- Change in the number of active customers of formal financial services
- Change in the rate of customer satisfaction
- Change in the number or diversity of financial service providers using digital technology to reach underserved segments

PLAY NO. 8 DE-RISK APPROPRIATE SOURCES OF CAPITAL TO FINANCE EXTENDING REACH TO NEW CUSTOMERS

Help unlock private sector capital used by financial service providers to scale technology-enabled financial services for consumers and MSMEs

ILLUSTRATIVE DONOR ROLES

- Establish a guarantee to unlock financing (such as from local banks) for piloting digital-enabled lending (e.g., data analytics-enabled credit or marketplace-based lending products serving MSMEs) in line with relevant industry good practices (e.g., Client Protection Principles of the Smart Campaign)
- Establish a guarantee to unlock commercial financing for *scaling* of digital-enabled lending (e.g., data analytics-enabled credit or marketplace-based lending products serving MSMEs) in line with relevant industry good practices (e.g., Client Protection Principles of the Smart Campaign)

WHAT MARKET DYNAMICS MAY CHANGE?

- Degree of access to local sources of growth capital for digital-enabled financial services
- Degree of competition among incumbent and new financial service providers reaching new customers via digital-enabled financial services

WHAT METRICS MIGHT INDICATE PROGRESS?

- Change in the number of providers sustainably scaling digital-enabled financial services
- Change in the number of customers adopting digital-enabled financial services

OBJECTIVE 5: EXTEND TO "LAST MILE"

Partner to reach new or underserved communities and businesses

Many communities that grapple with a lack of accessible or relevant formal financial services are also served by donors in a range of capacities. In agriculture, smallholder households may be the focus of efforts to improve productivity or food security; in energy, rural communities may be the focus of efforts to extend the reach of the grid or of viable off-grid sources of electricity; in education, youth and their families may be the focus of efforts to improve school attendance and reading outcomes; and in humanitarian assistance or resilience-focused programming, households buffeted by crises or chronic vulnerabilities may be the focus of efforts to recover and to stabilize their livelihoods.

In such communities, the lack of formal financial services may simply be due to the natural preference of financial service providers to focus on more lucrative and easy-to-reach client segments (e.g., the urban, affluent, or educated). This is particularly true for large, established banks or early-stage start-ups. And yet because the traditional economics of reaching scale have been upended by technology and agent-based distributed models, it is much more feasible for these same institutions to extend their reach sustainably. Likewise, for providers that already have a strategic focus on underserved communities (like MFIs or cooperatives), the use of technology can facilitate deeper penetration and improvement in the relevance of services offered to target client segments.

By virtue of the presence of donor-supported initiatives in underserved communities, donors can play a role in facilitating the extension of these formal, technology-enabled financial services. Depending on the situation, this engagement might range from building awareness of a given financial service among certain groups to catalyzing a new service line from a provider by identifying a critical mass of prospective clients or even de-risk investment by a provider in a recovering community.

PLAY NO. 9 BUILD AWARENESS AND UNDERSTANDING OF FORMAL FINANCIAL SERVICES AMONG CONSUMERS AND MSMEs

Work with providers to build visibility and understanding of formal financial services

ILLUSTRATIVE DONOR ROLES

- Co-sponsor a portion of the cost of designing and rolling-out an awareness campaign (in concert with governmental or industry-driven financial literacy efforts) for digital-enabled financial services
- Organize capacity-building events to improve understanding of digital-enabled financial services relevant to the beneficiary communities being served by NGO partners of donor programs (e.g., in health, agriculture, education, or energy)
- Co-sponsor a portion of the cost of testing and scaling the application of financial capability insights to financial literacy efforts (such as a mobile-based personal finance curriculum targeting youth, prospective borrowers of an MFI or bank, or employees of a large firm)

WHAT MARKET DYNAMICS MAY CHANGE?

- Degree of ongoing collaboration between public and private sectors
- Degree to which consumers and businesses consider technology-enabled financial services useful, trustworthy, and approachable

WHAT METRICS MIGHT INDICATE PROGRESS?

- Change in awareness and understanding among consumers and businesses of the relevance of formal and/or tech-enabled financial services

OBJECTIVE 5: EXTEND TO "LAST MILE"

PLAY NO. 10 FACILITATE ADOPTION OF FINANCIAL SERVICES BY CONSUMERS AND MSMEs

Catalyze linkages between technology-enabled financial service providers and NGO partners (or beneficiaries) affiliated with donor or government programming

ILLUSTRATIVE DONOR ROLES

- Convene NGO partners and financial service providers to increase understanding of financial service needs of NGOs and beneficiary communities
- Build capacity of NGO partners to secure appropriate institutional services from financial service providers (e.g., for salaries, per diems, or cash transfers
- Facilitate delivery of appropriate financial services to NGOs or beneficiary communities through project-level partnerships, pilots, and outreach/awareness-raising
- Co-sponsor technical assistance or risk-mitigation facilities to scale financial services adapted to specific sectors targeted by NGOs (e.g., in health, energy, agriculture, education, governance, social safety net programs, and humanitarian assistance)

WHAT MARKET DYNAMICS MAY CHANGE?

- Degree of awareness among financial service providers regarding needs of NGO partners and beneficiary communities of donors or governments
- Degree to market presence of financial service providers in communities served by NGO partners of donors or governments

WHAT METRICS MIGHT INDICATE PROGRESS?

- Change in access to or use of formal financial services by targeted beneficiaries
- Change in beneficiary outcomes attributable in part to the use of a digital-enabled financial service
- Change in number, diversity, or quality of financial services offered in the marketplace as a result of interactions with beneficiary populations

EXAMPLES OF DONOR-PRIVATE SECTOR ENGAGEMENT

OBJECTIVE 1: LEARN CUSTOMER NEEDS

Partner to identify key pain points and insights that enable the design of better, inclusive financial services

PLAY NO. 1 FILL KNOWLEDGE GAPS ABOUT MARKET SEGMENTS TO JUSTIFY, INFORM, AND DE-RISK MARKET INVESTMENT

Help providers identify and better understand viable market segments among underserved communities

Beyond Cash: Identifying needs of merchants and their customers in India:

- With the support of USAID, Dalberg launched a large study of how small merchants and their customers in India perceive digital payments. The research generated insights by systematically mapping the financial behaviors of low-income customers and small merchants, identifying financial pain points, understanding what incentives and needs would prompt the adoption of formal and/or digital financial services, and proposing a set of products that could be tested and piloted by the private sector.
- The research findings were released as a public good, but also became a tool for securing roughly 40 private sector commitments in Catalyst, an initiative set up to test new products based on a better understanding of what merchants and customers actually need or value. Source: Dalberg and USAID.

Collaborating to fill knowledge gaps about the financial lives of Haitians:

- With the support of USAID, DAI's Finance Inclusive (FinInc) project launched two foundational demand-side research initiatives that drew in participation from the whole financial sector.
- For one initiative, FinInc set up a public-private coordination committee including the government and a host of financial sector representatives. This committee then oversaw the implementation of a FinScope Consumer study, a national survey of consumer financial practices, needs, and degree of exposure or use of digital-enabled financial services.
- FinInc sponsored the cost of conducting the survey, the methodology of which was first developed by FinMark Trust. It was conducted by a local research firm. The steering committee ensured that the local stakeholders refined the set of questions and helped disseminate results. The data from the study itself was added to the National Statistics Register. For the second research initiative, Finance Inclusive applied DAI's "Frontier Insights" methodology to uncover a more in-depth understanding of credit union customers.
- While DAI sponsored the ethnographic research and supplied the methodology, two credit unions facilitated the participation of a roster of clients willing to participate in the study, the results of which were directly relevant to the credit unions' efforts to understand how to integrate digital tools into their engagement models. Source: DAI, FinMark Trust, and USAID.

PLAY NO. 2 APPLY MARKET INSIGHTS TO PRODUCT DESIGN

Help providers use insights about underserved market segments to design better products

Agents of Change: Rethinking the Role Played by Agents for Mobile Money:

- With support from the BMGF, IDEO.org launched a program in Tanzania and Uganda focused on removing the barriers for low income customers to access and use digital financial services. In Tanzania, IDEO.org worked closely with Airtel, a mobile network operator (MNOs), to do in-depth research on agents, recognizing how critical they are to building consumer trust in formal financial services.
- After conducting preliminary research via qualitative and quantitative methods, IDEO.org designed a set digital prototypes for testing. These prototypes included a loyalty prototype to encourage agents and customers to interact more frequently as well as a smartphone app-based interface tailored to the needs and incentives of mobile money agents.
- The goal of these prototypes was to offer MNOs a way to empower agents to serve customers more effectively. Solutions included an agent float exchange tool (to improve liquidity), fraud-detection tools, simplified menus (to reduce keystroke errors), and a loyalty tool to award repeat customers. Source: Ideo.org (also see DesignToolkit.org).

Financial Inclusion on Business Runways (FIBR):

- With support from Mastercard Foundation, BFA's FIBR initiative researches how smartphone-using small business and shop owners, primarily in Ghana and Tanzania, could potentially become critical links for extending financial services to the 10 million informal merchants in Africa without credit and the 130 million consumers in its target pay-as-you-go (PAYGO) markets without access to electricity or clean water.
- By design, FIBR's cross-disciplinary team focuses on prototyping, testing, and implementing financial products and services using human-centered design, lean product methods, data science and machine-learning to enable partnerships among financial services providers with FinTech companies, and other operators that directly interact with low-income communities.
- FIBR-developed tools and solutions include nano-loans for airtime, merchant credit, and computer vision to automate retail operations impacting over 3,400 households and sellers. FIBR has also developed a PAYGO sales agent app and a churn-prediction model to improve customer retention, impacting over 21,000 customers and agents combined. FIBR's PAYGO research in understanding the value of safe, clean energy sources to consumers has helped the off-grid solar industry association, GOGLA, draft the principles behind its code of conduct for providers. Source: FIBR and BFA.

Creating a lab for testing better payment products for small merchant in India:

- With the support of USAID, the Catalyst initiative began under an MOU with the Ministry of Finance, Government of India. Catalyst identifies and tests new products or business models that can motivate merchants and consumers to adopt digital payments. Catalyst works by forming partnerships with a range of actors.
- Under an alliance with the Gov't of Rajasthan in Jaipur, Catalyst created a Digital Payments Lab to test digitization in a subset of priority use cases. These included the dairy forward supply chain, fast-moving consumer goods supply chains, subscription-based roving merchants, merchants in impoverished urban communities, citizen-to-government transactions via the eMitra network, and digital credit products linked to merchant payment streams.
- The Lab also awarded small grants (up to $50K over six months) to test digital products in Jaipur that focus on pain points or needs expressed by small and largely informal merchants. Source: FHI 360, IFMR Lead, and USAID.

OBJECTIVE 2: IMPROVE ENABLING ENVIRONMENT

Partner to inform policy-making and strengthen market support functions that enable responsible, technology-driven innovation and financial inclusion

PLAY NO. 3 FOSTER ENABLING POLICIES

Shape policy or regulatory frameworks to create openings for innovation or attention paid to market gaps, by creating structured, inclusive forums for regulators to engage productively with the private sector

Working Group on Digital Financial Services for the Central Bank of Liberia:

- With the support in part from USAID, UNCDF's MM4P program catalyzed action by multiple stakeholders in Liberia by facilitating the launch of a platform for productive dialogue among all market actors. Working closely with the Central Bank of Liberia, which acted as the convening entity, MM4P provided technical assistance and organizational capacity for launching a standing working group under the auspices of the central bank.
- Through this working group, which had representatives from across the financial sector, development partners, and MNOs, the central bank obtained critical feedback on ongoing market gaps. This dialogue played a role in prompting the Central Bank to draft and release revised regulations on e-money and new regulations that permitted agent banking for the first time. In each case, MM4P played an active role in helping draft, review, and circulate the regulations.
- Likewise, the working group platform provided a mechanism for broadening awareness of what the government could do to catalyze the growth of digital finance in Liberia, which led it to join the Better Than Cash Alliance and formulate an MOU with the telecommunications authority to facilitate coordination. Source: UNCDF and USAID.

Creating a structured pathway for responsible innovation in the Regulatory Sandbox of Sierra Leone:

- With support from USAID, FSD Africa, SIDA, and DFID, UNCDF's MM4P program established multiple engagements with the Government of Sierra Leone to digitize public sector payments. Given gaps in the quality and reach of digital financial services in the marketplace, MM4P worked with the Bank of Sierra Leone to prompt dialogue across the financial sector.
- Among the actions the central bank pursued was to establish a more effective mechanism (a) for regulatory staff to better understand the nature of new FinTech innovations and (b) for local innovators to understand regulatory implications of potential product offerings. The mechanism was launched as Africa's second so-called Regulatory Sandbox.
- Prior to launching the sandbox, MM4P provided technical assistance to the Bank of Sierra Leone to develop the sandbox framework and internal processes for managing the regulatory sandbox. The framework itself was informed by extensive industry feedback actively solicited by MM4P.
- Upon launch of the sandbox for its initial 12-month pilot, four companies (in certain cases including consortia of local partners) were admitted into the first cohort. Two of the four companies were recipients of small grants through a parallel initiative by MM4P to identifying promising local FinTech entrepreneurs. By the end of the initiative, a primary goal is to improve the regulator's capacity to foster responsible FinTech innovation in the marketplace. Source: UNCDF and USAID.

PLAY NO. 4 BUILD MECHANISMS FOR EFFECTIVE OVERSIGHT AND INCLUSIVE MARKET CONDUCT

Streamline or improve (a) market supervision or (b) market conduct of an inclusive financial sector by bringing regulators and private sector innovators together

Harnessing RegTech applications to facilitate more efficient oversight and reporting via the RegTech for Regulators Accelerator (R2A):

- USAID, the Bill and Melinda Gates Foundation (BMGF), and the Omidyar Network launched R2A with the primary aim of equipping financial authorities with better digital tools to effectively oversee and supervise inclusive financial sectors.
- During its first phase, R2A selected two financial authorities (in the Philippines and Mexico) and collaboratively mapped out critical pain points in market oversight. Among the pain points identified were a lack of data-validation tools for quarterly reporting data, a lack of any meaningful mechanism for ensure customer complaints were resolved, and an inability to fully analyze suspicious activity reports flagging potential instances of money-laundering.
- Once identified, R2A then held three challenges (one for each identified pain point) and engaged in extensive outreach with startups. In total, proposals were received from 31 companies across 13 countries. The winning proposals received up to $100K in grant funding (and ad-hoc technical assistance) to prototype the digital tool that addressed the chosen pain point.
- Through this process of engagement, R2A expected to improve the understanding of "RegTech" applications among financial authorities and develop a vibrant marketplace for RegTech technology vendors, particularly those that are new to serving public sector clients. By the end of its first phase, 49 regulators from 29 markets had reached out to R2A with an interest in pursuing similar engagements within their jurisdictions. The winning prototypes also showed promising initial results. The financial authority focused on anti-money laundering (AML) estimated that the RegTech prototype might reduce the length of on-site AML inspections from 3-5 weeks to 3-5 days. Source: BFA Global and USAID.

Collaborating with industry by adapting the Smart Campaign Client Protection Principles (CPPs) to FinTech:

- Supported through sustaining grants from a consortia of donors, including the MasterCard Foundation, the IFC, and Agence Française de Développement, the Ford Foundation, the Multilateral Investment Fund, and Accion, the Smart Campaign was originally established to facilitate the development, endorsement, and application of the CPPs by financial service providers. The CPPs were initially developed through a consultative process led by CGAP to improve client outcomes of microfinance institutions.
- Since 2008, the CPPs have secured the endorsement of over 1,800 financial service providers and nearly 200 investors and financial intermediaries. To increase the likelihood that endorsement led to improved client outcomes, the Smart Campaign has since created a certification process for endorsers and facilitated the development of standards for operationalizing the CPPs.
- The standards can be used in different ways. For providers, this might mean guidelines on product design or staff incentives. For investors, this might mean due diligence criteria to ensure investees meet a minimum threshold of behavior.
- With the rise of digital financial services, the Smart Campaign recognized the potential need for updated standards or new tools to account for the unique opportunities and risks.
- Over a 2-year period, the Smart Campaign led a process to update the standards, particularly to reflect the increasing reliance on (a) digital channels and (b) agent-based distribution networks. Those standards will continue to be adapted to new business models and products. It also established FinTech Protects, an industry-level community of practice with nearly two dozen companies to solicit lessons and insights on how to effectively ensure appropriate client protection — whether the provider is a microfinance institution incorporating FinTech into its strategy or a standalone FinTech company serving clients without any physical network of its own Source: Smart Campaign.

OBJECTIVE 3: JUMPSTART MARKET ENTRY

Partner to facilitate the flow of expertise or capital to technology-enabled financial services providers

PLAY NO. 5 SUPPLY CAPITAL OR EXPERTISE TO ENABLE ENTRY INTO THE MARKET

Help entrepreneurs and financial institutions develop ideas, test them, and become "investment ready" for additional private sector capital

Using an incentive fund and innovation fund to extend financial access in rural Colombia:

- USAID's Rural Finance Initiative (RFI) is dedicated to extending the reach of market-based financial services for MSMEs in post-conflict areas of rural Colombia. Robust links to local market actors have shaped multiple areas, including the provision of technical assistance, market research, and convenings. But central to the RFI model are targeted incentive grants provided by RFI, in some cases complemented by loan portfolio guarantees provided by USAID's Development Credit Authority.
- Grants (ranging from $50K to $175K) provided through the Incentive Fund have led 12 financial institutions to expand operations into rural areas, and to reduced transaction costs for both the institution and clients. By forming an MOU with each institution that reflects clear targets and provides for technical assistance from RFI, roughly $2 million in incentive grants with a 1:3 leverage requirement have been awarded, unlocking over $8 million in commitments.
- Separate from the Incentive Fund, the RFI launched the Innovation Fund (with grants ranging from $50K to $249K). The Innovation Fund's purpose is to enable innovators and local institutions design, test, or scale novel methods to extend financial access to marginalized communities. The Innovation Fund is modeled after the Development Innovation Ventures program at USAID, and as such, it is open to many types of Colombian organizations, which may choose to partner with certain non-Colombian organizations.
- Among those Colombian organizations the fund is open to banks, universities, civil society organizations, technology vendors, and indigenous organizations. RFI also created a "window" of the Innovation Fund for the 12 local financial institutions that signed an MOU with RFI for the Incentive Fund and DCA guarantees. To date, RFI has awarded over $1 million through the Innovation Fund, leveraging over $1 million in private sector commitments. Over the first three years of implementation, RFI partnerships have connected over 400,000 clients with over $526 million in financing. Source: Chemonics and USAID.

Pre-seed boot camps and acceleration for promising entrepreneurs via the DFS Lab at Caribou Digital:

- With support from the BMGF, Caribou Digital established the DFS Lab to help drive new technologies to market via the FinTech ecosystem. Any person can apply to join a cohort of other innovators in a 1-week boot camp in which ideas are more fully fleshed out, prototyped, and presented among peers and experts in the FinTech sector.
- By the end of the boot camp, the most promising people or firms are invited to participate in a 6-month accelerator, which provides a series of mentorship opportunities, networking, and up to $100K in funds to help bring the technology to market. They have done three cohorts with 15 start-ups as well as 10 separate technology grants to firms across South Asia and Sub-Saharan Africa. Source: Caribou Digital.

PLAY NO. 5 SUPPLY CAPITAL OR EXPERTISE TO ENABLE ENTRY INTO THE MARKET, *Continued*

Help entrepreneurs and financial institutions develop ideas, test them, and become "investment ready" for additional private sector capital

Identifying and empowering promising innovators via the Village Capital FinTech program:

- With support from PayPal, BlackRock, and the MetLife Foundation, and local financiers, VilCap focuses primarily on pre-seed stage startups across a range of geographies and sectors. Its financial inclusion/financial health program uses a cohort model in which 12 innovators are invited to participate in a boot camp program in which participants iteratively improve ideas by connecting with potential partners, workshopping with potential customers, and being mentored by a range of experts.
- At the end of the program, the participants themselves evaluate which of their peers have the most promising ideas based on a set of due diligence criteria. The top two receive an investment ($25-100K) and mentorship to move toward seed-stage investment. Thus far, VilCap has run 10 cohorts for over 100 ventures, which have collectively now reached over 1 million customers.
- USAID has also supported VilCap through its PACE initiative, which partners with intermediaries to catalyze private capital for early-stage companies and tests novel models to bridge the "pioneer gap." VilCap had sought to raise a $15 million fund for early-stage companies, but potential investors considered the high transaction costs (stemming from a focus on early-stage companies, often in immature entrepreneurial ecosystems) prohibitive.
- Using a PACE grant to cover a portion of the fund's management fees, VilCap Investments raised $4.5 million, closing the fund in less than two years with more than $15 million from a range of sources. Since the grant, VilCap has worked with over 700 enterprises via the accelerator, invested in 55, and unlocked $109 million in additional outside capital. Source: Village Capital and USAID.

Fostering local innovation ecosystems via the Data Hack for Financial Inclusion competition across Africa:

- With support from the MasterCard Foundation and BMGF, the insight2impact initiative launched a 5-year program broadly focused on the implications for financial inclusion posed by the new availability of diverse data flows and analytics tools. To generate insights into how data might be used, insight2impact launched a competition called DataHacks4FI.
- At the outset, the main objectives of the hackathon competitions were to: (a) understand how data analytics might be effectively applied to overcome obstacles to financial inclusion; and (b) prompt interest in the use of data among local financial inclusion stakeholders. The first round of hackathons was held in 2017. DataHacks4FI staged country-level competitions that secured significant ownership from and engagement with local innovation hubs, financial institutions, start-ups, and data scientists.
- Innovation hubs were contracted with to host and organize the hackathons, as well as foster involvement of local firms and innovators. In addition, in Uganda, Zambia, Kenya, and Rwanda, DataHacks4FI secured MOUs with the local donor-supported Financial Sector Deepening Trust to harness the FSD Trusts' convening power and relationships with established financial institutions. Beyond those markets, virtual collaboration was enabled for participants from Ghana, Mozambique, Senegal, and Tanzania.
- In the first hackathon round in 2017, over a period of six months, 209 participants competed across 58 teams. Data scientists were paired with start-ups or financial institutions, proposed product ideas, and designed prototypes. The winner of the 2017 edition developed an app for public transport ticketing and payments, while the runner-up developed an app for helping SMEs keep track of business transactions.
- Although the hackathons were not focused on acceleration per se, some participants successfully harnessed the event as a springboard to forming initial partnerships and connecting with mentors. Whereas the hackathons were initially open to innovators with just an idea about how data might be used, the 2018 edition of DataHacks4FI seeks to work with firms with an existing customer base on which data innovations could be tested and scaled. For the 2018 edition, the first prize winner receives $25,000. Source: insight2impact and DataHacks4FI.

PLAY NO. 6 DE-RISK APPROPRIATE SOURCES OF CAPITAL FOR FINANCING START-UPS

Help technology-enabled financial service providers unlock access to capital, particularly in contexts where financing is difficult to secure (e.g., local currency debt, pre-seed stage, growth stage)

Securing local-currency, commercial-grade debt for a pay-as-you-go solar energy start-up in Kenya:

- With the support of the BMGF, DFID, and the Shell Foundation, M-KOPA secured a first-of-its-kind commercial financing that positioned it for scaling its off-grid solar energy products in communities across East Africa. PAYGO solar systems have spread across Africa as viable ways to extend access to electricity to people who live beyond the reach of grids and who cannot afford to pay the cost of such systems up front.
- A common feature of the systems is to enable installment payments directly from a mobile money wallet linked to the solar product via its own embedded SIM card. With an embedded SIM card, the provider can analyze data on the product's usage to help with post-purchase servicing and also pause functionality if installment payments stop. Companies have extended this model to a range of products, viewing themselves more as asset-based financiers than energy firms.
- M-KOPA began in 2012 with a $29 product; another is $200, mostly paid via 50-cent daily installments over the course of year. However, for M-KOPA, the cost of capital was initially quite high, due to the expense in building and holding an inventory of solar products and the delay in being repaid by consumers. Social lenders weren't able to increase the size of an already-risky $2.5 million loan meant to fill the gap. M-KOPA devised a capital loan secured by the PAYGO receivables of M-KOPA customers, permitting M-KOPA to borrow up to 70 percent of the value of viable receivables. In addition, the BMGF was willing to provide a partial guarantee to a local bank willing to offer commercial debt based on the receivables.
- The BMGF approached three banks, and the Commercial Bank of Africa (CBA) agreed to proceed without a guarantee. Instead, it structured a $10 million facility of which $5 million was from the BMGF, $3 million from social lenders, and $2 million from CBA. This, combined with separate grants totaling $10 million from DFID and the Shell Foundation, enabled M-KOPA to scale more quickly. By year 3, M-KOPA reached over 300,000 consumers. Source: ImpactAlpha and GSMA.

Unlocking financing for investment funds focused on inclusive financial services providers:

- With the support of OPIC, LeapFrog Emerging Consumer Fund III secured financing to make equity investments, two-thirds of which would be financial services companies. OPIC recognized the market opportunity in extending formal financial services to the majority of individuals across Sub-Saharan Africa and South and Southeast Asia that lack a bank account. By issuing a $200 million, 10-year loan guarantee, OPIC would enable LeapFrog Emerging Consumer Fund III to secure additional financing (toward its capitalization target of $800 million).
- This financing would then be applied to investments in mid-market financial services companies focused on underserved communities. The guarantee was awarded in 2015.
- In 2017, the IFC invested $25 million, also offering the investment group advisory support and transaction facilitation. Among the investees are Fincare India, a digital-centric small finance bank with a history serving microfinance consumers that launched bank operations in 2017 with 25 branches. Source: OPIC and DealStreetAsia, and PEHub.

OBJECTIVE 4: FACILITATE EASE OF ADOPTION

Partner to overcome obstacles in extending reach to new customers and in testing and adopting new products

PLAY NO. 7 ADDRESS GAPS THAT IMPAIR ADOPTION OF FINANCIAL SERVICES BY CONSUMERS AND MSMEs

Work with providers and other stakeholders to improve the ease by which customers can test, adopt, and develop trust in digital-enabled financial services

Improving the quality of agent networks in Liberia and Sierra Leone:

- With the support of USAID, Strategic Impact Advisors (SIA) and MicroSave developed a tailored packaged of technical assistance (tools, training, and hands-on guidance) to help grow and improve mobile money agent networks in Sierra Leone and Liberia.
- Despite operating in a highly competitive environment, the project cultivated trusted relationships with four mobile network operators across the two markets. For each engagement, the project identified critical barriers and corresponding opportunities to building out viable, liquid agent networks.
- In Liberia, the project conducted an "Agent Network Diagnostic" with each MNO to systematically identify pain points at each level of the operating environment. In Sierra Leone, the project began by hosting a 5-day workshop on agent network management for each MNO. Each of the four engagements led to a tailored package of technical assistance.
- By the end of the project, extended engagement with each MNO led to a customized toolbox that included training materials (for staff, agents, and super agents), tools and templates for agent on-boarding and monitoring, re-engineered business processes, revised bulk-payment guidelines, and guidance on agent-staffing and KPIs. Each MNO worked with the project to refine the toolbox as needed, based on pilots conducted in the field. As a result of these efforts, agent networks will more likely have the capacity to effectively serve retail customers, whether for G2P disbursements or P2P transfers. Source: SIA and USAID.

Achieving mobile money interoperability without the imposition of a regulatory mandate in Tanzania:

- With support from the BMGF and FSD Tanzania, the IFC facilitated a series of discussions and studies among mobile money providers in Tanzania that led to three of the four main competitors to interoperate for the first time (initially allowing wallet-to-wallet transfers across providers). IFC secured the services of payments experts and sponsored a series of workshops that brought industry actors (including the GSMA) on board with active support of the central bank. The IFC sought to have the industry, not the IFC, define the form that interoperability might take.
- Over a 9-month period, the IFC conducted a series of consultations to build interest and conducted a variety of analyses such as on competition dynamics, payment systems infrastructure, and market-sizing. This led to MOUs being signed with the relevant stakeholders and a 3-month series of workshops and meetings to agree to a set of operating rules for interoperability, which the IFC-secured experts initially developed for review and revision by the market stakeholders.
- Once agreed to, the rules were implemented within two months. Whereas industry agreed to a set of multilateral rules, ensuring consistency across the sector, implementation occurred through bilateral business arrangements (such as on pricing) and bilateral APIs (due to the lack of a switch).
- This approach avoided the need for the regulator to mandate interoperability by a given date, and within two years after services linked together, Vodacom, the remaining hold-out, enabled transactions with Tigo and Airtel. IFC also developed public-good case studies based on the 2012-2014 initiative, as well as example operating rules for five types of transactions that could benefit from interoperability in any given marketplace (e.g., bill payments, agent wallets).
- The impact is evident in the rise of "off-us" person-to-person (P2P) transactions from $0 to $130 million per month, now accounting for 25 percent of all P2P transactions. Subsequently, FSD Uganda facilitated a similar process based on the work in Tanzania. Source: IFC.

PLAY NO. 7 ADDRESS GAPS THAT IMPAIR ADOPTION OF FINANCIAL SERVICES BY CONSUMERS AND MSMEs, *continued*

Work with providers and other stakeholders to improve the ease by which customers can test, adopt, and develop trust in digital-enabled financial services

Collaborating to reach smallholder cocoa farmers for savings accounts and payments in Côte d'Ivoire:

- With the support of CGAP, an MFI called Advans Cote d'Ivoire successfully piloted new digital-enabled financial services for smallholder farmers. Most farmers still transact purely in cash, whether with cooperatives, MFIs, or input suppliers. Advans recognized that a simple digital wallet for facilitating payments might not offer sufficient value to farmers to trigger a shift away from cash habits.
- Consequently, Advans worked with CGAP to develop a new digital savings account that could receive deposits and withdrawals from mobile money wallets. CGAP provided technical assistance throughout the pilot, which had three phases: (1) conduct a feasibility study; (2) create and test product and associated technical specifications and processes; and (3) implement pilot.
- Through a partnership with MTN, the mobile money provider, Advans eliminated fees for transacting with the digital savings account and set-up interoperability between mobile money wallets and the accounts. Advans also worked with MTN to enable access to the account via the USSD channel so that even farmers with basic phones could transact business.
- Finally, Advans recognized that a complete shift away from cash might not be welcomed from farmers, so it worked with cooperatives to provide farmers the option to receive however much of their proceeds digitally as desired. The pilot began in late 2014. By the end of the 22-month project, the Advans product had reached over 7000 farmers across 58 cooperatives, of whom 2700 were active users during the cocoa harvest in mid-2016. Source: CGAP.

Helix Institute of Digital Finance for Service Providers:

- With initial support from the BMGF, UNCDF, FSD Africa, and the IFC, MicroSave launched Helix to provide high-quality capacity-building and practical management tools to digital finance providers. Helix offers a suite of classroom-based courses on the fundamentals of digital finance, agent-based distribution channels, among other topics.
- These courses include field visits (primarily in Kenya). Typically, private sector participants pay their own way or participate through sponsorship from a donor. In one case, USAID sponsored participation by a third-party payments provider in Haiti, which ultimately changed its distribution strategy based on insights gleaned from Helix. Due to its success, MasterCard Foundation sponsored MicroSave to launch Le Reseau Helix to replicate the model in Francophone Africa. *Source: Helix Institute.*

PLAY NO. 8 DE-RISK APPROPRIATE SOURCES OF CAPITAL TO FINANCE EXTENDING REACH TO NEW CUSTOMERS

Help unlock private sector capital used by financial service providers to scale technology-enabled financial services for consumers and MSMEs

Harnessing a credit guarantee to extend unsecured loans to small merchants and retailers:

- With the support of USAID's Development Credit Authority (DCA), a lender in India, Capital Float, partnered with USAID to improve the value to small merchants of digital payments by extending credit products to underserved merchants based on alternative credit-scoring methods. Based on research that USAID sponsored, small merchants in India frequently struggle with a lack of working capital and credit more broadly.
- Such merchants expressed willingness to adopt digital payments (either for suppliers or for customers) if doing so would enable them to access credit more easily. Capital Float was interested in extending its digital-enabled credit products to harder-to-serve small merchants, using a $6 million loan portfolio guarantee to de-risk the provision of unsecured loans (such as to kirana stores) despite the lack of a digital transaction footprint.
- Separate from the USAID engagements, OPIC saw a similar opportunity in extending working capital loans to SMEs. OPIC issued a $5 million, 5-year loan guarantee to RBL Bank Limited, a local Indian bank, which used the guarantee to extend financing to NeoGrowth, a non-bank lender focused on small retailers. NeoGrowth's proprietary lending model relies on alternative data sources to assess prospective borrowers, and the guarantee from OPIC enabled it to offer credit to small retailers based on analysis of transaction data from point-of-sale devices, among other sources. On average, loans have a 1-year term and ranged from $3K to 120K, addressing a persistent credit gap for merchants that needed loans larger than MFIs were permitted to offer ($1500) or loans smaller than commercial banks would be willing to offer. Source: USAID and OPIC.

Product design assistance and risk-mitigation via a credit guarantee to launch and scale M-Shwari in Kenya:

- Due to catalytic initial support from FSD Kenya, a donor-supported initiative that takes a market-systems approach to financial inclusion, the M-Shwari product launched in 2012 and reach 11 million accounts by 2015. M-Shwari is both a formal savings account and novel credit product accessible directly through the M-Pesa mobile money service of Safaricom.
- In 2011, the Commercial Bank of Africa (CBA) and Safaricom began discussing ideas for leveraging the large and growing M-Pesa client base. CBA approached FSD Kenya for advice, given its earlier lessons in supporting a similar, unsuccessful product called Jipange-KuSave. FSD Kenya offered a mix of insights based on demand-side research of underserved segments it believed CBA could in fact reach effectively. This research and technical assistance on a savings account and credit-scoring model directly influenced the initial M-Shwari product.
- After launch, FSD Kenya developed a revised scoring model to reach more creditworthy consumers. To reduce the risk to CBA in testing it, FSD Kenya agreed to cap CBA's losses during testing, which led to an increase in acceptance rates to 57 from 42 percent. FSD Kenya ultimately committed $650K to the collaboration, compared to over $14 million from CBA. *Source: FSD Africa.*

OBJECTIVE 5: EXTEND TO "LAST MILE"

Partner to reach new or underserved communities and businesses

PLAY NO. 9 BUILD AWARENESS AND UNDERSTANDING OF FORMAL FINANCIAL SERVICES AMONG CONSUMERS AND MSMEs

Work with providers to build visibility and understanding of formal financial services

Mr. Finance: Using social media, smartphones, and a chatbot to improve financial capability in Burma:

- With support from USAID, the Private Sector Development Activity (PSDA) set up a multi-faceted program to improve the enabling conditions for entrepreneurship and finance in Burma. PSDA focused on providing technical assistance, training, stakeholder dialogue, and a small grants fund. Under the fund, USAID/Burma awarded a small grant to Opportunities NOW, an organization offering capacity-building and in some cases financing to MSMEs in Burma. With the grant, ONOW developed Mr. Finance, the first financial education app "purpose-built" for Burma.
- Mr. Finance functions as a chatbot that communicates with users via Facebook Messenger in both Burmese and English. By using Messenger, Mr. Finance responds to the social media preferences of users and uses less data or smartphone memory than a standalone app would require. Mr. Finance includes a "gamified novel" to convey financial management concepts in a realistic manner, troubleshooting tips based on common business challenges, and a suite of reminders based on individual circumstances.
- In addition to supporting the app's development, the grant enabled ONOW to develop a new financial literacy curriculum for MSMEs and initiate discussions with 30 MFIs in Burma that could offer the app and other materials to their clients. ONOW reached 15K users within six months of launching Mr. Finance. ONOW has also partnered with the second largest MFI in Burma, which will use it to improve financial capability of prospective borrowers working in garment factories. Source: Opportunities NOW, Nathan, and USAID.

Using social media to drive awareness and use of electronic tax-filing and payments in the Philippines:

- With support from USAID, the E-PESO program partners with public and private sector stakeholders in the digital payments ecosystem to reduce the use of cash and drive financial inclusion. One focus for E-PESO is to digitize government-to-person and person-to-government payments.
- In 2017, E-PESO facilitated a collaboration between the Philippines tax authority and two authorized government depository banks to launch e-payment platforms for tax payments. In addition to offering technical assistance on product development, regulatory compliance, and project management, E-PESO sought to build awareness of the platform. In the Philippines, over 60 percent of people actively use social media. As such, E-PESO chose to augment above-the-line awareness campaigns created by the government and the banks with a social media-based campaign, to demonstrate its cost-effectiveness.
- Within just three months of the e-tax campaign, over 60K saw the posts, over 36K read the posts, and over 14K commented, shared, or liked them. Most importantly, the social media campaign translated to over 39K digital payment transactions.
- A traditional awareness-raising method of printing 61K flyers would cost roughly $1200 and offer minimal visibility to determine whether it translated into actual increases in tax payments via digital channels. In contrast, the cost of the social media campaign was roughly $250, which translated to a cost of one-third peso per digital payment (as of spring 2018, $1 US dollar is equivalent to 52 Philippine pesos).
- As a result of the campaign's success, stakeholders decided to incorporate digital marketing into awareness campaigns for launching digital finance products. Source: Chemonics and USAID.

PLAY NO. 9 BUILD AWARENESS AND UNDERSTANDING OF FORMAL FINANCIAL SERVICES AMONG CONSUMERS AND MSMEs, *continued*

Work with providers to build visibility and understanding of formal financial services

Financial Heuristics: designing and testing behavioral science-based financial management training:

- With grants from USAID's Development Innovation Ventures (DIV) program and CGAP's Client at the Center Financial Inclusion Research Fund, ideas42 partnered with two MFIs, in India and the Philippines, to develop and test a scalable mobile-based financial management training tool to help microentrepreneurs better manage their businesses. The research component of this work clarified how MSMEs decide and act on key business and financial management issues.
- The emerging insights were used to develop a financial management training tool to help microentrepreneurs address these issues, while making it easy for MFIs to adopt the tool. A $100K grant from CGAP supported the initial formative research, while the $900K DIV grant from USAID supported the development of the training tool through two randomized controlled trials (RCTs).
- One finding from the RCTs was that, across both countries, financial management practices improved 2 to 8 percent among training participants compared to a control group that received no training. Moreover, the delivery cost of the mobile-based methodology was cheaper, particularly in India, where it was over 60 percent less costly than the partner MFI's in-person alternative. Source: ideas42, CGAP, and USAID.

PLAY NO. 10 FACILITATE ADOPTION OF FINANCIAL SERVICES BY CONSUMERS AND MSMEs

Catalyze linkages between technology-enabled financial service providers and NGO partners (or beneficiaries) affiliated with donor or government programming

Digitizing payments in health and agriculture programs in Bangladesh:

- With support from USAID, the mSTAR project worked closely with agriculture and health implementing partners of USAID to digitize payments in Bangladesh. mSTAR took a multi-faceted approach, which included capacity-building of NGO staff, workshops with financial service providers, dialogue facilitation among stakeholders and small grants to initiate a shift to digital channels.
- By building relationships with both NGOs and local financial service providers, mSTAR was able to influence the quality of products that were offered to project beneficiaries. This resulted in, among other things, the deployment of first-of-their-kind digitally enabled micro-credit products for smallholder farmers delivered through a card-based solution with one bank and mobile banking with another.
- Moreover, mSTAR facilitated the enrollment of over 36K beneficiaries (many of whom were women community health workers) and digitized over $2.7 million in financial services, including payments and credit. Source: FHI 360, MarketLinks, and USAID.

Performance-based awards in the Financing Ghanaian Agriculture (FinGAP) Project:

- With the support of USAID, FinGAP used a novel performance-based method for extending access to finance for MSMEs along priority agriculture value chains in Ghana. FinGAP works on both the demand and supply sides of the market system to catalyze investment in agriculture. On the demand side (prospective borrowers), FinGAP provides business advisory services to identify investment opportunities and equip financial institutions to lend in agriculture.
- But FinGAP did not simply rely on credit guarantees and the provision of technical assistance. Instead, it employed performance-based incentive payments based on the degree of financing actually obtained by MSMEs. The incentive payments were set up as milestone grants disbursed on a first-come-first-served basis to participating financial institutions upon proof of financing.
- As of early 2018, FinGAP has catalyzed over $168 million of financing to 1,700 MSMEs in return for just over $3 million of incentive payments. Use of pay-for-results incentives, in this case a type of blended finance, sustainably changed Ghana's market for agricultural finance. For example, Barclays Bank increased its agriculture portfolio from under $1 million to $54 million in three years. Source: Palladium and USAID.

Using blended finance to catalyze local financing for affordable housing through the Haiti Home Ownership (HOME) Program:

- With the support of USAID, the HOME Program has employed a market-driven approach to scale the affordable housing marketplace in Haiti and reduce a backlog of at least 300,000 units due to the earthquake in 2010. A 5-year program funded by USAID, HOME is addressing key demand- and supply-side obstacles.
- On the supply side, for example, HOME has sponsored market research for housing developers to better assess commercial feasibility of prospective projects and provided incentives for cost-effective builds that ultimately reduce mortgage costs for households.

PLAY NO. 10 FACILITATE ADOPTION OF FINANCIAL SERVICES BY CONSUMERS AND MSMEs, *continued*

Catalyze linkages between technology-enabled financial service providers and NGO partners (or beneficiaries) affiliated with donor or government programming

- On the demand side, HOME works with financial institutions (banks, credit unions, and microfinance institutions) to extend affordable housing loans to unserved households. HOME provides assorted technical assistance to its partner financial institution, such as to improve marketing and sales strategies, streamline internal underwriting procedures, and create new loan products for lower-income households.
- But key to supply-side efforts has been a performance-based model for unlocking financing. HOME created the HOME Facility Fund to provide incentive payments to partner financial institutions to provide housing finance to underserved borrowers. Payments are provided upon proof of loan disbursements. In one case, two developers successfully mobilized an additional $10 million of commercial financing for quality affordable housing units.
- For households, HOME has unlocked over $6 million in various housing loans for over 700 families. In the case of one credit union, the HOME Facility Fund, paired with technical assistance to design a standard mortgage product, helped it exceed initial lending targets by 20 percent, with 25 percent of the loans being secured by female members. Although most the credit union's members have monthly incomes between $150 and $1,500, its housing loan portfolio doubled over the course of a year while maintaining a healthy portfolio-at-risk ratio. Source: WOCCU and USAID.

WHERE DO I START?

—DEFINE—	—SCOPE OUT —	—SELECT —
the Market Gap and Its Link to Your Development Priorities	Market Actors, Market Dynamics, and Role for the Private Sector	Engagement Model(s) Based on the Value-Add of Donor and Private Sector

DEFINE THE PROBLEM (I.E., MARKET GAP) AND ITS LINK TO YOUR DEVELOPMENT PRIORITIES

Talk to consumers, businesses, tech firms, donors, and financial service providers; identify market gaps and challenges at each level of the market system that might influence your ability to make sustained progress toward priority development outcomes.

Identify how the market gap relates to your priorities as a donor (e.g., a focus on smallholder families, asset-building for youth or women, or digitized government services). Clarify if and why your focus will be on financial services in a certain sector or market segment (e.g., smallholders, agriculture value chains, women, youth, or MSMEs).

ENABLING ENVIRONMENT

Key areas to investigate for potential barriers to digital finance, FinTech, and inclusion

- Are policymakers committed to financial inclusion or to harnessing digital technology?
- Is there a government-wide plan to foster a digital economy or digitize public services?
- Is there an adequate regulatory framework that enables innovation in financial services and ensures consumer protection? Can non-banks enter the marketplace?
- Does the public sector have resources or the capacity to initiate digitization of services?
- Does the financial regulator have the resources or tools to effectively supervise the marketplace for digital finance?
- Does the private sector have an effective way to discuss policy with the government?
- Does the marketplace have well-resourced, capable support functions in place, such as capacity-building services, public-good information and data, or industry associations?

MOBILE CONNECTIVITY AND DIGITAL INCLUSION

For each priority market segment or harder-to-reach community, consider:

- Is there reliable, robust network connectivity? Of what quality?
- Is there reliable energy access? Sufficient for what electricity needs?
- Are mobile devices and the cost of data affordable and readily available? Smartphones?
- Are digital services available in local languages or designed to accommodate and improve digital literacy?

FINANCIAL SERVICES PROVIDERS

- Do service providers have the right capital to design, test, or launch tech-enabled financial services or reach target market segments effectively?
- Do service providers have an interest or incentive to explore new market segments?
- Do service providers have an adequate organizational structure for rolling out tech-enabled financial services?
- Do service providers have the right expertise to design or manage tech-enabled financial services that respond to market needs?
- Do service providers have sufficient knowledge about the needs and behaviors of target market segments, including the barriers and incentives driving or preventing adoption?
- Do service providers have an appropriate, realistic (and sustainable) market segmentation strategy?
- Do potential institutional customers (gov'ts, businesses) have viable options for commonly requested services, including bulk payments, bill payments, salaries, per diems, social transfers, and vendor payments?
- Do potential individual and MSME customers have a full suite of tech-enabled financial services to choose from, including payments, transaction and savings accounts, credit products, and insurance?
- How competitive is the financial sector, including its openness to new market entrants?
- What are the partnership dynamics within commonly encountered service provider relationships (such as between foreign and local firms; MNOs and financial institutions; incumbents and new entrants; and private and state-owned enterprises)?

CONSUMERS, BUSINESSES, GOVERNMENT

For each priority market segment or harder-to-reach community, inquire:

- Is there adequate understanding of how to use digital tools (like mobile phones, APIs, QR codes, and others)?
- Is there adequate understanding of basic financial services and how to access them?
- Is there sufficient trust in institutions that provide formal or digital financial services?
- Is there sufficient awareness of the utility and function of digital financial services?
- Is there sufficient opportunity to interact with and test digital financial services, such as through trusted friends or family?
- Is there sufficient incentive to shift from purely informal financial behaviors?
- Is there wide availability of reliable ID documentation for identifying customers (KYC)?
- Is there a way for customers to submit or escalate complaints and have problems resolved in a timely, fair manner?

SCOPE OUT MARKET ACTORS, MARKET DYNAMICS, AND ROLE FOR THE PRIVATE SECTOR

Identify stakeholders and key relationships with a role in or influence over identified gaps or challenges. Pay attention to the role the private sector plays or can play in relation to the gap you have identified.

ENABLING ENVIRONMENT

- Central bank and the regulatory authority(s) responsible for competition and consumer protection
- Ministry of finance
- Ministry of ICT or telecommunications
- Ministry responsible for identity policy and systems, if any
- Ministries or offices responsible for large payment disbursements or collections, such as those focused on health, agriculture, social safety nets, salaries, and revenue collection
- Industry and trade associations (e.g., bank, MFI, FinTech, tech, or sector-focused bodies)

MOBILE CONNECTIVITY AND DIGITAL INCLUSION

- Mobile network operators (MNOs)
- Internet service providers
- Tech and innovation ecosystem (e.g., app developers, innovation hubs)
- Distribution networks for mobile handsets, airtime, and SMS

FINANCIAL SERVICES PROVIDERS

- Banks
- Payment system actors (e.g., switch operators, payment processors, card networks, aggregators, ACH)
- Electronic money issuers (EMIs) (i.e., mobile money providers)
- Cooperatives and credit unions
- Microfinance institutions
- FinTech providers and other technology vendors
- Distribution networks for financial access points (e.g., bank branches, ATMs, non-bank agents, POS devices)

INVESTORS, INTERMEDIARIES, INNOVATION COMMUNITY

- Incubators, accelerators, boot camps
- Impact investors (e.g., angel investors, foundations, philanthropic investment funds)
- Venture capital and private equity funds
- Institutional investors
- Development finance institutions (DFIs)
- Entrepreneur networks

CONSUMERS, BUSINESSES, GOVERNMENT

Relevant Stakeholders Will Depend on the Sector (e.g., agriculture, health, energy)

- Individual consumers (e.g., poor, youth, women, urban poor, rural areas)
- Small-scale businesses (e.g., merchants, traders, smallholder farmers)
- Larger businesses (e.g., input suppliers, processors, manufacturers, employers)
- Social protection agencies and public-sector employers

SELECT THE ENGAGEMENT MODEL(S) THAT BEST HARNESS THE VALUE-ADD OF THE DONOR AND PRIVATE SECTOR

Collaborate with willing stakeholders to design an engagement attuned to their incentives and focused on the market gaps or challenges you have identified. The engagement could take many forms, both formal and informal, and involve either financial or non-financial support.

The table below lists a set of generic types of engagements and their underlying vehicles, loosely categorized by whether engagement involves financing, operations, or an explicit focus on the market-system as a whole. The chosen engagement should reflect not only the gap being addressed but also the needs of the partners involved: what does the donor or the private sector partner want from the engagement and how might the broader market system evolve in response to the donor contribution? These engagements could be applied to the pursuit of any one of the five playbook objectives outlined in this playbook.

MARKET SYSTEM (OR ECOSYSTEM)-WIDE

TYPE OF ENGAGEMENT	DESCRIPTION	UNDERLYING VEHICLE
Policy reform and advocacy	Provide forum or resources to enable dialogue among market stakeholders and the government to permit greater openness for market innovation	Technical assistance, convening, advocacy
Strengthening of market support functions	Collaborate with market stakeholders and the government to create or equip critical enablers (e.g., credit bureaus, consumer protection mechanisms, industry codes of conduct, capacity-building organizations, associations)	Technical assistance, grants, convening
Formulation of new financial tools	Provide resources to develop or test financial tools that can address challenges faced by the ecosystem (e.g., foreign-exchange risk, collateral requirements)	Technical assistance, grants, contract
Foundational research on market gaps, business models, market segment needs	Collaborate with local stakeholders to fill knowledge gaps that impair private sector-led delivery of inclusive financial services to priority market segments	Technical assistance, grants

FINANCING-RELATED

TYPE OF ENGAGEMENT	DESCRIPTION	UNDERLYING VEHICLE
Seed-funding	Funding provided to early-stage, higher-risk, and potentially higher-reward projects or companies to demonstrate their viability to the marketplace, thus facilitating a path to scale via private investors	Grants
Co-funding / co-investment	Direct investment alongside private sector partner, combining assets and expertise from both parties	Grants
First-loss capital	Grant funds used to absorb the first loss of an investment (whether debt or equity), thus protecting other investors at the outset of the investment and catalyzing participation of private sector investors in development projects	Grants, repayable grants
Buying down of management fees	Funding for the cost of managing a higher-cost market segment, thus reducing management fees that other private sector investors would need to pay to market levels	Grants
Partial credit guarantee	Agreement to cover a portion of the losses arising from the default of loans extended to what private sector investors would otherwise consider too risky	Guarantee
Insurance, hedging, or other risk-mitigation product	Funds to launch a risk-mitigation vehicle adapted to a particular market risk (e.g., weather-related or currency-related)	Grants, guarantee
Pay-for-results incentive payments	Incentive payments provided to private sector investors only upon proof that financing has been extended to target market segments or firms (with incentive payments triggered by metrics agreed to by the donor and private sector investors)	Grants, contract milestone payments
Development impact bonds	Funds used to repay private sector investors that supply upfront financing for a development program, with repayment triggered only if an impact evaluator determines that the programs (or companies) have achieved a pre-agreed-to outcome	Grants, contract milestone payments
Enterprise funds	Funds used to structure and finance a standalone investment vehicle designed to invest in targeted geographies, sectors, or market segments	Grants
Fee offset structured for a blended finance facility	Funds used to offset initial operating expenses needed to structure and launch a blended finance facility, with the fund manager relying on the donor partnership to crowd-in further public and private sector investors	Grants

OPERATIONS SUPPORT

TYPE OF ENGAGEMENT	DESCRIPTION	UNDERLYING VEHICLE
Capacity-building and training for fund managers or financiers	Funds used to sponsor training of investors or provide direct technical assistance to equip expansion into new markets, sectors, or segments, such as to build capacity to fundraise, conduct market research, develop staff skills, or undergo strategic planning	Grants, technical assistance
Technical assistance "sidecar" fund	Funds used to sponsor technical assistance for investees of one or more investment funds related to a priority geography, sector, or market segment	Grants
Pre-investment technical assistance and capacity-building	Funds used to provide technical assistance to firms (MSMEs) intended to equip them to be ready to seek and manage additional investment (i.e., increase investment-readiness)	Grants
Post-investment technical assistance and capacity-building	Funds used to provide technical assistance to investees or borrowers of one or more investors or financiers	Grants, technical assistance
Sponsor creation or operations of matchmaking platform for investment or financing	Funds used to develop or launch a platform (or organization) that links providers of capital with those seeking financing in a priority geography, sector, or market segment	Grants, technical assistance
Market research	Conduct market research to fill gaps on targeted issues about a priority geography, sector, or market segment, such as to identify investment opportunities to inform investor decision-making	Technical assistance, contract, convening

This table on engagement models was originally developed by the Office of the General Counsel at USAID, with significant contributions from USAID's Office of Private Capital Mobilization and Center for Transformational Partnerships. It has been lightly adapted for purposes of this section.

This publication was made possible through the support provided by the United States Agency for International Development (USAID). The opinions expressed herein are those of the authors and do not necessarily reflect the views of USAID.

WHERE CAN I LEARN MORE?

Resources for Forming Partnerships or Pursuing Private Sector Engagement to Achieve Market System Change

- Private Sector Engagement Policy (USAID)
- Partnership Insights - a Set of Tools and Resources for Practitioners (USAID)
- Pay for Results in Development: A Primer for Practitioners (USAID, 2017)
- A Market Systems Approach to Financial Inclusion: Guidelines for Funders (CGAP, 2015)
- Development Credit Authority (USAID)
- The Art of Market Facilitation (FSD Africa, 2016)
- Evaluating Systems and Systemic Change for Inclusive Market Development (USAID, 2014)
- Market Facilitation - Practitioner Job Support Tools (SEEP Network).

Resources for Objective 1: Learn Customer Needs

- Customer-Centricity Guide (CGAP, 2017)
- FinScope survey methodology (FinMark Trust)
- Market Segmentation (CGAP)
- Financial Diaries (BFA Global)
- Digital Financial Solutions to Advance Women's Economic Participation (BTCA, 2015)
- Financial Diaries with Smallholder Families (CGAP, 2016)
- The Human Account (Dalberg, 2018)

Resources for Objective 2: Improve Enabling Environment

- G20 High-Level Principles on Digital Financial Inclusion (GPFI, 2016)
- Accelerators to an Inclusive Digital Payments Ecosystem (BTCA, 2016)
- The Opportunities of Digitizing Payments (BTCA, GPFI, World Bank, 2014)
- Beyond Financial Inclusion: Financial Health as a Global Framework (CFI and CFSI, 2017)
- Basic Regulatory Enablers for Digital Financial Services (CGAP, 2018)
- Integrating Gender and Women's Financial Inclusion Into National Strategies (AFI, 2017)
- Regulatory Sandboxes and Financial Inclusion (CGAP, 2017)
- Good Practices for Financial Consumer Protection (World Bank, 2017)
- Data Collection by Supervisors of Digital Financial Services (CGAP, 2017)
- FinTech, RegTech and SupTech: What They Mean for Financial Supervision (Toronto Centre, 2017)
- Models to Engage Innovators (RegTech for Regulators Accelerator, 2017)
- Responsible Digital Payments Guidelines (BTCA, 2016)

Resources for Objective 3: Jumpstart Market Entry

- Breaking the Pattern: Getting Digital Financial Services Entrepreneurs to Scale in East Africa & India (Village Capital, 2017)
- Beyond the Pioneer: Getting Inclusive Industries to Scale (FSG, 2014)
- Open APIs (CGAP)
- Mobile Money in Emerging Markets: The Business Case for Financial Inclusion (McKinsey & Company, 2018)
- Ecosystem Accelerator Africa: Tech Hubs Landscape 2018 (GSMA)

Resources for Objective 4: Build Sustained Demand

- How Financial Institutions and FinTechs Are Partnering for Inclusion (CFI, 2016)
- Digital Financial Services and Risk Management Handbook (IFC, 2016)
- Alternative Delivery Channels and Technology Handbook (IFC, 2015)
- Driving Sales Through Digital Working Capital Loans for Small Merchants (BTCA, 2018)
- Beyond Fintech: A Pragmatic Assessment Of Disruptive Potential In Financial Services (WEF and Deloitte, 2017)
- Data Analytics and Digital Financial Services (IFC, 2017)
- Demystifying Digital Lending: How Digital Transformation Can Help Financial Service Providers (Accion, 2018)
- Breaking Barriers: Enabling Scale for Digital Finance Innovations for Smallholder Farmers in Sub-Saharan Africa (Village Capital, 2016)

Resources for Objective 5: Extend to "Last Mile"

- Behavioural Interventions That Advance Financial Inclusion (insight2impact, 2018)
- Nudges for Financial Health: Global Evidence for Improved Product Design (IPA, 2017)
- Designing Successful Distribution Strategies for Digital Money (Helix Institute of Digital Finance, 2015)
- Agents of Change: How the Human Touch Is Bringing Digital Financial Services to New Customers in India (CFI, 2017)
- Electronic Payments Toolkit (NetHope, 2015)
- Gateway Guide to Women's Financial Inclusion (CGAP)
- Gateway Guide to Youth Financial Inclusion (CGAP)
- The Fight for Light: Improving Energy Access Through Digital Payments (BTCA, 2017)
- Guide to the Use of Digital Financial Services in Agriculture (USAID, 2016)
- The Role of Digital Payments in Sustainable Agriculture and Food Security (BTCA, 2017)
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