



Policy for Digital Finance

The right policies and regulations can drive transformational usage of digital finance

A common approach to enabling a policy environment for digital finance and innovation has been to focus on the rules and regulations that influence which entities can enter the market and what services can be offered. However, the development of rules and regulations is complicated by many factors, such as by legal precedent, conceptual understanding of new models, and complex political economy of policymaking as well as the nature of the new players. In many markets with high potential for digital finance, regulatory frameworks already exist, as imperfect and incomplete as they may be. Policymakers and regulators feel as if they do not have effective oversight of the market and a way in which to allow new players and rapidly evolving business models to contribute to the development of the financial sector.

An approach is needed that can adapt to this context and support the development of financial service innovations without getting stuck in complexity. MM4P, as an implementing agency, uses tools that support regulators to achieve their strategic objectives and simultaneously align with the needs of service providers and customers. For example, by providing an evidence base for constructive public private dialogue, and influencing decision making processes with accurate market information (from the demand and supply side), and exposure to global trends and practice.

The right tools can help policymakers and regulators manage digital finance innovations

Evidence based decision making implies that supply side and customer research will be organised and disseminated to inform key regulatory priorities. Public/Private dialogue is enabled by our experience implementing DFS projects and supporting the engagement of the private sector with regulators to discuss key regulatory barriers. Exposure to global trends allows local regulators to understand their choices in the

context of emerging best practices, leveraging UNCDF's presence in multiple countries and participation in the global digital finance community of practice.

Access to high quality market information is a key driver of the digital finance ecosystem, however, data alone does not change minds. It must align with stakeholder incentives and be paired with reliable methods of analysis. We know that regulators often lack capacity and systems to monitor rapidly evolving markets. The consequence is often an unreasonably low risk appetite for new innovations as there is little understanding of the demand for innovation or the capacity of service providers to deliver safely.

The basis for MM4P's support of regulators is the experience, knowledge, and relationships built by its implementation work with the private sector. The assumptions that underpin our choice of implementation activities are based on our consumer centric market research. Where there are regulatory barriers to increased usage of digital services, MM4P is uniquely placed to support regulators make decisions on terms that align with the needs of service providers and customers.

Therefore, the MM4P policy strategy is reliant on the type of projects and innovations we initiate with the private sector. The biggest challenge our policy work faces is significant divergence between public policy expectations and market needs. MM4P will help policymakers and regulators to understand the needs and limitations of digital finance business models, so the legal framework is not unduly onerous or exclusive, and customers benefit from safe access to digital financial services.