THE UNITED NATIONS SECRETARY-GENERAL'S
TASK FORCE ON DIGITAL FINANCING
OF THE SUSTAINABLE DEVELOPMENT GOALS

GOVERNING GLOBAL DIGITAL FINANCE

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SUMMARY

Digitalization is reshaping finance, opening new market and development opportunities, and bringing with it new risks. Digital finance, or 'fintech', makes a difference by providing access to more, better and cheaper data, removing unnecessary intermediation, enhancing efficiency to reduce barriers and catalyzing innovation. The current crisis has transformed digital finance from a convenience into an existential lifeline.

The UN Secretary General's Task Force on Digital Financing for the Sustainable Development Goals (SDGs) highlights the potential of fintech, for example, to crowd in SDG-related risk and impact data into financing decisions, reduce financing costs, open opportunities for business innovations particularly those targeting the poor, and enable citizens to have a greater say over their money, as savers, lenders, investors, and tax payers. It also has identified risks that need to be mitigated if it is to be an enabler of financing aligned to the SDGs.

One feature of digitalization, and a source of risk as well as opportunity, is that it enables ever-increasing returns to scale, increasing market concentration: 'network effects'. A small number of digital finance platforms, often arising from 'BigTech' particularly e-commerce, social media, and indeed governments, have grown rapidly, a direction of travel likely to accelerate as a result of the crisis.

These 'global digital finance' platforms, of 'BigFintech', will be increasingly impactful across the world, particularly in developing countries with smaller, weaker or under-developed financial systems, economies, and policy frameworks but where also the opportunities for transformation are greatest. With such extensive footprints, there is need, and yet challenges to securing the most appropriate policies, regulations, and broadly governance.

Governance considerations of BigFintech are often narrowly focused, setting aside many SDG aspects, risks and opportunities. Moreover, they are likewise often not inclusive, notably of the voices of countries most likely to be directly impacted, particularly outside of the major economies. The Task Force's 'Dialogue on Global Digital Finance' has been established as a complementary and supportive initiative aiming to enhance and rebalance governance debate, innovation and developments with these two factors in mind.

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DIGITALIZATION IS TRANSFORMING FINANCE, FASTER THAN EVER

Over the past decade, the pace of digital financial transformation has been accelerating across developed and emerging markets. Major developments in digital finance are increasingly impacting a broad range of actors on a global scale, including individuals and enterprises, societies and economies, nations and regions. The process encompasses global wholesale markets, an explosion of Fintech startups and platforms, developing countries with China, India and Kenya leading, and increasingly the interaction between BigTech and finance. For example, in Kenya, M-Pesa transactions amounted to nearly half of the country's GDP in 2018[1] while EcoCash transacted close to 90% of Zimbabwe's GDP in 2019. In the US, one estimate suggests that 90% of equity-futures trades and 80% of cash-equity trades are now executed by computers without any human input.[2] Alipay and WeChatPay each have more than one billion users, mainly in China but increasing rapidly in Asia and around the word. Globally, FinTech investment hit a record high US$120 billion[3] in 2018, representing about a third of global venture capital funding.[4]

The current COVID-19 global crisis appears to be accelerating this process as digital financing plays a growing role in the package of measures designed to provide social safety nets and economic relief, and is becoming key to addressing our most pressing needs: digitalized financial systems can and have enabled hundreds of millions of people in lockdown to buy essentials online, massive stimulus programs involving trillions of dollars in cash transfers are increasingly reliant on digital finance rails, and financial support to SMEs is more efficient when involving online lending or direct financial support delivered by Fintechs, BigTechs, telecommunications firms and incumbent financial institutions across digital channels, from Zimbabwe's EcoCash to China's Ant Financial Services. Recognizing the importance of these functions, many countries are implementing reforms and promoting the growth of digital finance as part of their crisis response strategy, with particular attention to electronic payments, including Central Bank Digital Currencies and Fast Payment Systems, particularly in conjunction with digital identification frameworks connected to financial and mobile money accounts and digital wallets.

Echoing this trend in his recent remarks on the G20 Finance Ministers Conference Call on COVID-19[5], World Bank Group President David Malpass propounded that countries will need to "implement structural reforms" and that the World Bank will work with countries with excessive regulations to "foster markets, choice and faster growth prospects during the recovery". As governments undertake reforms under pressure – from the crisis as well as external funders and advisors - and deploy economic and financial policy responses to the crisis, there is a risk that some approaches adopted out of necessity may be difficult to reverse, particularly in relation to internet infrastructure and use of data. Countries with limited digital financial infrastructure might for example be tempted to fast track regulatory changes that support large digital financing or behavior tracking solutions with the required scale and reach to address the short-term crisis, at the risk of driving further market concentration and exacerbating the negative effects of digital exclusion. A testament to the relevance of these challenges, World Bank's G2Px initiative aims to bring together expertise

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across social protection, financial sector, governance, digital development, gender and data protection, in an effort to drive an inclusive, responsible digital finance at scale.[6]

The current crisis is irrevocably accelerating the growth of digital finance also bringing new challenges, from regulatory short-cuts to the promotion of large-scale digital financing platforms that have the reach needed to address a crisis of such magnitude. While the FinTech revolution has spurred a wave of financial inclusion across geographies, large, indeed global digital finance platforms have risen to systemic levels of importance. The amplifying effects of the current crisis on the prevalence of such platforms might call for creative, new approaches to their governance.

CHALLENGES BROUGHT BY GLOBAL DIGITAL FINANCE PLATFORMS

Among its many characteristics, the fact that digitalization supports increasing returns to scale and scope in the form of network effects, presents particular challenges as it drives the emergence of dominant players in the form of very large enterprises and high market concentration. This new generation of large, often global digital finance platforms – BigFintech – is emerging from different contexts. Some are evolving from social media and e-commerce origins, others from existing financial institutions, large data, telecoms and other infrastructure providers to the financial sector, and native FinTech companies. Some will originate from policy and central banks, with varied goals and approaches. Some will partner with incumbent financial institutions to monetize their assets, such as data and large customer bases, while others will compete with financial service providers. Most will achieve rapid scale across multiple business lines and geographies, falling under many different national and regional regulatory regimes.

Examples of such platforms and related market concentration effects are telling. In China, Alipay and WeChat Pay concentrated more than 1.7 billion users in 2019. In the same year, Google was the largest digital add seller in the world ($104 billion, 31% of worldwide spending) and is now rumored to launch its own debit card, potentially amassing colossal amounts of additional data on consumer behavior and preferences. Amazon now represents 50% of the US e-commerce market and the current COVID-19 crisis is but likely to exacerbate its market dominance, as demand in home deliveries reaches new heights.[7] Apple Pay alone is already accounting for 5% of global card transactions and is projected to reach 10% by 2024.[8] China is about to launch its own CBDC – the Digital Currency / Electronic Payment framework – as a tool to consolidate both incumbents and new entrants into a single monetary framework. In response to the Facebook initiative Libra to create a global stablecoin, an increasing range of jurisdictions around the world are considering similar projects, from Canada to Sweden to Singapore. The COVID-19 crisis is accelerating many of these initiatives.[9]

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Exhibit 1: Examples of Global Digital Finance Platforms (BigFintech)

GDFPs	Emerging challenges
Payment platforms, such as regional mobile money operators and global payment platforms. Examples: MTN, Alipay, Tencent, Paypal.	Players traditionally come from outside the financial space, have regional / global footprint and amass large amounts of data. Effective governance of such actors requires interdisciplinary regulatory conversations.
e-Commerce platforms or marketplace platforms. Examples: Amazon, Alibaba, eBay.	Far reaching cross-border impact on local SMEs across entire economies, including taxation. Governance of such platforms requires a broader SDG lens.
Social media platforms venturing into payments and social commerce. Example: Tencent, Facebook's social commerce services.	Many issues arise that are related, for example, to cross-border data collection and consumer protection, pointing to the need to evolve current governance approaches.
BigTech platforms, providing data and infrastructure services to financial players. Examples: Amazon Web Services, Alibaba Cloud Services.	These providers are becoming systemically important in the digital financial sector and are, for some, entering the financial space. Governance issues arise in relation to cyber-resilience and data monopolies, with potential consequences for developing economies.
TechFin platforms, originating from large tech players venturing into financial services and digital work. Examples: Uber, Grab, Apple, Amazon Mechanical Turk.	Traditional financial regulatory provisions do not apply to these platforms, yet they are becoming key actors in the digital finance space and at such times as the current crisis, questions arise as to how we should approach, collectively, the public utility function of such platforms.
Global digital currencies, such as Libra or the Chinese Digital Yuan.	New digital currencies, public or private, often with global remit, challenge existing financial and monetary policies, with significant impact on digital economies.

These emerging BigFintechs are rapidly becoming the new giants of the global financial system and will have significant cross-border spill-over effects on many aspects of sustainable development. An illustration of such effect is Amazon's recent decision to restructure their supply chain to prioritize high-priority products in light of the COVID-19 crisis, potentially affecting millions of SMEs around the world.[10] Key concerns regarding the initial Libra proposal (Libra 1.0) focused heavily on the potential for countries – particularly developing countries – to lose monetary sovereignty. Global impacts of GDFPs are likely to be considerable. Benign, indeed positive impacts stem in particular from improved financial market efficiencies, greater access to financial services and markets (particularly for SMEs), and reduced costs of cross-border transactions, although these might be unequally distributed. A further ancillary benefit is that GDFPs might accelerate the availability of previously unavailable technologies like cloud computing and artificial intelligence across a large number of markets. Less benign, and potentially problematic impacts might stem from the emergence of a new generation of market-dominant, systemically-important but under- or ineffectively-regulated financial service providers and data providers, new channels for

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illicit financial flows, inability to raise taxes effectively from businesses that nonetheless exploit domestic markets, and the loss of sovereignty in the exercise of monetary and even macro-economic policy. Such impacts, furthermore, are likely to be unequally distributed, subject to uncertainty and associated with volatility, contagion effects and institutional disruption.

Common across these diverse forms and origins will be the need to involve a wider spectrum of policymakers and regulators in formulating adequate governing arrangements, from traditional financial regulators to telecom, data and insurance regulators, through to competition and tax authorities from a large set of jurisdictions across the world. One noteworthy global process is the OECD led Base Erosion and Profit Shifting (BEPS) initiative, aiming at ending tax avoidance.[11] But in the main, it has proved challenging to forge successful collaboration between diverse governing institutions, all the more so when many jurisdictions are involved with differing approaches and interests, yet it has become necessary.

Good governance needs to amplify the positive, and mitigate the negative, impacts of GDFPs, while ensuring that the most vulnerable members of society remain at the heart of policy considerations. Aspects of such governance may take place at the enterprise level, and there may be opportunities to innovate in this regard in balancing the broader public interest with commercial and state interests. Other aspects of such governance will be stewarded by specific domain regulators in particular jurisdictions. In the main, this will mean financial regulators from the major economies – both developed and developing, such as the US and China, where GDFPs already have larger market capitalizations than most of the world's largest financial groups. [12]

WEAK SDG LENS IN EXISTING GOVERNING ARRANGEMENTS

Governance of Fintech and digital finance is a fast-evolving space. Approaches from the major economies have consistently followed a classical logic that focuses on financial stability and money laundering aspects which, although hugely important, cover only a small part of the broader development impact of digital finance. An illustration of such focus can be found in FSB's recent consultative paper on stablecoins, which began with "So-called 'stablecoins', like other crypto-assets, have the potential to enhance the efficiency of the provision of financial services, but may also generate risks to financial stability, if they are adopted at a significant scale". Taken at face value, the statement seems to overshadow the broader development implications, or potential benefits of such stablecoins.

In recent years however, some progress has been made in bringing the SDGs into international financial governance. The G20 under China's Presidency in 2016, for example, established the Green Finance Study Group that has helped to shape the development of policies and markets.[13] Under Argentina's Presidency, the G20 for the first time considered the nexus between sustainable development and digital financing as part of its Sustainable Finance Study Group,[14] building on the exploration under the German G20 Presidency of the use of publicly available environmental data in encouraging the greening of finance.[15] The

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Financial Stability Board's sponsorship of the Task Force on Climate-Related Financial Disclosure (TCFD) is another case in point,[16] as is the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).[17] Key international financial standards bodies such as the International Organization of Securities Commission (IOSCO) are embracing roles in advancing sustainable finance[18].

Sustainable finance has become a key part of the work of the UN Secretary General's Special Advocate for Inclusive Finance for Development, Her Majesty Queen Máxima of the Netherlands,[19] as well as that of the G20's 'Global Partnership on Financial Inclusion' (GPFI).[20] The European Commission plans to integrate fintech into the second generation of its sustainable finance strategy.[21] The G7 requested UNDP and the OECD to develop, by end of 2020, a Global Sustainable Finance framework to advance the SDGs.[22] Digital is gradually emerging as an important enabler of the international sustainable finance agenda.

These developments are encouraging yet point to a **significant gap in the broader and more systematic consideration of SDGs in the international governance of finance.** This is even more true as it relates to the governance of Global Digital Finance Platforms.

There is much innovation and fluidity in emerging governing arrangements of GDFPs. For example, recent developments around Libra, Facebook's cryptocurrency project, triggered many discussions on structural governance arrangements that might be required, drawing inspiration from both innovative corporate governance structures and existing regulatory approaches in the financial space which have evolved towards increased subsidiarization with cross-border cooperation and coordination.[23]

In parallel, much is being done by key international institutions, such as the G20, the Bank for International Settlements, the Financial Stability Board, the IMF and the World Bank. In its February 22-23 Communiqué, the G20 announced the extension of the FSB's mandate to further research the financial stability implications of GDFPs with specific focus on the perspectives of emerging markets and developing economies.[24] More recently, the FSB published its consultative document on the regulatory challenges raised by global stablecoins such as Libra, pointing to the need for enhanced cross-border cooperation in regulation, supervision and oversight of global stablecoin arrangements across borders and sectors, while also recognizing that developing economies might be the most impacted because of the likely combination of systemic relevance of stablecoins in their jurisdictions and constraints in regulating related arrangements.[25]

Most GDFPs come from China and the US, making the roles of their regulators and policy makers especially important. Large GDFPs are also emerging in Southeast Asia and are growing in major emerging markets including India and Brazil. Many efforts are under way to foster more inclusiveness in international decision-making processes, such as for example the Financial Stability Board's Regional Consultative Groups through which FSB engages with over 70 jurisdictions beyond its membership[26], or AFI's Global Policy Forum.[27]

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Yet in the main, **non-G20 developing countries are still largely absent from the debate, and entirely from the rule-making process** despite the fact that, as noted by the FSB in its consultative paper on stablecoins, "developing economies might be the most impacted".

In this context, the place of sustainable development and of the universally embraced SDGs, is at best uncertain. Today's regulatory progress regarding such platforms do consider some SDG-related effects. They are, however, largely limited to those arising indirectly through the impacts of such platforms on financial stability and illicit financial flows, and do not adequately account for their broader impact. More generally, the greatest attention is paid to those aspects that sit within the mandates of financial regulators and monetary authorities, and to some extent competition authorities.

ADVANCING SDG-ALIGNED, INCLUSIVE GOVERNANCE OF GLOBAL DIGITAL FINANCE

The disruption and reconfiguration of finance catalyzed by digitalization provides a unique opportunity to better align finance with the SDGs and immediately address the COVID-19 crisis. The UN Secretary General established a Task Force on Digital Financing of the SDGs (DFTF) to determine how best to take advantage of this historic window of opportunity, and likewise to mitigate associated risks. As part of the DFTF's deliberations, the importance has been noted of ensuring an inclusive approach to developing a new generation of governing arrangements of GDFPs that takes account of broader sustainable development concerns and goals.

The **International Dialogue on Global Digital Finance** (IDGDF) has been established as a response to such concerns, as an extension of the Task Force**.** It aims, in short, *to facilitate a constructive, balanced and inclusive dialogue, particularly involving developing nations, that seeks to ensure that global digital finance platforms benefit all*.

The IDGDF is hosted by two member states, Kenya and Switzerland. It is Co-Chaired by Patrick Njoroge, Governor of the Central Bank of Kenya and Achim Steiner, UNDP Administrator, and is institutionally hosted by UNDP. It provides a means for promoting constructive dialogue at the nexus of international governance, digital finance, and sustainable development. It will explore ideas and potential for collective action by developing countries to harness digital finance in leapfrogging towards sustainable development.

Ultimately, the dialogue might follow different pathways and lead to multiple but equally positive outcomes. In the first instance, it might be successful in advancing a principle-based insertion of the SDGs into international policy and regulatory dialogue as it relates to global digital finance, an approach which would build on the IMF and World Bank-sponsored Bali Fintech Agenda to align the evolution of fintech with the SDGs[28] and with the ongoing BIS-IMF-World Bank fintech and financial inclusion initiative. Discussions put forward within the dialogue platform might further inspire BIS, FSB, IMF, WB or G20 as to ways in which they could bring a broader development lens into their work. A significant outcome would be for Italy to formally take this agenda to the finance track of the G20 during their Presidency in

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2021. Besides, the dialogue could also catalyze governance innovations, either voluntary or linked to existing corporate governance initiatives, that advance GDFPs' consideration of SDGs. It might further lead to some developing countries leapfrogging and taking a global lead on SDG-aligned governance of Global Digital Finance.

The dialogue will focus on the particular challenges in advancing good governance of global digital finance platforms, which puts citizens at the center of finance and supports the achievement of the SDGs. Some of these challenges are already in, often heated, debate, for example:

1. Significant growth in mobile money adoption (866 million mobile money users by 2018, with 1 billion users expected by the end of 2020[29], with similar numbers just in China) combined with the regional footprint of mobile operators is enabling a new generation of cross-border digital financial services, challenging existing policy geometries and requiring the involvement, at a regional level, of regulators previously external to the world of finance, such as telecom regulators and competition authorities, in the effective governance of digital finance. The current COVID-19 crisis is likely to accelerate this process as central banks and governments around the world turn to those with the greatest reach for assistance in delivering financial and other resources across the economy.
2. The fact that an estimated 1.8 billion people worldwide purchased goods online[30], amounting to US$3.5 trillion of sales in 2019[31], is a testament to the increasing importance of global e-commerce platforms in our economies, for example for small businesses by unlocking access to global markets, but also on issues of taxation. The same platforms are also moving to small business lending under unclear financial regulations.[32] This trend appears to be increasing rapidly with lockdowns around the world in the context of the COVID-19 crisis.
3. Other tech giants are increasingly venturing into financial services. Apple has moved from 'Apple Pay' mobile payment services to providing credit through 'Apple card'.[33] Ride hailing platforms such as Grab[34] and Uber[35] are moving into financial services, including offering credit lines and insurance products to drivers, without regional convergence on the financial regulations that should govern these developments. On the other side, Ping An – now the world's largest insurance company – has effectively transformed itself into a technology platform, dealing in data, healthcare and financial services, highlighting the trend of major financial institutions around the world around similar strategies. Finance and BigTech are increasingly coming together from both directions, with scale being the ultimate objective.
4. Libra is a case in point, using Facebook's digital identification infrastructure, allowing it to monetize the interactions of its 3.5 billion users globally and enter the remittance space, which will have repercussions on financial and monetary policies in every developing

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country as well as macro-economic effects.[36] Digital currencies are a related topic of interest somehow triggered by Libra, globally, and propelled by the announcement and near term launch of a sovereign Chinese digital currency, the world's first major currency CBDC. Other central Banks from around the world are looking closely into related projects, as a result of both the launch of Libra as well as the needs of the COVID-19 crisis combined with potential opportunities for the sorts of digital successes seen in Kenya, China, Russia and India. Major country CBDCs – even more than global stablecoins like Libra – have the potential to be transformational global platforms, with huge positive potential in terms of the SDGs as well as tremendous risks.

5. Underpinning most of these developments is the issue of cross-border data access, usage and exchange, which is not only central to economic growth in our digital economies but is also key to effective digital financing of the SDGs, as advanced by the Task Force. Increasing returns to scale and the emergence of natural monopolies in the digital landscape, also leading to data monopolies, challenge regulators to articulate coordinated responses, with considerable implications for the economic development of developing countries. Concerns about data and their use are increasing dramatically as a result of the COVID-19 crisis and the tools that are emerging not only from the standpoint of finance and ecommerce but from tracking and testing. These may be essential to the global economy if it is to continue but they also bring new opportunities for abuse.

That said, these debates and policy and regulatory developments are often missing consideration of one or more if not all of the following elements:

- Emerging global digital finance platforms.
- Impact on developing countries.
- Importance of broader sustainable development lens.

In this light, the IDGDF will set out to bring together a more inclusive community of policy makers, regulators and market practitioners to deliberate on, and thereby inform the evolution of good governance of GDFPs, by considering for example:

1. Discussing the new geometry of digital finance regulations and how they can take greater account of sustainability considerations and new developments around GDFPs.

2. Governing data access, usage and exchange by GDFPs to ensure competition, promote digital financing innovations that support SDGs while protecting citizens.

3. Preventing unfair treatment of local downstream service providers (SMEs, digital workers, social commerce entrepreneurs, ride-hailing drivers) by GDFPs to ensure equitable opportunity and maintain citizen choices.

4. Preventing unfair treatment of citizens by GDFPs to ensure inclusion.

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5. Mitigating potential risks incurred through increasing outsourcing of core financial value chain elements to, and heavy reliance on GDFPs (BigTech, TechFin), including in critical areas such as cyber-resilience.
6. Anticipating macro-economic, financial and monetary implications of distributed financial networks, digital currencies and front-running initiatives such as Libra.
7. Regional management of a new generation of non-financial entities offering cross-border digital financial services, potentially emerging as a new type of GDFP.
8. Convergence of frameworks around market integrity and AML/KYC, consumer protection and data privacy / protection in a globalized digital market.
9. Development of regional and global monetary and payment frameworks.

Complementary Approach

Climate change and the SDGs more broadly have catalyzed a slew of 'complementary and convergent' approaches to governance innovations. This is particularly true in the case of finance, where existing institutional arrangements are proving both insufficient and slow to adjust given on-going commitments and diverse interests. The Network of Central Banks on Greening the Financial System (NGFS) and the European Commission-hosted International Sustainable Finance Platform are recent cases in point. Likewise, are long-standing platforms such as the Alliance for Financial Inclusion and time-bounded platforms such as the FSBs' Task Force on Climate Related Financial Risks (TCFD) and the United Nations Environment Program's Inquiry into Design Options for a Sustainable Financial System.

The DGDF is, likewise, intended to offer a 'complementary and convergent' approach by bringing a more diverse group of actors together in considering governance issues through a broader, SDG-sensitized, lens. Success requires that it draws in and engages with the core guardians of good international financial governance, which are ultimately those tasked to take forward new thinking and design requirements into mainstream practice. Success is to be understood, targeted and measured in this light.

Conditions for Success and Risks

Key to the success of the IDGDF will be its ability to mobilize an authoritative, informed and innovative constituency that provides insightful, relevant and practical guidance in the international governance of global digital finance platforms.

To deliver on its objectives, the dialogue will secure participation from a broad range of developing economies stakeholders. The platform will bring together representatives from central banks, finance, trade and other relevant ministries, cross-sector regulatory bodies (telecom, data, insurance, tax authorities), LDCs and non-state actors and representatives

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from key institutions including, inter alia, the FSB, BIS, WB and IMF.

Inclusivity will be critical but cannot become so extensive as to slow down or distract the platform from its core objectives.

NEXT STEPS

The task at hand is to bring a more diverse, inclusive group of actors together in considering global digital finance platform related governance issues through a broader, SDG-sensitized, lens. The hope is for fundamental change in the governance of global digital finance, in a way that takes greater account of developing economy voices and sustainable development.

Strong leadership and commitment to change current practice are needed to effectively connect the dots between sustainable development and the governance of digital finance. These are too often separated by tradition, inertia and the lack of a proper, inclusive and constructive platform. The dialogue will provide that platform. It will enable major, international and national actors to come together from multiple jurisdictions to build international cooperation and governance innovations.

The current crisis provides an unprecedented opportunity for such conversation to happen and such developments to take place. It is our hope that, in a year or two from now, the dialogue will have succeeded in establishing new norms and practices and might be mainstreamed into the way digital finance is governed globally.

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